Market Segmentation and Product Targeting at the Conceptual level

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Summary. Firms have limited resources that cannot be allocated efficiently to the market as a whole, but can be targeted to selected customer groups. Market segmentation is the process of dividing a market into distinct customer components. Selected products and services that best meet the needs of a selected customer group are targeted to that particular segment in a marketing strategy. Market segmentation and product-targeting concepts help management efficiently allocate scarce resources as part of a comprehensive strategy to expand revenues and profits.

Marketing is a popular term that has been defined ambiguously and often is confused with economics and equated with advertising. Marketing, as a concept, emphasizes the consumer rather than the product or the process of selling that product (Kotler, 1984). It has been considered an idea, a managerial philosophy, and a strategy. True marketing focuses on the needs of customers, and a marketing philosophy seeks to meet those needs through the profitable sales of a variety of products and services.

The management of an individual firm has one of three orientations: product, sales, or customer. The product orientation, predominant for many businesses before the 1930s and still prevalent today, focuses on the product and its attributes. Products are emphasized by component parts or the quality of those components. This orientation has been gradually replaced in some firms with a sales orientation whereby the company believes that if the product could be put in front of the customer, the customer would buy it; this is called the "mousetrap syndrome." As product and service alternatives increase, the practicality of bringing product choices literally door-to-door under the sales philosophy becomes impractical and unprofitable. Management shifts its focus away from the product and onto the consumer. It considers the needs of potential customers along with the products and services the firm can offer. Theorientation toward the customersand meeting their needs is called the marketing philosophy.

The marketing philosophy evolved as the economy evolved from an agricultural base to a manufacturing base. The variety of goods and services available for exchange increased as the industrialization of the nation progressed. Before having multiple product choices, the consumer either bought the product or did without. Relatively little product variety, color choice, or custom-fitting existed. The post World War II era produced a boom in manufacturing and productivity. The number of consumer product choices rapidly expanded. The "one size fits all" mentality was replaced with "do your own thing." Businesses no longer could afford to present all products to all membersof the market; noteveryone bought every available product. These businesses needed a plan to present their product and service choices to a diverse group of potential customers. A change in strategy was needed to allocate resources more efficiently. Thus, managers began to divide the mass market into smaller groups or market segments based on differential needs.

The process of market segmentation can be conducted based on any one or a combination of variables. One of the most fundamental bases for market segmentation is on past-purchase behavior. Here, the market is defined, by the consumers past-purchase behavior into two mutually exclusive groups: buyers and nonbuyers. Some marketing theories suggest that it is easier to market one additional product to a past buyer than to meet the needs of one nonbuyer. Managerial efforts and financial resources of the firm can be focused more efficiently on buyers, ignoring the needs of nonbuyers, to produce a greater likelihood of making an additional sale. A firm's limited resources become more effective as thelikelihood of new sales transactions increase.

The number of variables with which the market is segmented can vary from one to several. With the advent of sophisticated computer software, multiple variable analysis can be completed on a personal computer. Factor, cluster, and discriminant analyses are multiple variable analysis techniques that can enable the researcher to use many variables in the evaluation of market segments. The results from these techniques can be quite difficult to interpret, thus many segmentation scenarios are completed, using one variable at a time.

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Product targeting is a complimentary step to market segmentation. Without different products to potentially offer a client, there would be no need to differentiate the market. The goal of product targeting is the selection of a specific amount and quality of a named product that is then offered to a selected market segment. The selection of that product and its quality depends on the needs and desires of that specific market segment. Product targeting narrows the field of play from a wide variety of products to a more manageable number. Some products offered to one segment may be offered to another segment, while other products may only satisfy the needs and wants of one particular segment. The limited time and financial resources of a firm are focused effectively to meet the needs of several segments with a limited range of products.

While horticulturists may define products in terms of plant life cycle (annual, biennial, and perennial) or botanical characteristics (monocot vs. dicot), users of horticultural products and services often do not. Thus, products and services should be defined in terms understandable to the consumer, such as the plant's use (ornamental vs. edible), decorative capacity (length of bloom), or tolerance to a location (direct sun, semishade, or shade).

Product targeting includes tangible products as well as intangible services. Varying the level of service a market segment is offered is one way product targeting is applied to services. Some buying situations are self-service, while other situations offer very customized services. While the tangible product may itself be the same, the amount of service offered with the product may vary.

Sales of single-stem flowers in a traditional florist vs. a self-service supermarket floral department can illustrate the difference in level of service.

One managerial tool used to demonstrate the concepts of market segmentation and product targeting is the customer/product matrix. The matrix is a series of columns and rows in a box with columns designating the market segments and rows containing the potential products and services (Fig. 1). To use the matrix, a manager would first define the entire market in terms of two or more market segments based on one or more variables. Figure 1 showsseveral markets for the herbaceous annual plant market. First, market segments are defined by 1) end-use or resale market, 2) consumer or commercial, and 3) age of consumer. The second step is to identify potential products that may be of use to those segments. Herbaceous annuals are categorized here in terms of container size and their tolerance to a particular location. Additional variable for product classification could include container shape, bloom color, or season of bloom.

Customers		End-user						Re-sellers			
		Consumer Age					Commercial	Garden Center	Green-house	L.scape contract	Market
Products		18-24	25-34	35-44	45-54	55+					
Full sun	Plug	low	low	low	low	low	low	low	med.	low	low
	Flat	low	med.	med.	med.	med.	med.	high	med.	high	high
	Container	med.	high	high	med.	high	low	high	high	low	med.
Semi-shade	Plug										
	Flat										
	Container										
Shade	Plug										
	Flat										

Fig. 1. *Customer/product matrix for herbaceous annual plants showing some market potentials*

The final step in using the customer/product matrix is to determine the potential viability of the product in the market segment. For example, there may be a great demand for direct-sun tolerant annual plants in flats for commercial firms, but a low demand for full-sun annual plants in plugs or pots. This would identify one possible product to target (full-sun flats of annuals) to a specific market segment (commercial businesses). Theoretically, all the cells in the matrix are evaluated in terms of size and market potential. Somesegments are very small but may be lucrative. Others are too large and need to be more segmented. Market-potential evaluation considers the competitive environment as well as the capability of a firm to meet the needs of that segment. Some needs of a market segmentcannot be met by the firm either by policy or by practicality.

Market segmentation and product targeting are useful concepts to business managersas they strive to allocate the firm's scarce resources more efficiently. Financial resources are used more efficiently to generate revenues, and labor is allocated more efficiently to meet the needs of a smaller number of customers. Limited financial resources of the firm are leveraged to make possible more than would be possible if markets were not segmented and products were not targeted. The process of market segmentation is dependent on the variables selected to define market segments and categorize products. Determining the viability of targeted products to selected market segments is challenging, but can produce highly profitable results.

Literature Cited

Kotler, P. 1984. Marketing management: Analysis, planning, and control. 5th ed. Prentice Hall, Englewood Cliffs, NJ