

7.4: Segmentation and the Target Market

Learning Objectives

1. Explain segmentation and the target market.
2. Explain why segmentation, the target market, differentiation, positioning, and website decisions are so important for a small business.
3. Describe the marketing strategy decision areas for each element of the marketing mix.

Whether market segments and target markets are selected on the basis of intuition, marketing research, or a combination of the two, they are the basis for creating an effective marketing mix for any small business. Segmentation and target market decisions must be made for both onground and online customers.

Segmentation

Market segmentation, dividing a market into relatively homogeneous subgroups that behave much the same way in the marketplace, is the necessary precursor to selecting a target market or target markets. The extensive bases on which a company is able to segment a market are presented in Table 6.1. The challenge is knowing which group(s) to select. Many small business owners have a good intuitive sense of the segments that make sense for the business, and they choose to go with that intuition in devising their marketing strategy. However, that intuition may not be precise or current enough to be of the most help in planning a marketing strategy. Marketing research can be of help here, even to the smallest of businesses.

Marketing research can help the small business identify and refine the segments that offer the greatest opportunities. Part of that process will be to identify segments that meet the requirements of **measurability**, **substantiality**, **stability**, **accessibility**, **actionability**, and **differential response**. Dana-Nicoleta Lascu and Kenneth E. Clow, *Essentials of Marketing* (Mason, OH: Atomic Dog Publishing, 2007), 175–76. Meeting these requirements will increase the chances for successful segmentation.

- **Measurability.** Is it easy to identify and estimate the size of a segment? A small business that moves forward without a clear definition of its market segments is working blind. Intuition can only go so far. Are there people who are interested in freshly baked cookies for dogs (it would seem so), and how many of these people are there? (Check out [Happy Hearts Dog Cookies](#).)
- **Substantiality.** Is the segment large and profitable enough to justify an investment? A small business may not require a huge number of customers to be profitable, but there should be enough people interested in the product or the service being offered to make operating the business worthwhile. Fancy designer clothes for dogs, for example, is a business that can survive—but not everywhere (see www.ralphlauren.com/search/index.jsp?kw=pup&f=Home).
- **Stability.** Stability has to do with consumer preferences. Are they stable over time? Although segments will change over time, a small business needs to be aware of preferences that are continuously changing. Small businesses can be more nimble at adapting their businesses to change, but too much volatility can be damaging to a business's operations.
- **Accessibility.** Can a business communicate with and reach the segment? A small business interested in women who work outside the home will present greater communication challenges than will stay-at-home wives and mothers.
- **Actionability.** Is a small business capable of designing an effective marketing program that can serve the chosen market segment? There was a small manufacturer of low-priced cigarettes in Virginia that found it difficult to compete with the big brands and other established lower-priced brands such as Bailey's. The manufacturer's solution was to sell to Russia where "Made in Virginia, USA" worked very well with customers and retailers. Dana-Nicoleta Lascu and Kenneth E. Clow, *Essentials of Marketing* (Mason, OH: Atomic Dog Publishing, 2007), 176.
- **Differential response.** The extent to which market segments are easily distinguishable from each other and respond differently to company marketing strategies. Dana-Nicoleta Lascu and Kenneth E. Clow, *Essentials of Marketing* (Mason, OH: Atomic Dog Publishing, 2007), 176. For the small business that chooses only one segment, this is not an issue. However, the small manufacturer of ramen noodles in New York City needs to know whether there are different segments for the product and whether the marketing strategy will appeal to those segments in the same positive way.

Once multiple segments have been identified, it is necessary to select a target market or target markets. If only a single segment has been identified, it becomes the target market.

Target Market

The selection of a **target market** or target markets will be based on the segments that have been identified as having the greatest potential for the business. (In "[Marketing Basics](#)", a target market refers to one or more segments that have been chosen as the focus for business operations.) Only some of the people in the marketplace will be interested in buying and/or using a company's product or service, and no company has the resources to be all things to all people. Resources are always finite, but this will especially be the case for the small business, so all marketing efforts should be directed as precisely as possible.

Selecting the target market should be guided by several considerations: Susan MaGee, "How to Identify a Target Market and Prepare a Customer Profile," accessed January 24, 2012, <http://edwardlowe.org/erc/?ercID=6378>; Adapted from "3 Reasons to Choose a Target Market," *Morningstar Marketing Coach*, December 16, 2008, accessed December 1, 2011, www.morningstarmultimedia.com/3-reasons-to-choose-a-target-market.

- **Financial condition of the firm.** Limited resources may dictate the selection of only one target market.
- **Whether the competition is ignoring smaller segments.** If yes, this may be a ready-made target market.
- **Is the market new to the firm?** If yes, concentrating on one target market may make the most sense.
- **Specific need or want.** Does the proposed target market have a specific need or want for the product or the service?
- **Ability to buy.** Does the proposed target market have the resources to buy the product or the service?
- **Willingness to buy.** Is the proposed target market willing to buy the product or the service?
- **Will this target market be profitable?** There needs to be enough demand to make money.

Choosing the right target market is a critical part of the marketing strategy of a small business. The target market should be the best match for a company's products and services, thus helping to maximize the efficiency and effectiveness of its marketing efforts.

If a small business wants to go with a **niche market**, the same considerations apply. A niche market is a small, more narrowly defined market that is not being served well or at all by mainstream product or service marketers. The great advantage of pursuing a niche market is that you are likely to be alone there: "other small businesses may not be aware of your particular niche market, and large businesses won't want to bother with it." Susan Ward, "Niche Market," *About.com*, accessed December 1, 2011, sbinfocanada.about.com/cs/marketing/g/nichemarket.htm. Ideally, a small business marketing to a niche market will be the only one doing so. Niches are very important to small businesses that want to sell pricey chocolates (see, for example, www.cocoadolce.com/about.php). They focus on niches such as weddings, seasonal offerings, and specialty items. They also sell online in order to reach a broader market.

KEY TAKEAWAYS

- Market segments and target markets are the basis for creating an effective marketing mix.
- Segmentation and target market decisions must be made for both onground and online customers.
- Market segmentation precedes the selection of a target market.
- There are many ways to segment a market.
- Segments must be measurable, substantial, stable, accessible, actionable, and easily distinguishable from other segments.
- The target market should be the segment or segments that show the greatest profit potential for a small business.
- A niche market is a small, more narrowly defined target market that is not being served well or at all by other businesses.

EXERCISES

1. How should the market for Frank's All-American BarBeQue be segmented for his new restaurant in Darien, Connecticut? How should Frank decide on a target market or target market(s)? Be specific. Do not assume that the Darien market is the same as the Fairfield market.
2. Assume that you work for a small manufacturer of children's hair-care products. What criteria would you use for effective segmentation? How would you then decide on a target market or target markets? Be specific. Adapted from Dana-Nicoleta Lascu and Kenneth E. Clow, *Essentials of Marketing* (Mason, OH: Atomic Dog Publishing, 2007), 185.

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