



Market Segmentation

Market segmentation is one of the methods of marketing management, namely the **market analysis**. The aim is to identify the structure of the market to which the organization wants to place its product or service. The market is divided according to a certain point of view into homogenous groups of customers, which are characterized by their needs and shopping behavior. The aim of the segmentation is to adapt the marketing activities of the organization to individual market segments (customer groups) so that these groups could be best served. The organization should select only those **market segments**, which are long term capable in accordance to its own strategy to operate effectively and to achieve sufficient profit.

Market segmentation includes following steps:

- › **Market research** - creation of the segmentation criteria
- › **Profiling segments** - customers are distributed according to the segmentation criteria into relatively homogenous groups. The determining the size of segments and creating their profiles
- › **Targeting** - the organization chooses market segments where it makes sense to operate

There are various **segmentation criteria**. Different authors define segmentation criteria differently. Here are the most common definitions:

- › **Geographic** - customers are divided according to their geographic location such as by continent, country, region, etc.
- › **Demographic** - customers are divided by age, gender, ethnicity, religion, marital status, etc.
- › **Socioeconomic** - customers are divided by socioeconomic status, education, occupation, income, status, etc.
- › **Psychological** - customers are divided by psychological profile (vital interests, attitudes, values, etc.)
- › **Shopping behavior** - customers are divided by the frequency and extent of purchases, loyalty to suppliers, attitude to risk, etc.

If the customer is a different organization, these additional criteria can be considered:

- › **Organization character** - sector, field or branch, size, organizational culture, etc.
- › **Operating characteristics** - type of the production, purchasing organization, the urgency of supply (e.g. JIT), quality requirements, etc.
- › **Shopping behavior** - purchasing policy (purchasing strategy), purchasing criteria, etc.

Gained **market segments**/customer groups must be similar or as similar as possible in terms of their behavior on the market (**market homogeneity**). At the same time, the segments should be in terms of market behavior as different as possible (**market heterogeneity**).

Related terms and methods:

- › BCG Matrix
- › Branch classification
- › Customer portfolio matrix
- › Customer segmentation and marketing loyalty
- › Five Forces Analysis
- › Market
- › Marketing Mix 4P
- › Marketing strategy
- › PESTLE Analysis
- › Positioning
- › SWOT Analysis
- › Targeting
- › VRIO Analysis

Related management field:

» Marketing and Sales