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Paper: 10, Services Marketing

Module: 6, Segmentation and targeting of services



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6. Segmentation and Targeting of Services

1.0 Introduction

When a marketer have an idea for a great new offering he hopes to become a hot seller. Before he quit his day job, he has to ask himself, “Does my idea satisfy consumers’ needs and add value to existing products?” “Who’s going to buy my product?” and “Will there be enough of these people to make it worth my while?”

Certain people will be more attracted in what you offer than others. Not everyone needs insurance, not everyone needs beauty services, and not every organization needs to purchase CT scanners. Every customer has its own kind of demand, some will buy a few, and a few will buy many. In terms of potential buyers, not all of them are “created equal.” Some customers are more equal than others, however. A number of people might be interested in the product idea if it satisfies their need, adds value, is priced right, or if they are aware when your product exists in the marketplace. Marketer goal is to figure out which people and organizations are interested in their product ideas. For this purpose they need to divide or segment the people and organizations into different groups of potential buyers with similar characteristics. This process is called market segmentation and involves asking the question, ***What groups of buyers are similar enough that the same product or service will appeal to all of them?***

1.1. Learning Objectives

In this module, we will learn:

- Meaning of segmentation and targeting of services
- Importance of focus strategies for service firms
- Basis of segmentation of servicemarketing.

1.2. Key Words:

Services, Targeting, Segmentation

1.3. Meaning of segmentation

Market segmentation is the process of dividing an entire market up into different customer segments. Targeting or target marketing then entails deciding which potential customer segments the company will focus on. It comes before targeting, which helps a company to be more selective about who they are marketing their products to. Marketing segmentation and targeting are equally important for ensuring the overall success of a company.

Today, Segmentation, Targeting and Positioning (STP) are a familiar strategic approach in modern marketing. The STP model is useful to creates marketing communications plans since it helps marketers to develop strategies and then create and deliver personalized and relevant messages to engage with different audiences.



The above diagram shows how STP model works. STP is relevant to digital marketing too, where applying marketing personas can help develop more relevant digital communications as shown by these alternative tactical customer segmentation approaches.

In addition, STP focuses on commercial effectiveness, selecting the most valuable segments for a business and then developing a marketing mix and product positioning strategy for each segment.

1.4 Importance of segmentation of services

As already stated, segmentation is the basis for developing targeted and effective marketing plans. Furthermore, analysis of market segments enables decisions about intensity of marketing activities in particular segments. A segment orientated marketing approach generally offers a range of advantages for both, businesses and customers.

1) Focus of the Company – It is an effective method to enhance the focus of a firm on market segments. If a marketer have better focus, obviously he will have better returns. A number of automobile companies have started focusing on small car segments. This is nothing else but a company changing its focus for better returns. Thus companies develop their strategy based on a new segment which increases its profitability.

2) Increase in competitiveness – Once marketer's focus increases, their competitiveness in that market segment will increase. Segmentation increases the competitiveness of companies. For example, if you are focusing on youngsters, your brand recall and equity with youngsters will be very high. Your market

share might increase and the chances of a new competitor entering might decrease. The brand loyalty will definitely increase. Thus market segmentation also increases competitiveness of a firm from a holistic view.

3) Market expansion- In segmentation expansion is immediately possible. Suppose you have your market strategy on the basis of geography, then once you are catering to a particular territory, you can immediately expand to a nearby territory. In the same way, if you are targeting customers based on their demography (Ex – Reebok targets fitness enthusiasts) then you can expand in similar products (Ex – Reebok expanding with its fitness range of clothes and accessories). Segmentation plays a vital role in expansion.

4) Customer retention – By using segmentation, customer retention can be cheered through the life cycle of a customer. You can take an example of Hospitality segment whether there are hotels, airlines, or hospitals. Hospitality services is the growing sector in India, where a customer has an ample number of choices starting from a local Dhaba to a luxurious hotel catering services on the basis of customer demands.

5) Have better communication – One of the Ps of marketing mix which is absolutely dependent on STP is Promotion or communication. The communications of a company need to be spot on for its target market. Thus if you need a target market, you need segmentation. Communication cannot be possible without knowing your target market. Imagine if you had to make someone across a curtain understand what politics is. You would go on about ruling parties, states, countries and politicians. And when the curtain is taken aside, you find that the person across the curtain is a 5 year old kid. Is there any use talking to him about politics? This shows why communication needs segmentation. If you don't know your market segment, what is their demography, what is their psychology, where they are from, then how can you form a communication message.

6) Increases profitability – Segmentation increases competitiveness, brand recall, brand equity, customer retention, and communications. Thus if it is affecting so many factors of your business, then definitely it affects the profitability of the firm. We never see people negotiating in a Nike, Gucci or BMW showrooms. One of the USP's of this brand is their segmentation. They are in fact targeting segments which have no need of bargaining or negotiation. Thus their profitability is high.

Tool box

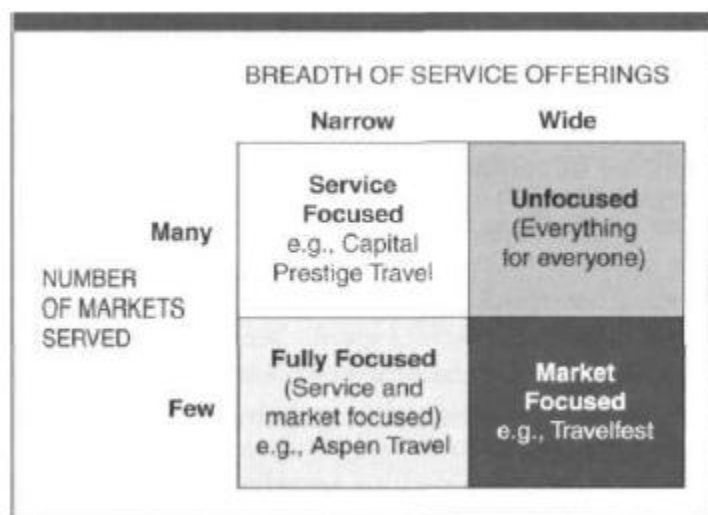
Importance of segmentation of services

- Focus of the Company
- Increase in competitiveness
- Market expansion
- Customer retention
- Have better communication
- Increases profitability

1.5 Focus Strategies for competitive advantage

It's not usually realistic for a firm to approach to all actual or potential buyers in a market, because customers are widely scattered, and too varied in their needs, purchasing behavior, and consumption patterns. Firms themselves differ in their abilities to serve different types of customers. So instead of attempting to compete in an entire market, each company wishes to focus its efforts on those customers it can serve best.

The company's focus can be described on two different dimensions, i.e. market focus and service focus. Market focus stands to which a firm serves few or many markets, while service focus describes the extent to which a firm offers few or many services. These dimensions define the four basic focus strategies shown in Figure.



A fully focused organization provides a very limited range of services (perhaps just a single core product) to a narrow and specific market segment. It means companies put all its best efforts to a selected segment. For example, Aspen Travel serves the specific needs of the film production industry. A market-focused company concentrates on a narrow market segment but has a wide range of services. Each Travel fest store serves a limited geographic market; appealing to families and individuals planning vacation trips rather than to business travelers, but offers a broad array of services.

A company which is Service-focused offers a narrow range of services to a fairly broad market. Thus, Capital Prestige Travel specializes in the narrow field of discount cruise sailings, but reaches customers across a broad geographic market through a telephone-based delivery system. Finally, many service providers fall into the unfocused category because they try to serve broad markets and provide a wide range of services.

As you can see from Figure, focusing requires a company to identify the market segments that it can serve best with the services it offers. Effective market segmentation should group customers in ways that result in similarity within each segment and dissimilarity between each segment on relevant characteristics.

1.5.1 Risks and opportunities of a fully focused strategy

A fully focused organization provides a limited range of services to a narrow and specific market segment. There are both opportunities and risks to such a strategy. If a firm has specialization in a well-

defined area, it may provide protection against the competitors, and then the firm can take high prices. The biggest risk is that the market may be too small to get the volume of business needed for financial success. Other risks include the danger that demand for the service may decrease because of alternative products, or that purchasers in the chosen segment may be affected by an economic do

Opportunities

- Developing recognized expertise in a well defined niche may provide protection against would be competitors.
- Allow firm to charge premium prices.

Risks

- Market may be too small to generate needed volume of business.
- Demand for a service may be displaced by generic competition from alternative products.
- Purchasers in chosen segment may be susceptible to economic downturn.

1.5.2 Risks and opportunities of a Service focused strategy

They providesa narrow range of services to a broad market. As soon as new segments are added, the firm should try to develop knowledge and skills in serving each segment. This require a wider sales effort and greater investment in marketing communication.

Opportunities

- Create a portfolio of customers that hedge against these risks.

Risks

- As new segments are added firm need expertise to serve each segment.
- More sales effort and more spent in market communications .

Example : B2B market (Business to Business market)

1.5.3 Risks and opportunities of a market focused strategy

A market focused company focuses on a narrow market segment, but has a wide range of services. Before choosing a market focused strategy, managers make sure that their firms have the operational capability to do an excellent job of delivering each of the different services selected. Marketer must understand customer purchasing practices and preferences.

Opportunities

- Potential of selling many services to a narrow segment.

Risks

- Need to have strong operational capability.
- Understand customer needs,wants and preferences .

1.5.4 Unfocused Strategy

Finally, a large number of service providers fall into the unfocused category, because they try to capture broad markets and provide a broad range of services. The danger with this strategy is that unfocused firms often are “jack of all trades and master of none.”

CHECK YOUR PROGRESS

Fill in the Blanks:-

1. Every _____ has its own kind of demand.
2. Segmentation increases the _____ of companies.
3. Communication cannot be possible without knowing your _____ market.
4. _____ focus stands to which a firm serves few or many markets.
5. A company which is _____ offers a narrow range of services to a fairly broad market.

ANSWERS:- 1. customer 2. competitiveness 3. target 4. Market 5. Service-focused

1.6 Service attributes and level

When a target segment is selected, firms need to provide their market with the right service concept. A lot of research requires to see what attributes of a given service are important to specific market segments. However, it is dangerous to over-generalize. The importance of attributes may differ for the same individual according to:

- Purpose of using the service
- Who makes decision
- Timing of use
- Whether service is used alone or in a group
- Composition of that group

Consumers choose between alternative service offerings based on perceived differences between them. Attributes that distinguish competing services from one another are not necessarily the most important ones. Determinant attributes determine buyers' choices between competing alternatives

- Service characteristics that are important to purchasers
- Customers see significant differences between competing alternatives on these attributes .

1.7 Targeting of services

A target market is that selected market (customers), that a company wants to sell its products and services to, and to whom it directs its marketing efforts. Firstly marketer needs to identify the target market and thereafter develops its marketing plan. A target market can be separated from the market as a whole by geography, buying power and psychographics. Once the segments have been evaluated the market to be targeted can be selected on the basis of :

- **Undifferentiated marketing:** The undifferentiated marketing strategy emphasizes on an entire target market rather than a segment of it. This strategy employs a single marketing

mix - one product, one price, one placement and a single promotional effort to reach the maximum number of consumers in that target market.

"Marketing," by William M. Pride and O. C. Ferrell, gives commodities such as sugar and salt as examples of products that might be marketed effectively through an undifferentiated strategy, as many consumers in the overall market have similar needs for the products.

- **Differentiated marketing:** This is a customized approach and satisfies customers according to their needs. A differentiated marketing strategy targets different market segments with specific marketing mixes designed especially to meet those segments' needs. Each mix includes a product, price, placement and promotional program customized specifically for a particular segment. For example, a company that manufactures vitamin supplements might identify gender-based market segments. It could produce one multivitamin formula for women and another for men. It could further differentiate by segmenting the gender groups by life stage and creating different marketing mixes around each one. Differentiated marketing is best suited for markets with readily identifiable segments, each with distinctive needs.
- **Concentrated marketing :** The concentrated strategy provides a third-way solution that allows marketers to target a single market segment with a single marketing mix. The ability to specialize to this degree has the advantage of allowing a company to focus its resources on meeting the needs of a single, well-defined and well-understood market, which makes it more competitive against larger companies. On the downside, a concentrated marketing strategy can pigeonhole a company into a single product and market and leave it vulnerable to the effects of changing conditions within that market.
- **Micro marketing :** Micromarketing is a marketing strategy in which advertising efforts are focused on a small group of highly-targeted consumers. Micromarketing requires a company to narrowly define a particular audience by a particular characteristic, such as ZIP code or job title, and tailor campaigns for that particular segment. It can be a more expensive technique due to customization and lack of an economy of scale.

CHECK YOUR PROGRESS

1. Why should service firms focus their efforts ? Describe the basic focus options?
2. Explain segmentation and its importance in service marketing.
3. What do you mean by targeting and on which basis a market is selected for targeting.

Twenty years ago one of the mainstream channels of thought in marketing strategy (indeed in business strategy more broadly) was the need to choose between price leadership and differentiation and to avoid being "stuck in the middle". This particular distinction is now less valid. Given the wider and more even diffusion of technology and dissemination of knowledge, price is becoming much more of a differentiator. To take a simple example, the phrase "made in China" no longer signifies a lower standard of quality.

Service companies can segment their service delivery by having more able and reliable customer-contact people, by developing a superior physical environment in which the service product is delivered, or by designing a superior delivery process. Segmentation is the key to successful marketing,

competing, and building your sustainable competitive advantage. A superior product or service means nothing without a way of somehow identifying the differences in the tastes and preferences of consumers and letting your prospective customers know about it. A service characteristic can be any customer benefit that separates a service offering from competitors. Service marketer must find that difference and communicate it to your customer.

For example, many grocery chains now offer online shopping and home delivery as a better way to shop and home delivery as a better way to shop than having to drive, park, wait in line, and tote groceries home. Finally, service companies also can work on differentiate their images through symbols and branding. The harris bank adopted the lion as its symbol on its stationery, in this advertising, and even as stuffed animals offered to new depositors. The well known Harris lion confers an image of strength on the bank. Other well – known service symbols include Merrill Lynch's bull MGM's lion, McDonald's golden arches, Allstate's "good hands" and the Travelers red umbrella.

Summary

In any competitive industry, firms need to focus to achieve competitive advantage. There are three focused strategies that can be used to achieve competitive advantage. They are (1) fully focused, (2) service focused, and (3) market focused. There is a fourth, the unfocused strategy. However, it is not advisable for firms to choose an unfocused strategy as this will mean that they spread themselves too thin to remain competitive. Marketing segmentation forms the basis for the three focused strategies. In marketing segmentation, firms should identify and select target segments that it can serve best. When determining the attributes that are important to its target segments, there is a need to understand the difference between important and determinant attributes in consumer choice decisions. An attribute may be important to the consumer, but that may not be important for buying decisions (e.g. safety is important, but all airlines a traveler considers are seen as safe). If that is the case, such an attribute should not be used as a basis for segmentation. Determinant attributes are attributes that consumers focus on when comparing alternative services and can be used for product positioning. Once the important and determinant attributes are understood, management should decide what service level the firm can achieve for each of the attributes. Service levels are often used to segment customers according to their willingness to trade off price and service level across a broad variety of attributes. With the understanding of service attributes and levels, firms can develop their market positioning strategy. To do that, they need to conduct market, internal and competitor analyses. The outcome of these analyses is the position statement. Positioning changes and does not stay still. It needs to develop and change according to changes in competitive responses and consumer trends.