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The Importance of the Policy of Market Segmentation in the Enterprise

Znaczenie polityki segmentacji rynku w przedsiębiorstwie

SEGMENTATION OF THE MARKET AND SHAPING OF THE PROMARKET CULTURE IN ENTERPRISE

In situations when the market becomes a verifier of production and limits the growth in sales and profitability of the enterprise every possible effort should be made to lessen or remove the barriers to the development of the enterprise. One means leading to more effective business activity is to segment the market according to groups of customers and regions; besides, careful choice of markets helps to create a promarket culture in the enterprise. Key elements of a promarket culture are motivation to act more effectively and the knowledge of the market which includes:

- a) knowledge of the needs of various groups of customers,
- b) knowledge about decision making processes referring to purchasing,
- c) careful mapping of the competitors' structure and behaviour.

If the market, thanks to research on marketing, is sufficiently clear to a producer, the only thing he should find out is whether within a certain market there are any segments with specific requirements, modes of action and reactions to business practice. If so, the next step will be to work out a diverse marketing strategy.

As opposed to a classic strategy of "mass markets" a segmented market is characterized by a split/division of the whole market into specific, homogeneous groups of customers. No such "segment of the market" (i.e. partial market, group of purposes) should be similar to other segments — for the sake of clear-cut demarcation and individualization. Instead of embarking on strong competition, a businessman — through the segmentation strategy — selects as the sphere of activity those fields

of the market which can be used by him most effectively. Such a procedure offers the following advantages:

- getting to know the market and indentifying better opportunities and gaps in this market,
- thorough linking of the problems in particular segments,
- good chances for control (direct advertising to customers),
- winning supra-average price space,
- more efficient use of material outlays on marketing.

As a result, tenders are suited to particular groups of customers (satisfaction of special needs) and, at the same time, attractive to the enterprise (size of a market segment, purchasing power).

Gaining a market position by enterprise consists of creating the market and line competence and the concentrated use of marketing instruments on the selected market. Segmentation of the markt is a highly individual instrument of controlling allocational decisions by every enterprise. It makes it easier to define on what the assets should be allocated, as well as when, how and where its business activities should concentrate (Tab. 1).

In order to achieve growth in sales, an enterprise should establish, maintain and improve the relations with partial markets. Table 2 shows the expansion of a product on the market.¹

Tab. 1. Matrix of connections between products and markets
Matryca połączeń między produktami a rynkiem

Segments of markets (lines)	
Groups of products	

From Tables 1 and 2 it is obvious that the expansion of a product on the market forces the enterprise to act in the following ways:

- 1) Stimulate the actual customers to buy more and try products, in other words attract the customers of the competitors and win them over to one's own side.
- 2) Discover additional regional, domestic and foreign markets and gain new groups of purposes (development of the market).

¹ C. F. P. Kotler: *Marketing — Management*, 4th ed., Stuttgart 1984, p. 7.

Tab. 2. Strategic combinations: market — product
Strategiczne kombinacje: rynek — produkt

Markets/customers Products/processes	Existing	New
Existing	(1) penetration of the market	(2) development of the market
New	(3) development of a product	(4) diversification

3) Develop genuine innovations, modify the existing products through transformations and/or development of variants (development of a product).

4) Extend the programme of a product by introducing new products to new markets (diversification).

Every enterprise faces certain market chances and risks. The task of the management is to identify them and then try to make the best possible use of the market chances and to weaken the negative effects that might ensue from the market influences on the enterprise. A key problem while selecting the markets is to properly define their attractiveness. The latter is an indicator of potential returns and profitability of the enterprise that can be achieved by its business practice on the market. This attractiveness can be described by the following four criteria:

A. Size of the market and increase in sales.

B. Quality of the market, e.g.:

- innovative potential,
- market barriers (entry and exit barriers),
- possibilities of market segmentation,
- price level and price elasticity of demand,
- substitutive competition.

C. Structure of the market:

- actual and potential competitors,
- their aims, strategies, market behaviour.

D. External factors, e.g.:

- legislation,
- susceptibility to market changes,
- susceptibility to changes in the exchange rate,
- advancement of technology.

While making an analysis of a business line, the management of the enterprise should define the main driving power of the competition. The key factors that affect the competition in the line are: (see Tab. 3):

- competition among enterprises already functioning in a given line,
- threat from new potential competitors,
- tender force and threats posed by customers,

Tab. 3. Fields of information and structural indices of the line analysis
 Pola informacyjne i strukturalne wskaźniki analizy liniowej

Motive forces of competition	Information demand—types of information
Competition among the actual competitors	<ul style="list-style-type: none"> — absorptive power of the market (growth in sales) — prognosis of the market absorptiveness — market segmentation — use of productive power — degree of concentration — barriers to withdrawal from the market (their character and height)
Threat posed by new competitors	<ul style="list-style-type: none"> — barriers to entry into the market (type and height) — access to the market — required know-how — required resources — expected retaliation (sanctions) — external factors
Tender power of the customers	<ul style="list-style-type: none"> — degree of concentration and organization of customers (including the costs of distribution and consumer organizations) — ability to integrate "backwards" — costs of gaining customers at the change of suppliers — policy of trade mark and dealer's brand — strategy toward customers
Bargain power of suppliers	<ul style="list-style-type: none"> — position in the field of know-how — possibility of receiving supplies from other suppliers — concentration of deliveries — importance of the cost of raw materials and other materials — threat posed by integration "forwards" — possibility of using substitutive material resources
Substitutes (tendency towards using substitutes)	<ul style="list-style-type: none"> — cost of reconversion — ratio between prices and product quality (as compared with similar competitive products) — tendency to substitute on the part of customers (degree of their loyalty to the enterprise and its products)

- bargain power and threats from suppliers,
- threat posed by substitutes and new technologies.

For the enterprise, to be more effective on the market, must take into account the factors which are decisive in purchase decision making and, in particular, it must try to ensure the drawing power of its products. Let us now analyze what these main factors are, to what extent the enterprise concentrates on them and how the enterprise compares with its competitors.

Purchase decision making factors are important decision criteria for the receivers of goods and services. To the forefront come such factors as quality of a product, technical counselling, punctuality and rhythmicity of deliveries, price.

It is very important for the enterprise to be able to identify the purchase decision factors because this provides a basis for defining the needs and facilitates such control of the resources so as to best meet the expectations of customers toward the offered goods or services.

The next step forward is to compare one's own products or services with those of the competitors. Such an analysis of factors influencing purchase decisions provides information concerning the advantages and disadvantages of the product and market policy, the product's drawing power; it also helps to specify the competitor's strengths and may constitute a basis for working out a successful strategy toward competitors.

Here are some other factors in achieving a market success, which should be taken into consideration in any comparative analysis of competition:

- workers' qualifications,
- innovative potential,
- reaction time,
- flexibility of action,
- potential availability of capital,
- organizational level.

PURPOSES OF ACTIVE SEGMENTATION OF THE MARKET

In order to achieve the highest possible efficiency of marketing instruments enterprises try in advance to define their groups of purposes and apply marketing techniques which would be adequate to various groups of purposes. Market is — consciously or not — segmented, i.e. controlled in a planned way. A producer has to establish according to what criteria the market is to be classified into clear-cut groups of purposes. A distinction should be drawn here between consumer and investment goods. Typical features of segmentation of consumer goods are illustrated by Table 4.

The following criteria are of importance in the segmentation of the market in the sphere of marketing of investment goods: size of the enterprise and its purchasing potential, membership of a branch (industry, commerce, others), locality or region (geographic dispersion of customers), investment intensity (number of facilities, degree of mechanization of a given branch).

A segment is often not an ultimate field of activity of the enterprise on the market. The next step is further fragmentation of the segment and choice of a terminal partial market. The selection of a partial market usually happens through a combination of market segmentation criteria.

Tab. 4. Features of segmentation in marketing the consumer goods
Cechy segmentacji w marketingu dóbr konsumpcyjnych

Sociodemographic and geographic features	Psychogeographic features (internal variables)	Sociological features (external variables)
— gender, age, marital status	— motives/wishes	— cultural influences (subcultures)
— size of household and phase in family life	— attitudes (peripheral and central)	— social strata
— education, profession	— expectations as to benefits derived from the buy	— social status (social roles)
— family income	— habits of shopping and usage of the product	— recommendatory groups
— ownership	— life style, interests	— opinion giver
— size of locality,	— behaviours connected with learning, perception and innovation	— social prestige
— region of purchasing power		
— structure and climate of the area		

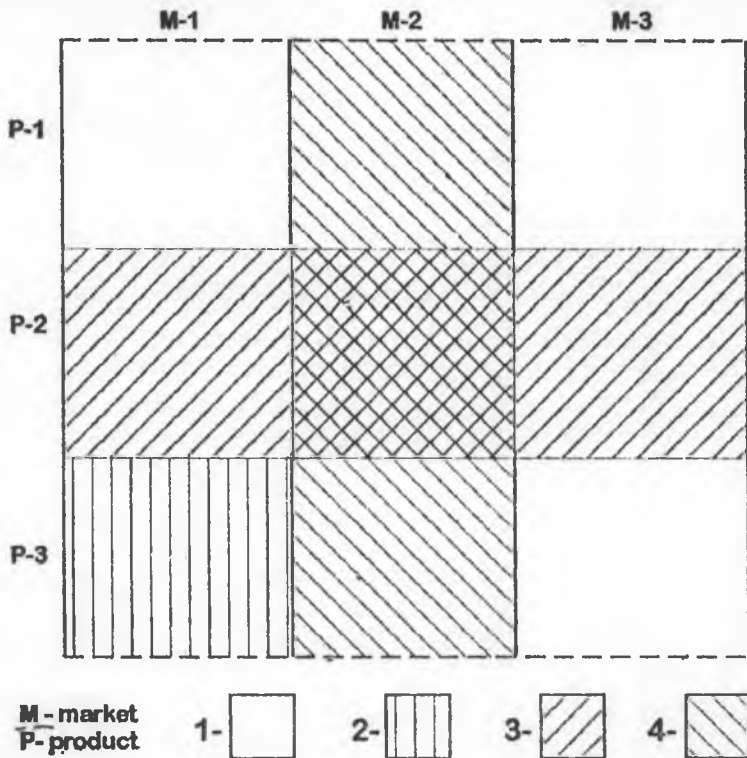
Let us consider a case of a family on an outing who want to satisfy their hunger. They can choose between a bar, a restaurant and a chip stand. A family of five young children will go to the restaurant which offers dishes from the menu, and a playground; an elderly couple will look for a place with polite service and luxurious food.

Although one can define general segments (consumption or industry) with consumers, for example users of buses, cars or motorcycles, every producer should perform segmentation of the market from the point of view of his or her abilities and chances of serving the market. Companies such as Volkswagen, Mercedes, Porsche serve clients who belong to various, well-defined partial segments, whose parameters are prestige, economy of use, sports qualities and price.

Terminal selection of a partial segment must include its attractiveness for the producer; important factors here are: profit margin, market size and the anticipated development of the market. The producer may also take into account the serving of several partial markets. Figure 5 shows various possibilities of configuration of the several partial markets.²

As is evident from the presented considerations the segmentation of the market not only creates conditions for promarket culture in the enterprise but also ensures optimization of the undertaken marketing activities.

² See I. Novotny: Plan marketingowy. Budowa przyszłości przedsiębiorstwa, Poltex, Warszawa 1993, s. 33.



Interval : M-1 - P-3

Specialization in production : (M-1 + M-2 + M-3) P-2

Specialization on the market : M-2 (P-1 + P-2 + P-3)

Selective specialization : M-1 P-1 + M-3P-1 + M-3P-3

The whole market means:

(P-1 + P-2 + P-3) (M-1 + M-2 + M-3)

Fig. 5. Selection of a partial market

Wybór części rynku

STRESZCZENIE

Celem polityki segmentacji rynku w przedsiębiorstwie jest osiągnięcie możliwie największej efektywności środków marketingowych. Przedsiębiorstwa starają się ustalić z góry swoje grupy celów i zastosować działania marketingowe odpowiednio do zróżnicowanych grup celów.

Istotne znaczenie ma przyjęcie przez producenta właściwych kryteriów, według których następuje podział całego rynku na grupy celów. Aktywna segmentacja rynku sprowadza się zatem do jego świadomego sterowania.

