

The Importance of Market Segments

by John McMillan

The Importance of Market Segments

Successful companies almost all have a significant market share; it is rare for more than three or four companies to be truly successful in any segment of the market. It is not unusual for one company to dominate with every other company trying to catch up. Consider some examples.

- There are around three really successful supermarkets in the UK, with Tesco dominating
- Software is dominated by Microsoft and Google.
- BMW, Mercedes and Audi dominate the market for executive cars
- For many years, the US car market was dominated by just Ford and General Motors with American Motors trailing

There are a number of reasons for this:

- A dominant supplier controls the market and sets expectations of price and quality
- He develops a reputation and brand, he is highly visible
- There is a “comfort factor” in buying from a market leader
- Customers come to him first

Marketing becomes very much easier if you are a big player in your market place. If you are not, you will always struggle to be seen.

This is all very well for very large companies. But unless you are a Microsoft or Ford, you won't be able to dominate sales to the whole world, you can only ever end up with an insignificant market share.

Specialise

It is often said that it is better to be a relatively big fish in a small pond than a small fish in a big pond and the way to achieve this is to shrink your target market. You should specialise on a particular sort of customer. This is called *segmenting* the market.

When you do this, it is much easier to become known and develop a reputation. You can concentrate your marketing activities. Referrals are both easier and more effective. You learn the special needs or desires of your customers.

So, how do you select your segment?

To be useful, a segment must be:

- Different
- Relevant
- Significant

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- Accessible
- Suitable size

Difference

Difference is what really defines the segment. There are any number of ways to define a segment. Some of the commonest ways are:

- Geographic
(e.g. a town, county or region)
- Industry or profession
- Consumer interest
(e.g. discotheques, koi carp, classic cars)

The most suitable segment will depend on the type of business of the supplier. Businesses like shops or restaurants mostly sell to customers within a certain area and geographical segments work well for them. Other businesses like manufacturing or design are often more successful when they sell to a specific industry.

The terms *vertical* and *horizontal* markets are often used – a horizontal market refers to a geographical segment and a vertical market to an industry one.

It may help to combine both geographic and industry, for example supplying builders in Hertfordshire, or garages in the Midlands. The important thing is to define a segment of the right size.

There are other ways of defining segments. Size of company is one. Few small companies supply companies of all sizes. Some specialise in selling to very large companies, some to small, some to SMEs, some to the public sector.

Price brackets are another. Supermarkets aim at customers in different spending brackets. Waitrose aim at the high end of the market, Tesco for the middle, Aldi and Somerfield for the low end. Supermarkets take the trouble to attract their target customers and make them feel comfortable in the stores. Garages sell cars within price ranges, some sell new cars and second hand ones less than three years old, others sell cars from two to five years old, others sell cars costing less than £3000.

The clothing industry tends to segment customers by age.

It is possible to break an industry or product type into further segments. The car market is a good example of this, there are several segments in the motor industry, for example:

- Small cars – targeted at young adults and pensioners
- Family cars
- Fleet cars (once dominated by Ford and Vauxhall)
- Executives (BMW, Mercedes)

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- Low price sports cars
- Expensive sports cars (Porsche, Ferrari)
- Luxury cars (Jaguar, Rolls Royce)
- Off road and SUVs

There are even very specialist niches occupied by companies like Morgan.

Relevance and Significance

There must be something special about the needs or desires of the segment. An entire industry will clearly have special requirements, but even then they can be broken down smaller. Almost all farms need tractors. However dairy farms, pig farms, orchards, and grain farms all have very different specialist equipment. Chinese restaurants need equipment that is not used by Italian restaurants.

Let us look at the case of a supplier of locks.

- The hotel sector needs pass keys that will open any of a group of rooms
- The domestic sector needs easily fitted locks – DIY
- Corrosion is a problem for the marine sector
- The business sector needs locks that conform to insurance industry demands

Each sector has its own special need that is not shared with the others.

Accessibility

It must be possible to identify the members of a community. A good segment will have some sort of “community”.

Perhaps a list of members of the community exists. This could take the form of a trade directory. If that is the case, you can buy the directory or a mailing list and use direct mail or cold calling. If there are journals or magazines, these will be suitable for press releases or advertisements. You could even write articles for the magazines.

If events and exhibitions are organised for that segment, these provide marketing opportunities, as do clubs and on line forums.

Local papers can be used for geographical segments, both for advertisements and press releases. For small geographic segments, leaflet drops can be used.

Members of the best segments will talk to each other, allowing the best form of marketing: word of mouth. Geographical segments are good for this. Industries tend to be less good because your customers can be competitors of each other. Customers like local councils, schools and colleges can be excellent because they cooperate with each other rather than compete and it is easy to get referrals.

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Size

Remember that the purpose of a segment is so you can be one of the major players there. You should aim for a segment where you will be one of the top three suppliers. This means you need to supply at least a quarter of the market. The ideal size of the segment should be from around three to ten times your target turnover. Smaller than that, you won't have room to grow, larger, you will be one of the bit players.

Choosing a Segment

Start by looking at your present customers. What can you say about them? Who are the customers? What do they have in common? Are they in the same industry for example.

When you have asked these questions, you should be able to create a list of candidate segments. Next, ask how relevant they are and how easy it is to reach them. Use the sections above for this.

Finally, consider the size of the segments. If it is too small, then ask how you could make it more general. If it is too big, repeat the first step to break the candidate segment down into smaller chunks.

About John McMillan

John McMillan is an interim manager specialising in high tech start-ups and marketing. He gives many workshops and classes on these subjects.

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