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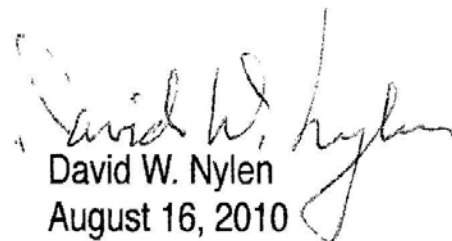
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B.4 Target Market Selection

THE TARGET MARKET DECISION

Target market selection is the second step in the process that leads to **positioning** of a product (see GLOSSARY entry B.1). It occurs in the second stage of the **marketing planning process**, and is based on information developed in the **situation analysis** (see Chapter 4 and GLOSSARY entry A.17).

The Target Market Selection Process. A **target market** is a defined group of consumers to whom a marketer has decided to direct the **marketing mix** for a product. The target market may include all motivated consumers (the total market) or a subgroup of the total market (a market segment).

The selection of a target market for a product is part of a three-step process that leads to the positioning of a product. The steps are to (1) segment the market, (2) select a target market, and (3) position the product. The output of the market segmentation step (see GLOSSARY entry B.3) must be available for use if the target market selection process is to be carried out. The process occurs after situation analysis and utilizes both internal and external information developed there.

The target market selection process requires that the marketer make two related decisions:

- *Step 1: Make the Market Coverage Decision.* The marketer must first decide upon the breadth

of market coverage desired for the product. The marketer may choose to direct the product's marketing mix to a single segment of the market. This is termed **target marketing**. Or the marketer may choose to direct the product's marketing mix to the total market. This is sometimes termed **mass marketing**.¹ A third alternative is to develop several different marketing mixes and direct each to a separate market segment.

- *Step 2: Select the Target Market.* After deciding on the breadth of market coverage, the marketer must decide on the specific market that is to be the target. If the market coverage decision is to mass market to the total market, the target market selection has already been made. All that remains is to be certain that the market has been adequately defined. If the marketer has decided to be a target marketer, a choice must be made from the available market segments to determine which one will be the target market.

The target market selection process and its relationship to positioning are shown in Figure B.4-1.

Mass Marketing versus Target Marketing. Modern marketers are not neutral about the choice between mass marketing and target marketing. Although there are situations in

¹The terminology here is suggested by E. Jerome McCarthy and William D. Perreault, Jr., *Basic Marketing*, 9th ed. (Homewood, Ill.: Richard D. Irwin, 1987), pp. 36-37.

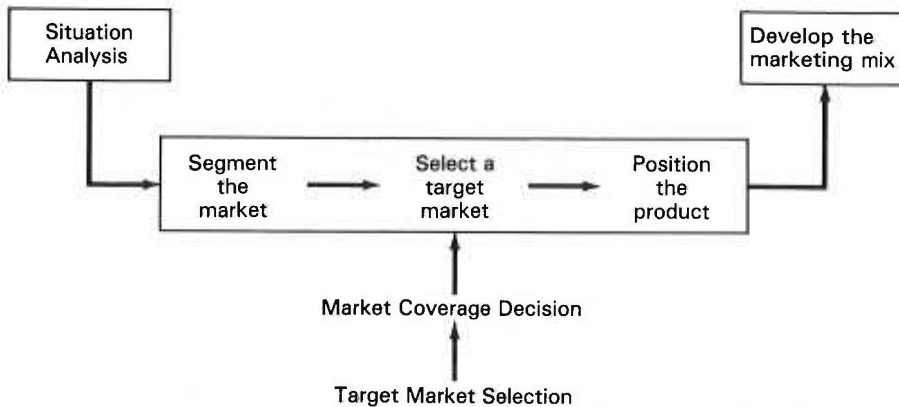


FIGURE B.4-1

Target Market Selection Related to Positioning

which mass marketing is appropriate, in most cases today successful marketers are devoted to target marketing. Target marketing is more consistent with the **marketing concept**, it provides for more efficient use of resources, and it provides competitive advantages.

- *Consumer Benefits.* A mass marketer offers one marketing mix to a total market of consumers with various needs and asks that consumers adjust their needs to the product that is available.² The result is that few are fully satisfied. Target marketing selects a smaller group of consumers with similar needs and tailors the marketing mix to meet those needs. Although there are fewer of them, the consumers in this smaller target market will be more likely to buy the product, will be more satisfied after using it, and will more likely become loyal customers.

- *Market Benefits.* The most attractive benefit from mass marketing is the larger available market. The total market will always be larger than a segment of that market and the potential for higher sales volume is present. If costs are known to decline with volume because of **experience curve** effects, the results of higher volume can be higher profits or the competitive advantage of lower prices. However,

larger market potential is partially offset by the likelihood that the target marketer will gain greater market penetration of the smaller market. This occurs because the target marketer's product more closely meets the needs of the target consumers and thus a higher proportion will purchase and repurchase. If the target marketer's marketing mix better meets segment consumer needs, the result should be a more inelastic demand curve for the product (see GLOSSARY entry A.14). This means that prices can be set higher. The result should be better profit margins if the costs of customizing the product to the target market are not excessive. Target marketing shifts competition away from price and toward product design and improvement. To gain additional sales volume, the target marketer has the option, after a first target market has been secured, to select an additional segment and develop a new marketing mix to meet that target market's needs.

- *Competitive Benefits.* Target marketing results in a competitively more secure market position than does mass marketing. Mass marketers, because they offer a generic, one-size-fits-all marketing mix, tend not to fully satisfy anyone. They are vulnerable to the attack of a target marketer who can carve off a segment of the mass marketer's market and offer those consumers greater satisfaction. This is the traditional strategy for attacking a dominant mass marketer. Target marketers, by contrast, have a relatively protected competitive position. Since the target market strategy results in more satisfied and hence more loyal cus-

²For the classic article explaining this point, see Wendell R. Smith, "Product Differentiation and Market Segmentation as Alternative Strategies," *Journal of Marketing* 20 (July 1956), pp. 3-8.

tomers, competitors would have a more difficult task in taking these customers away. In addition, the smaller target market may make it appear to be a less attractive target.

- *Resource Focus Benefits.* Target market selection illustrates a great marketing truth. Marketers know that with resources and available time both limited, focus is essential to success. Mass marketers lack focus. As a result they never learn who their customers are or what needs they are trying to satisfy. They develop a marketing mix that lacks focus because it tries to satisfy everyone rather than meet specific needs. There is a tendency to be production oriented in letting existing resources drive the strategy rather than consumer needs. Without firm market focus, the firm lacks the insights and commitment to be innovative. The total result is one of competitive weakness.

Although there are situations that call for a mass marketing approach, target marketing offers greater long-term rewards. In those situations where a mass marketing approach is called for, marketers will often attempt, over time, to convert the situation to one where target marketing can be used. See the GLOSSARY entry A.1 description of an analogous problem in terms of **competitive market structure**.

Application of the Target Market Decision. The target market decision is important because it provides direction to all marketing strategy decisions that follow it.

- *Application to the Positioning Decision.* Target market selection is an essential preliminary to making the **positioning decision** (see GLOSSARY entry B.1). Once the target market has been selected, the positioning decision defines how the product will compete within the chosen segment.
- *Application to Marketing Mix Decisions.* Target market selection serves as essential guidance in designing the **marketing mix** (see GLOSSARY entry C.16). Each individual marketing mix decision must be measured against the criterion of "What decision will best meet the needs of the target market?" Used in this way, the target market decision serves as a powerful force by coordinating and giving focus to the elements of the marketing mix.

CRITERIA FOR SELECTING THE TARGET MARKET

Selecting the target market for a product calls for making two decisions: How broad should market coverage be? Which segment should be selected as the target market?

Criteria for Deciding on Market Coverage. In making the market coverage decision, the marketer may choose to cover the total market with a single marketing mix, address a single segment of the market with a customized marketing mix, or cover several segments of the market each with a separate marketing mix. The choice among these alternatives can be made using the criteria suggested below.³

- *Is the Market Large Enough to Segment?* Some markets are so small that segmenting them would not result in an economically viable market. This condition favors a total market coverage approach. Large markets favor an individual segment coverage approach.
- *Are Experience Curve Effects Significant?* If it is expected that costs will decrease substantially with increases in volume, the marketer may need to stress sales volume rather than unit profit. This situation would favor a total market approach, especially if the total market were small. If costs cannot be expected to decrease greatly with volume, customizing the product to the needs of individual segments becomes more practical. (See GLOSSARY entry A.19 on the experience curve.)
- *Are Consumer Needs Homogeneous?* If consumers in the market under study are attempting to fulfill needs that are largely similar, then it would be difficult to segment the market and a total market coverage approach would be effective. Reynolds warns against confusing a policy of offering product variety with one of segmenting the market.⁴ In some markets, consumer needs are relatively homogeneous, but consumers still desire variety (soup or ice

³Some of these criteria are suggested by William Kotrba, "The Strategy Selection Chart," *Journal of Marketing* 30 (July 1966), pp. 22-25.

⁴William H. Reynolds, "More Sense about Market Segmentation," *Harvard Business Review* (September-October 1965), pp. 107-14.

cream, for example). The marketer offering variety is not offering different products to different segments, but simply offering a variety to the total market. On the other hand, if consumers show differing needs, a single marketing mix would not satisfy the total market and market coverage by segment would be appropriate.

- *Can the Product Be Differentiated?* Some products (salt, sugar and sheet steel would be examples) are viewed by consumers as commodities with few perceived differences. Such products are difficult to differentiate, and hence difficult to customize to the needs of a segment. Commodity products lend themselves to a total market coverage approach and products that can be differentiated lend themselves to market coverage by segment.
- *What Is the Stage of the Product Life Cycle?* During the introductory stage of the product life cycle, the innovator having the only product in the market must necessarily use total market coverage. During the growth stage, selection of a single segment becomes the dominant approach. During maturity, firms may find it desirable to use a multiple segment approach, launching new marketing mixes each customized to an additional segment. (See GLOSSARY entry A.15 on the product life cycle.) Another strategy suggested as markets mature is that of counter-segmentation.⁵ **Counter-segmentation** is the process of eliminating or fusing segments and offering less differentiated products to the broader market. A broader target market of consumers is induced to accept a simplified, less tailored product. The incentive is a lower price made possible by cost reductions of a simpler product and a shorter product line produced at greater scale. Countersegmentation can sometimes be used as a way of revitalizing declining products and as an alternative to product elimination (see GLOSSARY entry C.26).
- *What Is the Competitive Environment?* In the rare instance where a product has a monopoly or a near monopoly, a total market coverage approach is appropriate. However, even in monopoly conditions, the marketer may choose a multiple segment approach in order to deliver greater market satisfaction and forestall com-

petitive entry. In a market with multiple competitors, a coverage approach focusing on meeting the needs of individual segments will be competitively more secure. In terms of **competitive market structure** (see GLOSSARY entry A.1), total market coverage may be desirable in monopoly and will be imposed in pure competition (the commodity case above). In both monopolistic competition and oligopoly, segment coverage approaches will be competitively beneficial.

Criteria for Selecting a Target Market. If the market coverage decision is to direct efforts to one or more market segments, the segment that will serve as the target market must be selected. Target market selection criteria are given below.

- *Segment Potential.* Available segments will be of different sizes and will have different projected growth rates. Larger and faster growing segments should be favored because of their sales and profit potential.
- *Unfulfilled Needs.* Segments whose consumers are not satisfied with currently available products should be favored. They will be highly responsive to a product customized to their needs.
- *Competitive Environment.* The number and strength of competitors already serving each segment should be examined. Segments without competition or with weak competitors should be favored.
- *Competitive Advantage.* In some segments the attributes of the product or other element of the marketing mix will provide the marketer with competitive advantage while in other segments the marketer will be in a parity or worse position. Segments where the brand will have or can develop competitive advantage should be favored.
- *Ability to Serve.* A business does not have the ability to serve every market or every segment. The business must carefully appraise its resources to determine what market-serving capabilities it has. A segment should then be sought whose requirements match the capabilities of the business. Some segments, for example, require special, separate distribution channels. Such a segment may not match well the established distribution strength of the business. Similar consideration should be given to production, product design, promo-

⁵See Alan J. Resnik, Peter B. B. Turney, and J. Barry Mason, "Marketers Turn to 'Counter-segmentation,'" *Harvard Business Review* (September-October 1979), pp. 100-106.

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tional and servicing capabilities of the business to find the best match between the capabilities of the business and the requirements of each segment.

SUGGESTIONS FOR FURTHER READING

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