

# IB Business Management

## 4.2 Market Segmentation – Summary Notes



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### MARKET SEGMENTATION

**Market segmentation:** The process of splitting a market into distinct groups of buyers in order to better meet their needs.

The main methods of market segmentation are based on demographic, geographic and psychographic factors.

### ADVANTAGES AND LIMITATIONS OF MARKET SEGMENTATION

Advantages	Limitations
<ul style="list-style-type: none"> <li>Businesses can define their target market precisely and design and produce goods that are specifically aimed at these groups leading to increased sales.</li> </ul>	<ul style="list-style-type: none"> <li>Research and development and production costs might be high as a result of marketing several different product variations.</li> </ul>
<ul style="list-style-type: none"> <li>It helps to identify gaps in the market – groups of consumers that are not currently being targeted – and these might then be successfully exploited.</li> </ul>	<ul style="list-style-type: none"> <li>Promotional costs might be high as different advertisements and promotions might be needed for different segments – marketing economies of scale may not be fully exploited.</li> </ul>
<ul style="list-style-type: none"> <li>Differentiated marketing strategies can be focused on target market groups. This avoids wasting money on trying to sell products to the whole market – some consumer groups will have no intention of buying the product.</li> </ul>	<ul style="list-style-type: none"> <li>Production and stock holding costs might be higher than for the option of just producing and stocking one undifferentiated product.</li> </ul>
<ul style="list-style-type: none"> <li>Small firms unable to compete in the whole market are able to specialise in one or two market segments.</li> </ul>	<ul style="list-style-type: none"> <li>By focusing on one or two limited market segments there is a danger that excessive specialisation could lead to problems if consumers in those segments change their purchasing habits significantly.</li> </ul>
<ul style="list-style-type: none"> <li>Price discrimination can be used to increase revenue and profits.</li> </ul>	

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