Market Mapping

Analysing the customer

A problem that faces any start-up or small business is that customers are not all the same!

Think about how you behave as a customer. The things that you want from your mobile phone or night out are likely to be different from those wanted by someone of a different age, with other interests and so on.

So how does a business address these differences? In short, the challenge for a business is to:

(1) Identify groups of customers who have **similar needs and wants**
(2) Find a way of offering (**positioning**) a product which is attractive to those customer groups

Markets consist of customers with similar needs. For example, consider the wide variety of markets that exist to meet the need to:

- Eat (e.g. restaurants, fast food)

- Drink (e.g. coffee bars, pubs & clubs)

- Travel (for business and leisure, near or far)

- Socialise (as couples, with family, with friends)

- Be educated (as a child, adult, for work or other reasons)

As you can imagine, such markets (if they were not further divided into smaller parts) would be very broad and difficult for a new business to target.

The great news for any new business is that **customers in any broad market are not the same.** For example, within the market to provide meals, customers differ in the:

- Benefits they want (food quality, ambience, dietary health)

- Amount they are able to or willing to pay (budget, expensive)

- Quantities they buy (bulk buy or one-off purchase)

- Time and place that they buy (fast-food, up-market restaurant)

It therefore makes sense for businesses to divide (or **"segment")** the overall market and to target specific segments of a market so that they can design and deliver more relevant products. Let's look at segmentation in some more detail.

Segmenting the market

There are several important reasons why businesses should attempt to segment their markets carefully. These are:

Better matching of customer needs	Customer needs differ. Creating separate products for each segment makes sense and provides customers with a better solution
Better opportunities for growth	Market segmentation can build sales. For example, customers can be encouraged to "trade-up" after being introduced to a particular product with an introductory, lower-priced product
More effective promotion	By segmenting markets, target customers can be reached more often and at lower cost
Gain a higher share of the market	Through careful segmentation and targeting, businesses can often become the market leader, even if the market is small

There are many ways in which a market can be broken down into segments.

A very popular method of **"demographic"** segmentation looks at factors such as age, gender, income and so on. These are described briefly below:

Age	Businesses often target certain age groups. Good examples are toothpaste – look at the variety of toothpaste products for children and adults) and toys (e.g. pre-school, 5-9, 10-12, teen, family)
Gender	We all know that males and females demand different types of the same product. Great examples include the clothing, hairdressing, magazine, toiletries and cosmetics markets
Income	Many companies target rich consumers with luxury goods (e.g. Lexus, Bang & Olufsen). Other businesses focus on products that appeal directly to consumers on low incomes (e.g. Aldi and Lidl (discounted groceries) and fast-fashion retailers such as TK Maxx)
Social class	Many businesses believe that a consumers "perceived" social class influences their preferences for cars, clothes, home furnishings, leisure activities and other products & services

Another approach is known as **"geographic segmentation".** This tries to divide markets using:

- **Regions**: e.g. in the UK these might be England, Scotland, Wales Northern Ireland or (at a more detailed level) counties or major metropolitan areas

- **Countries**: perhaps categorised by size, development or membership of geographic region

- **City / town size**: e.g. population within ranges or above a certain level

- **Population density**: e.g. urban, suburban, rural, semi-rural

It would be nice to think that market segmentation is the answer to an entrepreneur's problems. By spotting a clear niche market using segmentation, the start-up business can focus all its efforts on reaching the target customer base.

Limitations of segmentation

If only business life was that simple. It isn't. Here are some key limitations with market segmentation:

- **Lack of information and data:** some markets are poorly researched with little information about different customer needs and wants
- **Difficulty in measuring and predicting consumer behaviour:** humans don't all behave in the same way all of the time. The way that they behave also changes over time! A good example is the "grey generation" (i.e. people aged over 50). The attitudes and lifestyles of the grey generation have changed dramatically in recent years.
- **Hard to reach customer segments once identified:** it is one thing spotting a segment; it is another finding the right way to reach target customers with the right kind of marketing message

Market mapping

Once an entrepreneur has identified an appropriate segment of the market to target, the challenge is to **position** the product so that it meets the needs and wants of the target customers.

One way to do this is to use a "**market map**" (you might also see this called by its proper name – the "perceptual map").

The market map illustrates the range of "positions" that a product can take in a market based on two dimensions that are important to customers.

Examples of those dimensions might be:

- High price v low price
- Basic quality v High quality
- Low volume v high volume
- Necessity v luxury
- Light v heavy
- Simple v complex
- Lo-tech v high-tech
- Young v Old

Let's look at an illustrated example of a market map. The map below shows one possible way in which the chocolate bar market could be mapped against two dimensions – quality and price:
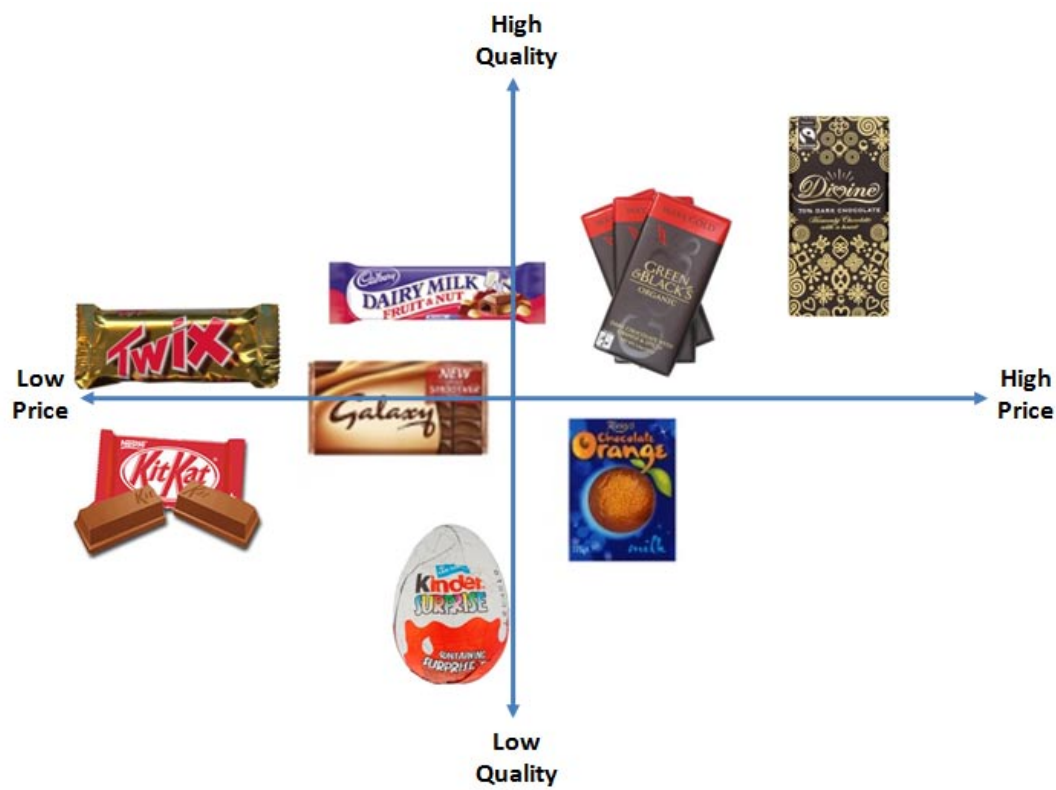
How might a market map be used?

One way is to identify where there are "gaps in the market" – where there are customer needs that are not being met.

For example, in the chocolate bar market, Divine Chocolate (a social enterprise) successfully spotted that some consumers were prepared to pay a premium price for very high quality chocolate made from Fairtrade cocoa. Green & Black's exploited the opportunity to sell premium chocolate made from organic ingredients. Both these brands successfully moved into the high quality / high price quadrant (see above) before too many competitors beat them to it.

The trick with a market map is to ensure that market research confirms whether or not there is actually any demand for a possible "gap in the market". There may be very good reasons why consumers do not want to buy a product that might, potentially, fill a gap.