

Market segmentation reveals the firm's market segment opportunities. For example, the economy segment of the automobile market is large and growing. But "right size and growth" is a relative matter. The largest, fastest-growing segments are not always the most attractive ones for every company. Smaller companies may lack the skills and resources needed to serve larger segments. Or they may find these segments too competitive. Such companies may target segments that are smaller and less attractive, in an absolute sense, but that are potentially more profitable for them. The company also needs to examine major structural factors that affect long-run segment attractiveness. Buyers with strong bargaining power relative to sellers will try to force prices down, demand more services, and set competitors against one another—all at the expense of seller profitability.

Evaluating Market Segments

In evaluating different market segments, a firm must look at three factors: segment size and growth, segment structural attractiveness, and company objectives and resources. The existence of many actual or potential substitute products may limit prices and the profits that can be earned in a segment.