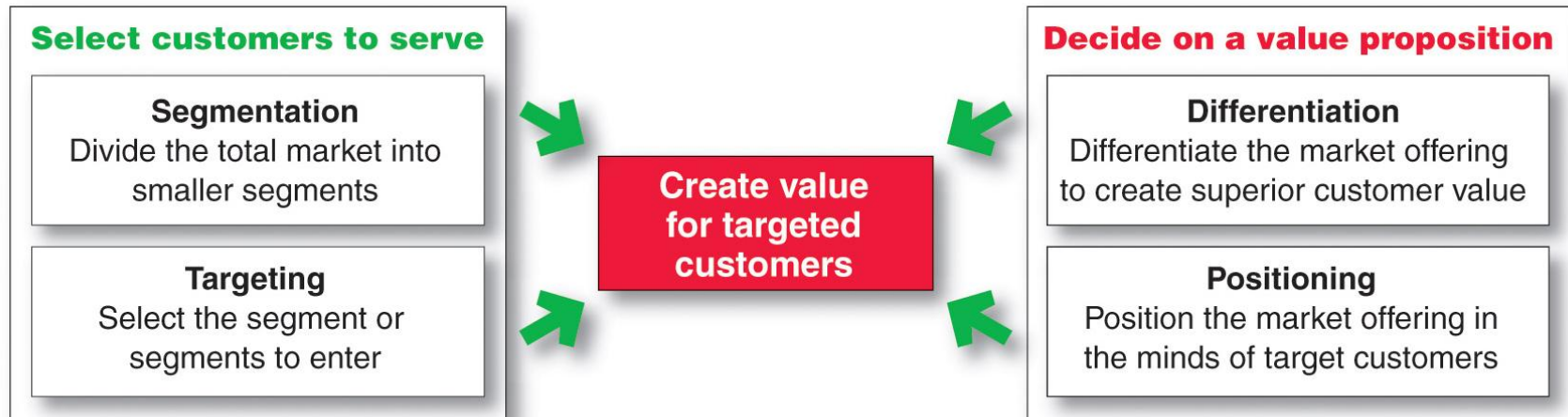# Core Strategy

Segmentation and positioning

Chapter 10

The need for market segmentation

- Marketers understand that they cannot be all things to all people, all of the time. Buyers and markets are too complex and diverse for one simple marketing formula to adequately address the needs of all.

Market Segmentation

Select customers to serve

Segmentation
Divide the total market into smaller segments

Targeting
Select the segment or segments to enter

Create value for targeted customers

Decide on a value proposition

Differentation
Differentiate the market offering to create superior customer value

Positioning
Position the market offering in the minds of target customers

Segmentation and positioning

- **Target marketing**
  - Identifies market segments that are bite sized chunks that organisations can manage.
- **Market segmentation**
  - Identifies markets with common traits.
- **Market targeting**
  - Process of evaluation of the selected segments and then deciding which market segments to operate within.
- **Market positioning**
  - Process whereby marketers position the product to occupy a clear and distinctive position relative to other competing products.

Market segmentation

- Markets are comprised of buyers and they differ in wants, resources, locations and buying patterns.

- Market segmentation is the process that marketers use to divide up the market into smaller segments that can be efficiently addressed.

Levels of market segmentation

– *Mass marketing*
  - Assumes market is homogenous and uses the same product, promotion and distribution to all consumers.

– *Segment marketing*
  - Adapting a company's offerings so they more closely match the needs of one or more segments.

– *Niche marketing*
  - Adapting a company's offerings to match the needs of one or more sub-segments more closely where there is little competition.

– *Micro marketing*
  - Marketing programmes tailored to narrowly defined geographic, demographic, psychographic behavioural segments.

Micro marketing

– *Local Marketing*

   » Tailoring brands and promotions to the needs and wants of local customer groups.

– *Individual marketing*

   » Tailoring products and marketing programmes to the needs and preferences of individual customers.

– *Mass customisation*

   » Preparing individually designed products and communication on a large scale.

Market segmentation

- There is no single way of segmenting a market.

- Different market segmentation variables to develop the most effective segmentation method.

- Major variables used are geographic, demographic, psychographic and behavioural.

Market segmentation

Variable	Typical breakdowns
Geographic	
Region	These can vary in scale from, say, Europe, through groupings of countries (Scandinavia), nations (Finland), to regions within countries (Lapland).
Country size	Giant (USA), large (Germany, Spain), medium (The Netherlands, Australia) or small (Malta, Lithuania).
City size	Under 5,000; 5,000–20,000; 20,000–50,000; 50,000–100,000; 100,000–250,000; 250,000–500,000; 500,000–1,000,000; 1,000,000–4,000,000; 4,000,000 and over.
Density	Urban, suburban, rural.
Climate	Tropical, sub-tropical, temperate, etc.
Demographic	
Age	Under 6, 6–11, 12–19, 20–34, 35–49, 50–64, 65+.
Gender	Male, female.
Family size	1–2, 3–4, 5+.
Family life cycle	Young, single; young, married, no children; young, married, youngest child under 6; young, married, youngest child 6 or over; older, married with children; older, married, no children under 18; older, single; other.
Income	Under €10,000; 10,000–15,000; 15,000–20,000; 20,000–30,000; 30,000–50,000; 50,000–75,000; 75,000–100,000; 100,000 and over.
Occupation	Professional and technical; managers, officials and proprietors; clerical, sales; craftsmen, foremen; operatives; farmers; retired; students; homemakers; unemployed.
Education	Grade school or less; some high school; high school graduate; university; postgraduate; professional.
Religion	Catholic, Protestant, Jewish, Islamic, etc.
Race	White, Black, Polynesian, Chinese, etc.
Nationality	American, British, German, Scandinavian, Latin American, Middle Eastern, Japanese, etc.

Table 10.1 Market segmentation variables for consumer markets

Variable	Typical breakdowns
Psychographic Social class	Lower lowers, upper lowers, working class, middle class, upper middles, lower uppers, upper uppers.
Lifestyle	Achievers, believers, strivers.
Personality	Compulsive, gregarious, authoritarian, ambitious.
Behavioural Purchase occasion	Regular occasion, special occasion.
Benefits sought	Quality, service, economy.
User status	Non-user, ex-user, potential user, first-time user, regular user.
Usage rate	Light user, medium user, heavy user.
Loyalty status	None, medium, strong, absolute.
Readiness state	Unaware, aware, informed, interested, desirous, intending to buy.
Attitude towards product	Enthusiastic, positive, indifferent, negative, hostile.

Table 10.1 Market segmentation variables for consumer markets (continued)

Segmentation (1)

- **Geographic segmentation**
  - Dividing a market into different geographical units such as countries, states, regions, towns.
- **Demographic segmentation**
  - Age and life-cycle segmentation.
  - Ethnic segmentation.
  - Gender segmentation.
  - Income segmentation.
- **Geo-demographics**
  - Study of relationship between geographical location and demographics.

Segmentation (2)

- **Psychographic segmentation**
  - Social class
  - Lifestyle
    - Young and Rubican's Cross-Cultural Consumer characterisation:
      - *The constrained:* limited by income, can be *'resigned poor' or 'struggling poor'.*
      - *The middle majority: 'aspirers' and 'succeeders'.*
      - *The innovators: 'transitionals' and 'reformers'.*
  - Personality traits

Segmentation (3)

- **Behavioural segmentation**
  - Markets segmented based upon consumer knowledge, attitude, use or response to a product.
    - Occasion segmentation
    - Benefit segmentation
    - User status
    - Usage rate
    - Loyalty status
    - Buyer readiness stage
    - Attitude towards product

Benefit segments	Demographics	Behaviour	Psychographics	Favoured brands
Economy (low price)	Men	Heavy users	High autonomy, value oriented	Brands on sale
Medicinal (decay prevention)	Large families	Heavy users	Hypochondriacal, conservative	Crest
Cosmetic (bright teeth)	Teens, young adults	Smokers	High sociability, active	Aqua-Fresh, Ultra Brite
Taste (good tasting)	Children	Spearmint lovers	High self-involvement, hedonistic	Colgate, Aim

Table 10.3 Benefit segmentation of the toothpaste market
Source: Adapted from Russell J. Haley, 'Benefit segmentation: a decision-oriented research tool', *Journal of Marketing* (July 1968), pp. 30–5; see also Haley, 'Benefit segmentation: backwards and forwards', *Journal of Advertising Research* (February–March 1984), pp. 19–25; and Haley, 'Benefit segmentation – 20 years later', *Journal of Consumer Marketing*, **1** (1984), pp. 5–14.

Segmenting business markets

Demographics

Industry. **Which industries that buy this product should we focus on?**
Company size. **What size companies should we focus on?**
Location. **What geographical areas should we focus on?**

Operating variables

Technology. **What customer technologies should we focus on?**
User/non-user status. **Should we focus on heavy, medium or light users, or non-users?**
Customer capabilities. **Should we focus on customers needing many services or few services?**

Purchasing approaches

Purchasing function organisations. **Should we focus on companies with highly centralised or decentralised purchasing organisations?**
Power structure. **Should we focus on companies that are engineering dominated, financially dominated or marketing dominated?**
Nature of existing relationships. **Should we focus on companies with which we already have strong relationships or simply go after the most desirable companies?**
General purchase policies. **Should we focus on companies that prefer leasing? Service contracts? Systems purchases? Sealed bidding?**
Purchasing criteria. **Should we focus on companies that are seeking quality? Service? Price?**

Table 10.4 Primary segmentation variables for business markets
Source: Adapted from Thomas V. Bonoma and Benson P. Shapiro, *Segmenting the Industrial Market* (Lexington, MA: Lexington Books, 1983); see also John Berrigan and Carl Finkbeiner, *Segmentation Marketing: New methods for capturing business* (New York: Harper Business, 1992).

Situational factors

Urgency. **Should we focus on companies that need quick delivery or service?**

Specific application. **Should we focus on certain applications of our product rather than all applications?**

Size of order. **Should we focus on large or small orders?**

Personal characteristics

Buyer–seller similarity. **Should we focus on companies whose people and values are similar to ours?**

Attitudes towards risk. **Should we focus on risk-taking or risk-avoiding customers?**

Loyalty. **Should we focus on companies that show high loyalty to their suppliers?**

Table 10.4 Primary segmentation variables for business markets (continued)

Source: Adapted from Thomas V. Bonoma and Benson P. Shapiro, *Segmenting the Industrial Market* (Lexington, MA: Lexington Books, 1983); see also John Berrigan and Carl Finkbeiner, *Segmentation Marketing: New methods for capturing business* (New York: Harper Business, 1992).

Recent study by Signode Corporation (industrial packaging division)

- Revealed the following four types of buyers:
  - **Programmed buyers**
    - View products as not very important to their business. Pay full price and accept little service. Highly profitable.
  - **Relationship buyers**
    - View products as moderately important. Small discounts and good profitability. Modest amount of service.
  - **Transaction buyers**
    - View products as very important to their business. Large discounts for volume. Well informed on products and competitor products.
  - **Bargain hunters**
    - Demand highest service and biggest discounts. Volume customers though not very profitable.

Segmenting international markets

- Common segmentation variables used:
  - Geographic location
  - Economic factors
  - Political and legal factors
  - Inter-market segmentation
    - Form segments of consumers who have similar needs and buying behaviour even if they are in different countries.

Multivariate segmentation

- Companies generally integrate ways of segmentation in the following manner:

  - **Simple multivariate segmentation**
    - Gender and age

  - **Advanced multivariate segmentation**
    - Geodemographic, lifestyle as well as behavioural

  - **Multistage segmentation**
    - Use a combination of macro and micro segmentation.

Requirements for effective segmentation

- *Measurability*
  - Degree to which size, purchasing power and profits of a market segment can be measured.
- *Accessibility*
  - Degree to which a market segment can be reached and served.
- *Substantiality*
  - Degree to which a market segment is sufficiently large or profitable.
- *Actionability*
  - Degree to which effective programmes can be designed for attracting and serving the given market segment.

Positioning

- Core strategy is the matching of company strengths and market opportunities and has 2 components:

  - Identification of group of customers to whom the company can clearly show it has a differential advantage.

  - The firm needs to position its offerings in the customer's mind.

Differentiation

- Marketers strive for ***competitive advantage*** defined as a comparative advantage over the competitor gained by offering greater value, either by lower prices or by offering higher quality benefits.

Differentiating markets

- Companies and their market offerings can be differentiated along the lines of products, services, personnel or image.

Differentiating markets (1)

- **Product differentiation**
  - Features and benefits
  - Quality
  - Performance
  - Innovation
  - Consistency
  - Reliability
  - Style and design
  - Durability
  - Repairability

Differentiating markets (2)

- **Services differentiation**
  - Delivery
  - Installation
  - Repair services
  - Customer training services
  - Consulting services
  - Speed of service

Differentiating markets (3)

- **Personnel differentiation**
  - Hiring
  - Training
  - Customer focused

Differentiating markets (4)

- **Image differentiation**
  - Images that reflect the 'soul' or ethos of the company

Differentiating markets

- **Value positioning**
  - A range of positioning alternatives based on the value an offering delivers and its price.
    - *More for more*
      - Premium product and premium price, supported by a premium image. E.g. Mont Blanc pens
    - *More for the same*
      - Brand offering comparable quality at a lower price. E.g. Lexus versus the Mercedes-Benz.
    - *The same for less*
      - Value proposition e.g. Amazon.com
    - *Less for much less*
      - Trade off between luxury and necessity. E.g. Five star hotel versus a budget hotel. Lower performance for much lower cost.
    - *More for less*
      - No-name house brands versus the big brands.

Product Positioning

According to Ries and Trout (1981), there are three positioning alternatives:

- Strengthen a brand's ***current position*** in the mind of the consumers.

- Search for a new ***unoccupied position*** that is valued by enough consumers and occupy that.

- ***De-position or re-position*** the competition.

Positioning strategies

- *Product attributes*
  - Nokia's 6600 'Zoom in'.
- *Technical items*
  - BMW breathable fresh air filters.
- *Benefits offered*
  - Crest toothpaste reduces cavities.
- *Usage occasions*
  - Kit Kat, 'have a break'.
- *Users*
  - Johnson & Johnson changing focus to incorporate adults as frequent users of their gentle Baby Shampoo.
- *Activities*
  - Omega, the 'first and only watch on the moon'.
- *Personalities*
  - Tiger Woods for Nike

Positioning strategies

- ***Cult positioning***
  - Harry Potter books.
- ***Origin***
  - Perrier 'bottled at source'.
- ***Positioned with synergistic products and brands***
  - Bentley and Breitling.
- ***Positioned against competitors***
  - Dell and Compaq versus IBM
- ***Positioned away from competitors***
  - 7-Up the number 1 'Un-cola'.
- ***Product class membership***
  - 'I can't believe it's not butter', the vegetable fat spread, is clearly positioned against butter.

Choosing and implementing a positioning strategy

- Ad man Rosser Reeves states that every company should have a **unique selling proposition (USP)**.

  – The USP is the unique product benefit that a firm aggressively promotes in a consistent manner to its target market. The benefit usually reflects functional superiority: best quality, best services, lowest price, most advanced technology.

- Difficulty of maintaining functional superiority forces firms to attempt a more emotional influence by developing an **emotional selling proposition** (ESP).

What is a positioning statement?

A **positioning statement** is a statement that summarises company or brand positioning.

It takes this form: *To* (target segment ad need) *our* (brand) *is* (concept) *that* (point of difference).

Mountain Dew's positioning statement

To young, active soft-drink consumers who have little time to sleep, Mountain Dew is the soft drink that gives you more energy than any other brand because it has the highest level of caffeine.

Common and serious positioning errors

- **Under-positioning**
  - A positioning error referring to failure to position a company, its product or brand.

- **Over-positioning**
  - A positioning error referring to too narrow a picture of the company, its products or a brand being communicated to target customers.

- **Confused positioning**
  - Leaves consumers with a confused image of the company, its product or brand.

- **Implausible positioning**
  - Making claims that stretch the perception of the buyers too far to be believed.

Essential criteria to accomplish a good positioning strategy

- *Features and benefits must be **important** to the consumer.*
- *Must be **distinctive** from the competition.*
- *Must deliver **superior** quality or service.*
- *Difference must be **communicable** and visible to buyers.*
- ***Pre-emptive** and competitors unable to replicate.*
- ***Affordable***
- ***Profitable***