Segmentation and positioning
Previewing concepts (1)

• Define the steps in designing a customer-driven marketing strategy: market segmentation, market targeting, differentiation, and positioning (STP)

• List and discuss the major bases for segmenting consumer and business markets
Previewing concepts (2)

• Explain how companies identify attractive market segments and choose a market targeting strategy

• Discuss how companies position their products for maximum competitive advantage in the marketplace
WHAT IS SEGMENTATION ABOUT?

• “The identification of sub-sets of buyers within a market who share similar needs and who have similar buying processes”

• Companies aim to satisfy the needs of specific market segments better than anybody else
S.T.P – The basics of a Marketing Strategy

• Most companies have moved away from mass marketing and toward market segmentation and targeting—identifying market segments, selecting one or more of them, and developing products and marketing programmes tailored to each.
## The Segmentation Process

<table>
<thead>
<tr>
<th>Market segmentation</th>
<th>Market targeting</th>
<th>Market positioning</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Identify bases for</td>
<td>3. Develop measures of segment attractiveness</td>
<td>5. Develop positioning for each target segment</td>
</tr>
<tr>
<td>segmenting the market</td>
<td>4. Select the target segment(s)</td>
<td>6. Develop marketing mix for each target segment</td>
</tr>
<tr>
<td>2. Develop profiles of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>resulting segments</td>
<td></td>
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</tr>
</tbody>
</table>

S.T.P

• The first is market segmentation—dividing a market into smaller groups of buyers with distinct needs, characteristics, or behaviours who might require separate products or marketing mixes.

• The second step is target marketing—evaluating each market segment’s attractiveness and selecting one or more of the market segments to enter.

• The third step is differentiation—differentiating the firm’s market offering to create superior customer value.

• The fourth and final step is market positioning—setting the competitive positioning for the product and creating a detailed marketing mix.
Figure 9.1 Steps in market segmentation, targeting and positioning

- **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**
  - **Differentiation**: Differentiate the market offering to create superior customer value
  - **Positioning**: Position the market offering in the minds of target customers
What is market segmentation?

**Market segmentation** involves dividing large, heterogeneous markets into smaller segments that can be reached more efficiently and effectively with products and services that match their unique needs.
Segmenting consumer markets

- Geographic
- Demographic
- Psychographic
- Behavioral
Tesco

Tesco caters for two market segments: consumers looking for value and those who are more quality conscious.
eg business and consumer travel markets
Segmenting the ice-cream market

These could include:

- Benefits sought
- Purchase occasion
- Usage
- Age
- Gender
- Life cycle
- Income
## Benefit Segmentation
### The Toothpaste Market

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

Exercise

Go to a retail bookstore or newsstand and survey the magazine section. What unique market segments appear to be the target of specialty magazines? How did you determine the segments?
<table>
<thead>
<tr>
<th>Variable</th>
<th>Typical breakdowns</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Psychographic</strong></td>
<td></td>
</tr>
<tr>
<td>Social class</td>
<td>Lower lowers, upper lowers, working class, middle class, upper middles, lower uppers, upper uppers.</td>
</tr>
<tr>
<td>Lifestyle</td>
<td>Achievers, believers, strivers.</td>
</tr>
<tr>
<td>Personality</td>
<td>Compulsive, gregarious, authoritarian, ambitious.</td>
</tr>
<tr>
<td><strong>Behavioural</strong></td>
<td></td>
</tr>
<tr>
<td>Purchase occasion</td>
<td>Regular occasion, special occasion.</td>
</tr>
<tr>
<td>Benefits sought</td>
<td>Quality, service, economy.</td>
</tr>
<tr>
<td>User status</td>
<td>Non-user, ex-user, potential user, first-time user, regular user.</td>
</tr>
<tr>
<td>Usage rate</td>
<td>Light user, medium user, heavy user.</td>
</tr>
<tr>
<td>Loyalty status</td>
<td>None, medium, strong, absolute.</td>
</tr>
<tr>
<td>Readiness state</td>
<td>Unaware, aware, informed, interested, desirous, intending to buy.</td>
</tr>
<tr>
<td>Attitude towards product</td>
<td>Enthusiastic, positive, indifferent, negative, hostile.</td>
</tr>
</tbody>
</table>
Figure 5.1 Segmenting consumer markets
<table>
<thead>
<tr>
<th>Variable</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Behavioural</strong></td>
<td></td>
</tr>
<tr>
<td>Benefits sought</td>
<td>Convenience, status, performance</td>
</tr>
<tr>
<td>Purchase occasion</td>
<td>Self-buy, gift</td>
</tr>
<tr>
<td>Purchase behaviour</td>
<td>Solus buying, brand switching, innovators</td>
</tr>
<tr>
<td>Usage</td>
<td>Heavy, light</td>
</tr>
<tr>
<td>Perceptions and beliefs</td>
<td>Favourable, unfavourable</td>
</tr>
<tr>
<td><strong>Psychographic</strong></td>
<td></td>
</tr>
<tr>
<td>Lifestyle</td>
<td>Trendsetters, conservatives, sophisticates</td>
</tr>
<tr>
<td>Personality</td>
<td>Extroverts, introverts, aggressive, submissive</td>
</tr>
<tr>
<td><strong>Profile</strong></td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>Under 12, 12–18, 19–25, 26–35, 36–49, 50–64, 65</td>
</tr>
<tr>
<td>Gender</td>
<td>Female, male</td>
</tr>
<tr>
<td>Life cycle</td>
<td>Young single, young couples, young parents, middle-aged empty-nesters, retired</td>
</tr>
<tr>
<td>Social class</td>
<td>Upper middle, middle, skilled working, unwaged</td>
</tr>
<tr>
<td>Terminal education age 16, 18, 21 years</td>
<td></td>
</tr>
<tr>
<td>Income</td>
<td>Income breakdown according to study objectives and income levels per country</td>
</tr>
<tr>
<td>Geographic</td>
<td>North vs south, urban vs rural, country</td>
</tr>
<tr>
<td>Geodemographic</td>
<td>Upwardly mobile young families living in larger owner-occupied houses, older people living in small houses, European regions based on language, income, age profile and location</td>
</tr>
</tbody>
</table>
What is geographic segmentation?

Geographic segmentation means dividing the market into different geographical units such as nations, regions, states, counties, cities, or neighbourhoods.
Geographic segmentation

- Tesco Metro
- Tesco Express
- One Stop
What is demographic segmentation?

**Demographic segmentation** means dividing the market into groups based on variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race, generation and nationality.
Demographic segmentation

• Demographic factors are the most popular basis for segmenting customers

• One reason is that consumer needs, wants, and usage rates often vary closely with demographic variables.

• Another is that demographic variables are easier to measure than most other types of variables.
What is psychographic segmentation?

**Psychographic segmentation** means dividing the market into groups based on social class, lifestyle or personality characteristics.

Q. What about segmentation based on ethnicity? Explain.
Duck Head targets with lifestyle segmentation
Psychographic – Age and Lifestyle

- Some companies use age and life-cycle segmentation, offering different products or using different marketing approaches for different age and life-cycle groups.

- But, Marketers must be careful to guard against stereotypes when using age and life-cycle segmentation. Age is often a poor predictor of a person’s life cycle, health, work or family status, needs, and buying power.
What is behavioural segmentation?

**Behavioural segmentation** means dividing the market into groups based on their knowledge, attitudes, uses or responses to a product.
Behavioural segmentation

» Buyers can be grouped according to occasions when they get the idea to buy, actually make their purchase, or use the purchased item.

» Markets can be segmented into groups of nonusers, ex-users, potential users, first-time users, and regular users of a product. Markets can also be segmented into light, medium, and heavy product users.

» A market can additionally be segmented by consumer loyalty.
Forms of behavioural segmentation

- Occasions
- User status
- Usage rate
- Loyalty status
Loyalty Segments

- Current loyal user, continuing purchase
- Current customer, switching possible
- Occasional user, could become loyal
- Occasional user, switching possible
- Non-user, could become user
- Non-user, unlikely to become user
Marketers can use multiple segmentation bases to identify smaller, better-defined target groups.
Behaviour Segmentation - Usage

eg usage segmentation in the soup market

• Dinner party starter
• Warming snack
• Meal replacement
• Recipe ingredient
• Easy office lunch
Exercise

A convenience store in Measham (postcode DE12 7GF) has a chance to purchase a second store in nearby Appleby Magna (postcode DE12 7AQ). Visit www.upmystreet.com to view the ACORN geodemographics of the two locations and suggest how the convenience store’s merchandise and promotions should be adjusted to meet the needs of Appleby Magna.
GEODEMOGRAPHIC SEGMENTATION

- Combines many approaches to segmentation
- Based on postcode analysis
- Where we live is correlated with many aspects of buying behaviour
Geodemographic Segmentation and Mosaic

- The analysis of people by where they live
- Micro-targeting system
- Targets by neighbourhood

Source: Experian Ltd, http://www.experian.com. © 2005 Experian Ltd. All rights reserved. The word ‘Experian’ is a registered trademark in the EU and other countries and is owned by Experian Ltd and/or its associated companies.
How segmentation variables?

- Marketers rarely limit their segmentation analysis to only one or a few variables. They are increasingly using multiple segmentation bases in an effort to identify smaller, better defined target groups.
Calvin Klein uses several layers of segmentation
Segmenting Business Markets

- Consumer and business marketers use many of the same variables to segment their markets.
- Business buyers can be segmented geographically, demographically (industry, company size), or by benefits sought, user status, usage rate, and loyalty status.
- Yet, business marketers also use some additional variables, such as customer operating characteristics, purchasing approaches, situational factors, and personal characteristics.
Requirements for effective segmentation

- Measurable
- Accessible
- Substantial
- Differentiable
- Actionable
Effective segmentation

– **Measurable:** The size, purchasing power, and profiles of the segments can be measured.

– **Accessible:** The market segments can be effectively reached and served.

– **Substantial:** The market segments are large or profitable enough.

– **Differentiable:** The segments are conceptually distinguishable and respond differently to different marketing mix elements and programmes.

– **Actionable:** Effective programmes can be designed for attracting and serving the segments.
Segmentation for financial services.

- Who do you wish to target? (target segment)
- How did you measure the size, purchasing power, and profiles of the segment? (measurable)
- How will you reach this segment effectively and efficiently? (accessible)
- Just how large is this market in annual sales dollars? (substantial)
- How have you differentiated this product from others? (differentiable)
- Explain again why you believe we can, and should, pursue this idea? (actionable)
What is market targeting?

**Market targeting** involves evaluating the various segments identified during the segmentation process and deciding how many and which segments it can serve best.
Targeting - 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.
Factors used to assess market/segment attractiveness

Market attractiveness

- Market factors
- Competitive factors
- Political, social and environmental factors
Market/Segment attractiveness

Market factors

- Segment size
- Segment growth rate
- Segment profitability
- Price sensitivity
- Bargaining power of customers
- Bargaining power of suppliers
- Barriers to market segment entry
- Barriers to market segment exit
Market/Segment attractiveness

- Competitive factors
- Nature of competition
- New entrants
- Competitive differentiation
Market/Segment attractiveness

- Political, social and environmental factors
  - Political issues
  - Social trends
  - Environmental issues
In summary - factors affect segment attractiveness.

- A segment is less attractive if it already contains many strong and aggressive competitors.

- The existence of many actual or potential substitute products may limit prices and the profits that can be earned in a segment.

- The relative power of buyers also affects segment attractiveness.

- A segment may be less attractive if it contains powerful suppliers who can control prices or reduce the quality or quantity of ordered goods and services.
Figure 9.2
Target marketing strategies

- Undifferentiated marketing
- Differentiated (segmented) marketing
- Concentrated (niche) marketing
- Micromarketing
Target marketing strategies

- Undifferentiated marketing.
- Differentiated marketing.
- Focused (Concentrated/Niche) marketing.
- Customized (Micromarketing) marketing.
Target marketing strategies

Undifferentiated marketing

[Diagram: Marketing mix connected to Whole market]
Example of Undifferentiated Strategy Example

- **ORGANISATION**
  - Post Office

- **MARKETING MIX**
  - Product
  - Price
  - Promotion
  - Distribution

- **TARGET MARKET**
  - Everybody
Target marketing strategies

Differentiated marketing

Marketing mix 1
Marketing mix 2
Marketing mix 3

Segment 1
Segment 2
Segment 3
Example of Differentiated Strategy

LEVI’s

Marketing Mix 1

Marketing Mix 2

Marketing Mix 3

Marketing Mix 4

Marketing Mix 5

Utilitarian Customer

Trendy-Casual

Mainstream

Price shopper

Tradition-alist

Example of Differentiated Strategy
Target marketing strategies

Focused marketing

Segment 1
Segment 2
Segment 3

Marketing mix
Example of Focused Strategy

ORGANISATION

Cement Manufacturer

MARKETING MIX

• Product
• Price
• Promotion
• Distribution

Unserved

Independent DIY Shops

Builders Merchants

National DIY Chains
Target marketing strategies

Customized marketing

- Marketing mix 1
- Marketing mix 2
- Marketing mix 3

Customer 1
Customer 2
Customer 3
Example of Customized Strategy – Business markets

ORGANISATION

Industrial Electronic Systems Supplier

INDIVIDUAL MIXES

Marketing Mix 1
Marketing Mix 2
Marketing Mix 3
Marketing Mix 4

INDIVIDUAL CUSTOMERS

Nissan
Birdseye
Heinz
Levis
Individual marketing

Designing your own LEGO model is easy! This short presentation shows how to download the software, design your model, upload your design and order your model online.
Micromarketing

• Rather than seeing a customer in every individual, micro-marketers see the individual in every customer.

• In the extreme, micromarketing becomes *individual* marketing—tailoring products and marketing programmes to the needs and preferences of individual customers.

• Individual marketing has also been labeled one-to-one marketing, mass customisation, and markets-of-one marketing.
Think-Pair-Share

• Consider this scenario: You’ve gone to work for a shoe designer who is just launching her business. Each group should then answer the following questions:

  – Suggest a way to segment the market for her.
  – Then, select a target market to go after, keeping in mind segment size and growth, structural attractiveness, and probable company resources.
  – What target marketing strategy would you use? Explain your answers.
Factors affecting the choice of market targeting strategy

- Company resources
- Product variability
- Product’s life cycle stage
- Market variability
- Competitor’s marketing strategy
Choosing a target-marketing strategy.

- When the firm’s resources are limited, concentrated marketing makes the most sense.
- Products that can vary in design, such as cameras and automobiles, are more suited to differentiation or concentration.
- The product’s life-cycle stage also must be considered. When a firm introduces a new product, it may be practical to launch only one version, initially.
- Market variability - If most buyers have the same tastes, buy the same amounts, and react the same way to marketing efforts, undifferentiated marketing is appropriate.
- Finally, competitors’ marketing strategies are important. When competitors use differentiated or concentrated marketing, undifferentiated marketing may be unadvisable.
Differentiation and positioning

Companies must decide on a value proposition – how it will create differentiated value for targeted segments and what positions it wants to occupy in those segments.

A product’s position is the way the product is defined by consumers on important attributes.
Bang & Olufsen targets upmarket consumers.
Positioning maps

• Marketers often prepare perceptual positioning maps that show consumer perceptions of their brand versus competing products on important buying dimensions.

• Figure 9.3 shows a positioning map. The position of each circle on the map indicates the brand’s perceived positioning on two dimensions—price and orientation. The size of each circle indicates the brand’s relative market share.
Figure 9.3 Positioning map of large luxury SUVs
Figure 5.5 A perceptual map of supermarkets
Perceptual map - breakfast cereal market

• Identify all competing brands in the breakfast cereal market
• Discuss the important attributes consumers’ use when choosing between brands e.g. price, taste, and calorie content.
• Score each brand on these key attributes
• Plot the brands on a two dimensional map (or maps)
Steps in choosing a differentiation and positioning strategy

• Identify possible value differences and competitive advantages

• Choose the right competitive advantages

• Select an overall positioning strategy

• Develop a positioning statement
Sources of differentiation

- Product
- Services
- Channels
- People
- Image
Criteria for choosing which differences to promote

- Important
- Distinctive
- Superior
- Communicable
- Pre-emptive
- Affordable
- Profitable
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.
Discussing the concepts (1)

• What are the benefits of mass marketing versus market segmentation for a business?

• Is the EU an attractive and distinctive geographic market segment? Can businesses market in the same way to different consumers in member states?

• How can financial service providers segment their markets and implement targeting strategies?