Overview: Segmentation, Targeting & Positioning

Market segmentation
- Identify bases for segmenting the market
- Develop segment profiles

Target marketing
- Develop measure of segment attractiveness
- Select target segments

Market positioning
- Develop positioning for target segments
- Develop a marketing mix for each segment

Why do this?
The Purpose of STP

• **It facilitates efficient resource utilization.** By identifying and targeting discrete segments of consumers (retail or corporate), a company is able to limit the scope of individual components of the marketing mix and thus reduce costs.
STP

- *It allows effective targeting of new customers.*
- *Approach to targeting new customers*
- It facilitates competitive advantage. The more specific an organization’s approach to segmenting the market, the easier it is to establish and maintain competitive advantage.
Definition

• Market Segmentation:
  – Dividing a market into distinct groups with distinct needs, characteristics, or behavior who might require separate products or marketing mixes.
Segmentation

• Involves the division of a diverse market into a number of smaller submarkets that have common features.
• The objective is to identify groups of potential customers with similar requirements.
• Market segmentation provides a commercially viable method of serving customer needs.
• Segmentation is at the heart of strategic marketing.
Market Segmentation - Principles

• Segmentation Variables
  – Geographic
  – Demographic
  – Psychographic
  – Behavioral
  – Other (anything!)

• No single best way to segment a market.
• Often best to combine variables and identify smaller, better-defined target groups.
Basis for market segmentation

On the basis of consumer’s personal characteristics (non-behavioral correlates)
- Geographic
  - Demographic
- Psychographic
  - Socio-economic

On the basis of consumer responses (behavioral correlates)
- Usage based
- Benefits
- Loyal status
Geographic Segmentation

• Divide markets into different geographic units.

• Examples:
  – **World Region or Country:** North America, Western Europe, European Union, Pacific Rim, Mexico, etc.
  – **Country Region:** Pacific, Mountain, East Coast, etc.
  – **City or Metro Size:** New York, San Francisco
  – **Population Density:** rural, suburban, urban
  – **Climate:** northern, southern, tropical, semi-tropical
Geographic Segmentation

- Subdividing the whole market into different geographical units which can be further subdivided into smaller units.

- A national marketer may take whole nation as his market. For example-in the detergent market Hindustan Levers and Procter and Gamble are all national marketers in India.

- A multinational company may divide the global market on the basis of continents. Like Pepsi and Coca-cola.
# Geographical features of India

<table>
<thead>
<tr>
<th></th>
<th>Geographical area.</th>
<th>3,287,263 sq km.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Ranking in terms of geographical area in the world.</td>
<td>7th largest country</td>
</tr>
</tbody>
</table>
| 3 | Physical features | Four major regions:
|   |                   | A. The Great mountain zone.
|   |                   | C. The Desert region.
|   |                   | D. The Peninsular India
|   | Climate           | Tropical Monsoon types have four seasons
|   |                   | A. Winter – January to February
|   |                   | B. Hot weather – March to May
|   |                   | C. Rainy (south western monsoon) – June to September
|   |                   | D. Rainy (north eastern monsoon) – October to December

Source: India 2000, Publication Division, Government of India
Demographic Segmentation

• Use Differences in:
  – age, gender, family size, family life cycle, income, occupation, education, race, and religion

  – Most frequently used segmentation variable
    • Ease of measurement and high availability.

  – Usually the worst variable to use.
Demographic Segmentation

- Subdividing the market in terms of demographic features of a country or a region.
- Variables that may be considered are age, gender, marital status, family size, etc.
- Demographic data is essential for estimating the size of the target market.
# Demographic features of India

|   | Population size | 846.30 million as per 1991 census  
Crossed 1000 million as per 2001 census |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Sex ratio</td>
<td>Females per 1000 males: 933/1000. 2001 census</td>
</tr>
<tr>
<td></td>
<td></td>
<td>In Kerela State: 1036/1000 – 1991 census</td>
</tr>
<tr>
<td>3</td>
<td>Metro Cities</td>
<td>1991 census</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mumbai: 12.60 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kolkata: 11.02 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Delhi: 08.42 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chennai: 05.42 million</td>
</tr>
<tr>
<td>4</td>
<td>Heavily populated districts</td>
<td>Kolkata, Chennai, Greater Mumbai, Hyderabad, Delhi, Chandigarh, Mahe, Howrah, Kanpur, Bangalore</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(All of them have a density of above 2000 persons per square km. 5.01% population lives in these 10 cities. Avg. density of these districts is 6885 persons)</td>
</tr>
</tbody>
</table>

Source: Census of India, 1991 and 2001
Psychographic Segmentation

Psychographic segmentation divides a market into different groups based on social class, lifestyle, or personality characteristics.

People in the same demographic classification often have very different lifestyles and personalities.
Behavioral Segmentation

- **Occasion**
  - Special promotions & labels for holidays.
  - Special products for special occasions.

- **Benefits Sought**
  - Different segments desire different benefits from the same products.

- **Loyalty Status**
  - Nonusers, ex-users, potential users, first-time users, regular users.

- **Usage Rate**
  - Light, medium, heavy.
Benefit segmentation
Segmented on the basis of benefits sought by consumers

Toothpaste

General benefits that consumers seek are cleanliness and hygiene in all segments. Other key benefits are:

- Cosmetic
  - Protection against foul smell, modernity and cosmic value. Eg- Colgate, Prudent

- Fluoride
  - Family health, extra protection for children. Eg-Colgate Fluoride, Cibaca Fluoride.

- Herbal
  - Family health and welfare. Traditionally good for health. Eg- Neem, Dabur.
## Consumers’ perceived benefits of Two-wheelers

<table>
<thead>
<tr>
<th>Motorcycle brands</th>
<th>Perceived benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enfield</td>
<td>sturdy, good for long rides and high resale value.</td>
</tr>
<tr>
<td>Hero-Honda</td>
<td>Fuel efficient, high pick up and stylish</td>
</tr>
<tr>
<td>Kawasaki bajaj</td>
<td>High pickup, sleek model</td>
</tr>
<tr>
<td><strong>Scooter brands</strong></td>
<td></td>
</tr>
<tr>
<td>Bajaj chetak cub</td>
<td>Fuel efficient, lifelong, high resale value</td>
</tr>
<tr>
<td>Kinetic Honda</td>
<td>Electronic ignition, easy to ride, trouble free.</td>
</tr>
</tbody>
</table>
Loyalty Status Segmentation

- Hard-core
- Split loyals
- Shifting loyals
- Switchers
User & Loyalty Status Segmentation

Target Market

Unaware

Aware

Not tried

Negative opinion

Neutral

Favorable opinion

Rejector

Tried

Not yet repeated

Repeated

Loyal to other brand

Switcher

Loyal to brand

Light user

Regular user

Heavy user
Geodemographic Segmentation

- PRIZM, by Claritas (U.S Model)
  - Organized by ZIP code
  - Based on Census data
  - Profiles on neighborhoods on Locality
  - Multiple clusters or types
Requirements for Effective Segmentation

Segments must be

– Measurable
– Accessible
– Substantial
– Differentiable
– Actionable
Evaluating Market Segments

- **Segment Size and Growth Potential**
  - Sales, profitability and growth rates
- **Segment Structural Attractiveness**
  - Competition, substitute products,
  - buyers & supplier power, new entrants (Porter’s Five Forces)
- **Company Objectives and Resources**
  - Core competencies
  - “What business do we want to be in?”
Targeting Segments - Overview

- Undifferentiated (mass) marketing
- Differentiated (segmented) marketing
- Concentrated (niche) marketing
- Micromarketing (local or individual marketing)

Targeting broadly → Targeting narrowly
Target Marketing Strategies

- Undifferentiated Marketing
- Differentiated Marketing
- Customised Marketing
- Focused Marketing
Market Preference Patterns

(a) Homogeneous Preferences

(b) Diffused Preferences

(c) Clustered Preferences

Creaminess

Sweetness

Creaminess

Sweetness

Creaminess

Sweetness
Target Marketing Strategies

Undifferentiated marketing

Marketing mix → Whole market
Undifferentiated (Mass) Marketing

– Ignores segmentation opportunities
Example of Undifferentiated Strategy Example

ORGANISATION

Post Office

MARKETING MIX

• Price
• Promotion
• Product
• Distribution

TARGET MARKET

Everybody
Target Marketing Strategies

Differentiated marketing

Marketing mix 1 → Segment 1
Marketing mix 2 → Segment 2
Marketing mix 3 → Segment 3
Differentiated (Segmented) Marketing

- Targets several segments and designs separate offers for each.
  - Coca-Cola (Coke, Sprite, Diet Coke, etc.)
  - Procter & Gamble (Tide, Cheer, Gain, Dreft, etc.)
  - Toyota (Camry, Corolla, Prius, Scion, etc.)
Target Marketing Strategies

Focused marketing

Segment 1
Segment 2
Segment 3

Marketing mix
Niche Marketing

- Targets one or a couple small segments
- Niches have very specialized interests
Micromarketing

• Tailoring products and marketing programs to suit the tastes of specific individuals and/or locations.
Socially Responsible Targeting

• Controversies and concerns
  – Targeting the vulnerable and disadvantaged
    • Cereal, Cigarettes, Alcohol, Fast-food
  – The “Catch-22” of Targeting
    • Psychological Reactance
    • Failure to target seen as prejudice
Positioning

The place a product occupies in consumers’ minds relative to competing products.
Positioning....

‘....is the act of designing the company’s offering so that is occupies a meaningful and distinct position in the target consumers mind’

Effective positioning is the act of linking products and services to the solutions that customers seek.
Positioning Example

eBay’s positioning: *No matter what “it” is, you can find “it” on eBay!*
Positioning Example

To \textit{(target segment and need)} our \textit{(brand)} is a \textit{(concept)} that \textit{(point-of-difference)}.

“To busy mobile professionals who need to always be in the loop, Blackberry is a wireless connectivity solution that allows you to stay connected to people and resources while on the go more easily and reliably than the competing technologies.”
Positioning Strategy

- Competitive advantages
- Points of Parity
- Points of Difference => Differentiation

*Positioning results from differentiation and competitive advantages.*

*Positioning may change over time.*
Keys to Successful Positioning

- Clarity
- Consistency
- Credibility
- Competitiveness
Repositioning Strategies

Product

<table>
<thead>
<tr>
<th>Same</th>
<th>Different</th>
</tr>
</thead>
<tbody>
<tr>
<td>Image repositioning</td>
<td>Product repositioning</td>
</tr>
<tr>
<td>Intangible repositioning</td>
<td>Tangible repositioning</td>
</tr>
</tbody>
</table>

Target market

Same

Different
Sources of Differentiation

– Product Design
– Quality
– Additional Services
– Image
– People (Staff)
– Price
– Other
Choosing the Right Competitive Advantages

- The best competitive advantages are...
  - Important
  - Distinctive
  - Superior
  - Communicable
  - Pre-emptive
  - Affordable (to company and consumer)
  - Profitable

*Moral: Avoid meaningless differentiation.*
Positioning Errors

• **Under-positioning**:  
  – Not positioning strongly enough.

• **Over-positioning**:  
  – Giving buyers too narrow a picture of the product.

• **Muddled Positioning**:  
  – Leaving buyers with a confused image of the product.
Which is more important: Product or Positioning?
Activity

- Describe how each of the following brands, companies, or products is positioned:
Segmentation

Industrial
Definition

• Market Segmentation:
  – Dividing a market into distinct groups with distinct needs, characteristics, or behavior who might require separate products or marketing mixes.
Steps in Market Segmentation, Targeting, and Positioning

- Market segmentation
  1. Identify bases for segmenting the market
  2. Develop segment profiles

- Target marketing
  3. Develop measure of segment attractiveness
  4. Select target segments

- Market positioning
  5. Develop positioning for target segments
  6. Develop a marketing mix for each segment
Market Segmentation

**Key Topics**

- Segmenting Consumer Markets
- Segmenting Business Markets
- Segmenting International Markets
- Requirements for Effective Segmentation

- Geographical segmentation
  - Marketing mixes are customized geographically
- Demographic segmentation
- Psychographic segmentation
- Behavioral segmentation
- Using multiple segmentation variables
Market Segmentation

**Geographic Segmentation Variables**

- World Region or Country
- Country Region
- City
- City or Metro Size
- Neighborhood
- Density
- Climate
Market Segmentation

Key Topics

- Segmenting Consumer Markets
- Segmenting Business Markets
- Segmenting International Markets
- Requirements for Effective Segmentation

- Geographical segments
- Demographic segmentation
  - Most popular type
  - Demographics are closely related to needs, wants and usage rates
- Psychographic segmentation
- Behavioral segmentation
- Using multiple segmentation variables
Market Segmentation

Demographic Segmentation Variables

- Age
- Gender
- Family size
- Family life cycle
- Income
- Ethnicity

- Occupation
- Education
- Religion
- Generation
- Nationality
Market Segmentation

Key Topics

- Segmenting Consumer Markets
- Segmenting Business Markets
- Segmenting International Markets
- Requirements for Effective Segmentation

- Geographic segments
- Demographic segmentation
- Psychographic segmentation
  - Lifestyle, social class, and personality-based segmentation
- Behavioral segmentation
- Using multiple segmentation variables
Market Segmentation

Key Topics

- Segmenting Consumer Markets
- Segmenting Business Markets
- Segmenting International Markets
- Requirements for Effective Segmentation

- Geographic segments
- Demographic segmentation
- Psychographic segmentation
- Behavioral segmentation
  - Typically done first
- Using multiple segmentation variables
Market Segmentation

Behavioral Segmentation Variables

- Occasions
- Benefits
- User Status
- User Rates

- Loyalty Status
- Readiness Stage
- Attitude Toward the Product
Market Segmentation

Key Topics

- Segmenting Consumer Markets
- Segmenting Business Markets
- Segmenting International Markets
- Requirements for Effective Segmentation

- Geographic segments
- Demographic segmentation
- Psychographic segmentation
- Behavioral segmentation
- Using multiple segmentation variables
Market Segmentation

Key Topics

• Segmenting Consumer Markets
• Segmenting Business Markets
• Segmenting International Markets
• Requirements for Effective Segmentation

• Demographic segmentation
  – Industry, company size, location
• Operating variables
  – Technology, usage status, customer capabilities
• Purchasing approaches
• Situational factors
  – Urgency, specific application, size of order
• Personal characteristics
  – Buyer-seller similarity, attitudes toward risk, loyalty
Market Segmentation

Key Topics

• Segmenting Consumer Markets
• Segmenting Business Markets
• Segmenting International Markets
• Requirements for Effective Segmentation

• Geographic segmentation
  – Location or region
• Economic factors
  – Population income or level of economic development
• Political and legal factors
  – Type / stability of government, monetary regulations, amount of bureaucracy, etc.
• Cultural factors
  – Language, religion, values, attitudes, customs, behavioral patterns
Market Segmentation

Key Topics

• Segmenting Consumer Markets
• Segmenting Business Markets
• Segmenting International Markets
• Requirements for Effective Segmentation

• Measurable
  – Size, purchasing power, and profile of segment
• Accessible
  – Can be reached and served
• Substantial
  – Large and profitable enough to serve
• Differentiable
  – Respond differently
• Actionable
  – Effective programs can be developed
Agenda

■ What are the Unique Aspects of Business Market Segmentation?
■ What are the Models of Industrial Market Segmentation?
■ How Business Market Segmentation Should be Done?
■ How to Select Market Segments to Serve?
What are the Unique Aspects of Business Market Segmentation?

• A business firm must define the market in which it wishes to operate.

• In defining the market, business market managers choose descriptors (bases) that characterize and define a market.
What are the Unique Aspects of Business Market Segmentation?

• The difference between consumer and industrial market segmentation is generally seen in the specific bases of segmentation.

• Consumer markets are typically segmented on the basis demographic or psychographic variables.

• As the industrial customer is not an individual but a number of interacting individuals in a decision making unit (DMU) of a formal organization, the bases of segmentation are different.
Bonoma And Shapiro Model Of Business Market Segmentation

- Organizational demographics: Industry/Company size/Location
- Operating variables: Technology/User status/Customer capabilities (financial)
- Purchasing approaches: Organization of DMU/Purchasing policies/Purchasing criteria
- Situational factors: Urgency/Applications/Order size
- Personal characteristics: Motivation/Buyer-seller/Risk perceptions
Bonomo And Shapiro Model Of Business Market Segmentation

• A marketer can begin at the outside nest and work inward because data are more available and definitions clearer in outer nests.

• On the other hand, situational and personal variables of the inner nests are often the most useful.
Bonoma And Shapiro Model Of Business Market Segmentation

- The **outer-nest criteria** are generally **inadequate** when used by themselves in all but simple or homogeneous markets because they ignore buying differences among customers.

- Over emphasis on the **inner-nest factors**, however, can be **too expensive and time-consuming** for small markets.

- A **balance** is to be achieved **between the two nests**.
What is the Problem with these Market Segmentation Models?

• The models help us in profiling the business firms – their details, and their behavioral characteristics.

• However, they do not answer the question what these customers want.

• The problem is that customers don’t conform their requirements to match with those of the average customer in their behavioral segment.
How Market Segmentation Should be Done?

The structure of a market, seen from the customers’ point of view, whether a individual or business firm, is very simple: They just need to get things done.

When people find themselves needing to get a job done, they essentially buy products to do that job for them.
How Market Segmentation Should be Done?

When choosing between competing offers, customers select the offer that meets their needs (to get things done) better than any other at the price they are willing to pay.

Value or benefits (the ability of getting the job done) that people seek in products are the basic reasons for the heterogeneity in their choice behaviour, and benefits of the product are thus the most relevant bases for segmentation.
How Market Segmentation Should be Done?

Earlier marketers used to succeed by providing superior products and other distinctive functional benefits.

Today this is no longer enough, for such benefits can readily be imitated.

The solution is to emphasize process benefits (which make transactions between buyers and sellers easier, quicker, cheaper, and more pleasant) and relationship benefits (which reward the willingness of consumers to identify themselves and to reveal their purchasing behavior).
How Market Segmentation Should be Done?

However, it is no doubt more difficult for managers to implement the benefits-oriented approach of market segmentation.

One possible solution to this problem is to provide opportunities to individual customers to design their own products and services by choosing from a menu of attributes, components, prices, and delivery options.
How Market Segmentation Should be Done?

- This facility can be provided through a **choiceboard** - an interactive on-line system.

- **Cisco Marketplace** is an on-line configurator that allows corporate customers to create the precise combination of data networking gear they need.

- **Dell’s choiceboard** allows individual as well as corporate customers to exercise their options in the personal computer realm.
How Market Segmentation Should be Done?

• A choice board model of doing business with individual customers becomes possible in any industry when a system of accessible, integrateable components is available from which customers can select and combine options based on their own priorities.

• The choiceboard enables customer self-segmentation, which is fast, cost-efficient, and far more precise than traditional manufacturer-imposed segmentation.
How Market Segmentation Should be Done?

Segmentation in business markets should, in fact, be increasingly thought of as a negotiable and bilateral ‘fit-seeking process’ where suppliers frame tentative segments (based on initial research) subject to exploration with well-placed key managers in those customer firms.
How Market Segmentation Should be Done?

This would encourage the development of evolutionary segmentation that focuses not only on customer needs, but also on supplier needs.

The process would also help to develop the sort of long-term relationships between supplier and customer that help to ensure that supplier offerings are developed in line with customer expectations and needs.
There are also instances where customers select suppliers that meet particular criteria (e.g., quality, financial stability, delivery reputation, collaborative product development strategies, etc.).

By implication, a supplier able to exhibit appropriate ‘reverse segmentation’ criteria to a customer can become significantly more attractive.
How to Select Market Segments To Serve?

- Selection of market segment to serve has to be on the basis of the fit between:
  - the attractiveness of the segment,
  - the key success factors for operating in the segment, and
  - the company’s relative ability to compete in the segment.
- The company also needs to consider the competitive reactions it might face if it decides to compete for a segment.
How to Select Market Segments To Serve?

• **Segment attractiveness** depends on:
  – Size and Growth of the segment
  – Structural Characteristics of the segment such as competition, segment saturation, profitability, protectability, environmental risk etc.
How to Select Market Segments To Serve?

- **Key Success Factors** (KSF) for a segment could be
  - Product Quality
  - Brand Reputation
  - Technology Requirement
  - Cost Structure
  - Distribution System
  - Quality of Service
  - Financial Capacity
How to Select Market Segments To Serve?

• **Company Objectives**
  – Compatibility with company goals
  – Relationships with other segments
  – Profitability

• **Resources and Capabilities of the Company and Competitors**
  – Ability to conceive and design
    • R & D Capability
    • Existing Patents and Copyrights
    • Access to new technologies through third parties
How to Select Market Segments To Serve?

– Ability to Produce (Quality & Quantity)
  • Production Technology
  • Production Capacity
  • Flexibility in Production
  • Cost Competitiveness

– Ability to Market
  • Brand Reputation
  • Distribution Strength
  • Service Strength
How to Select Market Segments To Serve?

– Ability to Finance
  • Access to Capital from Operations
  • Ability to Use Debt & Equity Finance
  • Parent’s Willingness to Finance

– Ability to Manage/Execute
  • Quality of Management
  • Quality of Decision Making
  • Innovativeness
  • Organization Culture