Chapter Summaries

# Chapter 4 – Segmentation, targeting, & positioning strategies

## Introduction

Market segmentation is vital for company success. Without a clear idea of the nature of the target segments, the firm is forced to use a scatter-shot approach to marketing strategic decision making with little chance for success. Dividing the market up into reasonable segments is only a starting point. The firm then must develop a series of strategic goals and strategies for effectively reaching those identified segments. Targeting requires the firm not only to aim at but hopefully to hit its target segments. The final important aspect involves the establishment of an important perceptual position in the mind of the consumer. The company whose brand comes immediately to mind when a need arises in a particular product/service class has a distinct advantage over its competitors. This chapter will present a series of possible foundations for effective segmentation, mechanisms for developing action plans for reaching those segments, and will discuss ways in which the marketing strategist can enhance their product/service position inside the mind of the targeted consumer.

## Foundations for effective segmentation

With the vast array of different wants and needs for any product or service class, it is unlikely that any company can have the luxury of appealing to an entire market. The buying requirements for this wide array of consumers would be widely varied. This might be possible in early stages of a product or service form life cycle; however, as competition builds, the company is forced to give consumers a reason to prefer its product offerings from those of the competitors through differentiation. For this to be successful, it is necessary for the company to identify target segments of consumers and tailor their offerings to best meet the wants and needs of that particular group of consumers.

### Geographic bases for segmentation

Geography focuses on the where issues. It ranges from local/neighbourhood to global, and it could encompass any variation within the two extremes. Here the main mechanism for segmentation is the nature of the geographic market being covered. Local segmentation, often used by small firms getting their start, keeps the market confined to a manageable area of coverage until a far greater understanding of possible niches is gathered.

### Demographic bases for segmentation

Here the overall market is subdivided using a series of demographic variables. One of the most obvious ways to segment demographically is by gender, but this is a complex term. **Gender** does not just address physical sexual makeup. It also contains a psychological component. How the individual sees themselves in terms of their sexual makeup and orientation is becoming less distinct in a variety of developed countries. Sex segmentation involves choosing males or females as the target audience. **Age** is another basis for demographic segmentation. An important approach to age segmentation involves the concept of a **cohort of society** moving through the ageing process together. While birth age is relatively easy to use as a basis for grouping potential consumers, however, it actually has little to do with consumer motivations. The **level of education** can also be an effective basis for segmentation. The complexity of certain products makes them more appropriate for proper evaluation and usage by individuals with higher levels of education. A logical basis for segmentation is **level of income**, but in many countries, the larger concern is the individual’s level of purchasing power. **Occupation** can also serve as an appropriate basis for segmentation. There are a series of products/services that are aimed at homemakers as opposed to professionals, students, “white-collar” workers (managers, executives, professionals) as opposed to “blue-collar” workers (laborers, tradespeople), retirees/pensioners, and the unemployed. **Religion** is an important basis for segmentation particularly when religious teachings/doctrine makes the consumption of certain products mandatory or prohibited. **Ethnicity** equates to national country/culture of origin. **Family Size** is another segmentation variable worth considering. The existence of the extended family in many developing countries is an important consideration since there are various members of the family unit who can play a variety of roles in the product/service choice process. **Family life cycle** **stage** reflects a variety of life conditions that have a potential impact on product/service purchase decisions. If the target segment is single as opposed to married, there may be a series of preferences linked to that life state.

### Psychographic bases for segmentation

Psychographic bases for segmentation center on perceptual issues. These segments are determined by combining individuals who are psychologically similar in their orientations. These distinctions are made based upon similarity of lifestyles, personalities, and values. Psychographics are often associated with the acronym AIO, which stands for activities, interests, and opinions, and segments which are exactly the same in terms of demographics may be significantly different in terms of their psychological makeup. **Lifestyle** reflects the ways in which the individual chooses to live their lives. What types of activities they enjoy, what life settings they desire, and who they surround themselves with are all components of lifestyle. **Personality** is another mechanism for segmentation. Here the idea is to group people into roughly similar personality types with the underlying assumption that people will be more favourably disposed towards those of a similar personality profile. Another approach to psychographic segmentation involves the use of **core values**. The company tries to match its core values with those of its customer segments building positive associations. The company stresses values in its products/services as well as in its corporate environment and culture, and the hope is that the segment will become loyal to the company because it embodies the core values of importance to the consumer.

### Behaviouristic bases for segmentation

These bases are built around groups in which consumers have similar understandings of, uses for, and responses to particular products or services. **Usage rate** involves the amount that is normally consumed by the individual, and the normal categorizations are: light, moderate, and heavy users. **Loyalty level** is another effective base for segmentation. There are five different levels of loyalty: brand insistence, brand loyalty, split loyalty, shifting loyalty, and no loyalty (the switchers). Another type of behaviouristic segmentation involves the **creation of** **special events**. The U.S. florists, greetings card companies, and candy companies have long focused on special occasions. **Benefit segmentation** is based on the assumption that consumers can be grouped in terms of the key benefits that they seek from the use of certain products or services. There can be two or more different segments which buy the same products or services but seek different key benefits from the use of the products or services.

### Segmentation tools

The main tools used for segmentation are cluster analysis, conjoint analysis, discriminant analysis, and perceptual mapping. **Cluster analysis** is a group of multivariate techniques whose main purpose is to classify objects in such a way that within-group differences are minimized and between-group differences are maximized according to some grouping variable. These objects can be products or survey respondents. The goal is to create clusters that are similar within and distinctly different from one another, which are clearly the goals for consumer segmentation. **Conjoint analysis** on the other hand involves the use of a series of possible product/service attribute combinations to see which ones are actually preferred by survey respondents. The third approach to segmenting is **discriminant analysis**, which involves identifying a series of variables that help to discriminate the members of one or more groups from others in the dataset. The basic idea is to examine a series of possible differentiating variables that would explain and hopefully allow prediction of different possible group memberships. The fourth tool is **multidimensional scaling**, which involves a variety of different techniques that can visually demonstrate how particular consumers view the various offerings in a particular product or service class. These techniques are also often referred to as perceptual mapping because the goal is to spatially differentiate the perceptions of consumers relative to their preferences for or the similarities among a set of objects (e.g., companies, products, services) in terms of distances in multidimensional space.

### Marketing segmentation vs. product differentiation

There is a tradeoff within most organizations that must be considered when segmenting markets, which involves production and marketing. In one case unrestrained marketing might identify a wide range of distinct market segments, but while there may be demand for these segments, there may be no cost-effective way to develop the necessary product variations to address the needs of all of the identified segments. On the other hand, unrestrained product differentiation might identify a wide variety of product variations that could be produced by the firm, but there may be no demand for some or all of the identified segments.

### Big data and segmentation

With the advent of big data and the growth of analytics, there are a variety of new and evolving mechanisms that offer insights for segmentation purposes. Marketing analytics are discussed and two approaches are highlighted: geodemographic segmentation (in-depth socio-spatial profiles for small geographic areas of interest) and data monetization (the use of big data and data analytics to produce more value for the organization by identifying optimal customer data that will allow organizations to create profitable customer experiences). The explosion in the use of big data has led to the development of a new wave of data analysts who are trying to track the customer journey and create ways to enhance that journey and improve profitability. The chapter also covers Real-time experience tracking (RET), which allows the gathering of information on customer reactions/perceptions immediately without the problems associated with the almost immediate fading of memory, as often experienced in the use of other types of marketing research techniques such as survey data, or potentially biased results such as those emerging from focus groups in inexperienced moderator hands.

## Targeting

Once the firm has identified a series of potential market segments for consideration, the next step is targeting. Targeting involves the decision of the number of different segments to select and serve and the best action plans to reach the identified segments.

### Measuring effectiveness of target segments

Once the segments have been chosen, then how do we know whether they are viable or not? Kotler (2003) presents the most recognizable series of requirements for segments to be appropriate. He suggests that they must be: 1) **measurable** (e.g., size of segment, income and purchasing power, and characteristics of the segment), 2) **accessible** (reachable by the firm and able to effectively serve the segment), 3) **substantial** (large enough and capable of generating sufficient profits), 4) **differentiable** (truly distinct from other segments in terms of composition and response to marketing stimuli, and 5) **actionable** (marketing programs can be developed to effectively identify, attract, and serve the segment).

### Targeting improvement

There is concern that segmentation can produce a wide variety of segments which cannot effectively be reached with a targeting strategy. There is also the possibility that some market segments may be very difficult (in terms of time and money) to effectively measure.

## Positioning

Positioning refers to the placing of the product or service in a particular perceptual position within the mind of the consumer. This would follow the processes described in segmentation and targeting. The idea here is that there is a specific consumer segment in mind and a specific plan to reach it, and now the idea is to ensure that the target consumer has a clear and distinctive image in mind regarding the product/service offerings being aimed at them that is consistent and positive.

### Consumer franchise

**Consumer franchise** is the ability of the firm to keep its product, brand, or company name foremost in the mind of the target consumer. It is considered to be a bankable asset since there is a psychological buffering built in for the firm that is on the top rung of the product/service class ladder. Consumer franchise has two major components, a behavioural component and an attitudinal component. How does a company measure whether it is the favoured or preferred brand behaviourally? By examining its market share figures and sales, it can be seen if the brand is the favoured brand or not. Attitudinally, the only way to know is to do consumer surveys.

### Perceptual mapping

Perceptual mapping is the visual representation of the different competitive brand offerings/objects of interest in perceptual space. In other words, it represents a map of the various offerings within the minds of the target consumers. This is where “perception equals reality” comes home to marketing strategists. The only thing that is important is what the consumer believes – not what management believes to be the case. This can only be determined via survey instruments. As was previously mentioned, the attitudinal component of consumer franchise is the often-neglected side as behaviour is the representation of what has already been done. The problem is that past behaviour is no guarantee of future purchase behaviour. Two of the most useful approaches to perceptual mapping are factor mapping and multi-dimensional preference mapping (MDPREF). Factor mapping combines factor analysis with two and three-dimensional mapping which allows the viewer to see how a placement according to a multiple variable grouping appears as opposed to a series of individual variables being used for mapping as is done using MDPREF.

### Positioning and the importance of consistency

As positioning reflects the position that the brand or product has achieved on the product or service class ladder, the key strategic issue associated with positioning is to present a clear and consistent message to the target audience. The company that constantly tinkers with its image stands the chance of confusing its target market.