MARKETING SEGMENTATION, TARGETING AND POSITIONING

Market Segmentation: Introduction

Markets consist of buyers who differ in one or more respects. They may differ in their wants, resources, geographical locations, attitudes and buying practices. It is therefore necessary for a marketer to segment his/her market.

Meaning of Market Segmentation

The process of grouping customers in markets with some heterogeneity into smaller , more similar or homogeneous segments. The identification of target customers groups in which customer groups in which customers are aggregated into groups with similar requirements and buying characteristics.

Market segment – A group of individuals, groups or organizations sharing one or more similar characteristics that cause them to have relatively similar product needs and buying characteristics.

Benefits of Market Segmentation:

There are a number of reasons organizations undertake segmentation -

- **Products are designed to be responsive to the needs of the marketplace –** segmenting markets facilitates a better understanding of customer's needs, wants and other characteristics. The sharper focus that segmentation offers, allows those personal, situational and behavioral factors that characterize customers in a particular segment can be considered. By being closely in touch with segments, marketers can respond quickly to even the slight changes in what target customers want. i.e by monitoring the trends towards healthier eating and lifestyles, Mc Donald's was able to respond by respond by introducing a wider range of salads and healthy eating options – including grilled chicken, fruit and yoghurt on to its menus.

- **Increase profits –** different consumer segments react in contrasting ways to prices, some are far less price sensitive than others. Segmentation allows an organization to gain from the best price it can in every segment, effectively raising the average price and increasing profitability.

- **Effective Resource Allocation** - organizations are more capable of making products that customers want and can afford.

- **There is product differentiation –** Various products are made to meet the needs of each customer segment.

Requirements of a good Market Segmentation:

In addition to having different needs, for segments to be practical they should be evaluated against the following criteria:

* **Identifiable** - The marketer should be able to identify which consumers are members of a particular market segment. The consumers in the segment should respond in the same way to a particular marketing mix. There must be some common characteristics that the consumers have.

* **Measurable** - The characteristics that are common to the groups of consumers should be measured in terms of size, purchasing power and other characteristics.

* **Substantial** -The segment should be large enough to generate sales volume that ensures profitability; otherwise it will not be economical to design a unique marketing mix for it. Is the market worth the effort?

* **Accessible -** the segments must be reachable through communication and distribution channels.

* **Durable -** the segments should be relatively stable to minimize the cost of frequent changes.

* **Responsive** - Market segments must be defined in their willingness to purchase a product in response to variations in the marketing mix.

* **Compatible with corporate image** - The market must be compatible with the firm's objectives and corporate image.

A good market segmentation will result in segment members that are internally homogenous and externally heterogeneous; that is, as similar as possible within the segment, and as different as possible between segments.

Steps in the Market Segmentation, Targeting and Positioning.

The following variables are commonly used to segment consumer markets:

1) **Geographic segmentation** -This calls for dividing the market into different geographical units such as Nations, States, Regions – West, North, Central, South, e.t.c.

- Countries, Cities or Neighborhoods

Attention should be paid to variations in geographical needs and preferences.

Geographical segmentation assists the seller to position retail outlets in most appropriate locations as well as simply identifying the needs on the basis of the consumers own location.

2) **Demographic segmentation** -This consists of dividing the market into groups on the basis of demographic variables such as:- Age, sex, family size, family life cycle, income, education, occupation, religion, race and nationality.

These variables are the most popular for distinguishing customer groups because,

- Consumers' wants and preferences are closely related to them.
- They are easier to measure than most other types of variables.

a) Age - Consumer needs and wants change with age. Hence the market should be segmented as young, old, e.t.c for clothes, insurance, hygiene products.

b) Gender - This can be employed to segment such markets for clothes, deodorants, lotions, magazines, e.t.c. Thus the markets can be for either men or women, male or female

c) Family life cycle (FLC) -The product needs for a household vary according to marital status and the present ages of children. Thus family life cycle can be divided into:-

- Single,
- Young, married with no children,
- Young, married with young children,
- Older married with children, e.t.c.

d) Income -Marketers can segment the market according to the distribution of income e.g. under 10000 Rs. per month, 10000 to 20000/= per month, e.t.c.

e) Occupation -Variables include; bankers, teachers, farmers, clerks, students, housewives, secretaries, e.t.c. A marketer can choose to specialize in the needs of one occupation group.

f) Education - Primary education, High school education, College education, University education e.t.c.

g) Religion - e.g. Hindu, Muslims, Christians e.t.c.

Marketers designing products and/or services for specific social classes build in those features that appeal to the target social class.

i) Ethnic groups

j) Generation - Consumer is profoundly influenced by the generation in which it grows up. This influences one's inclination to Music, politics, e.t.c.

3) **Psychographic segmentation** -Psychographics are psychological profiles of different consumers developed from research, sometimes referred to as A.I.O. (Attitudes, interests and opinion profiles)

In psychographic segmentation, buyers are divided into different groups on the basis of their:-
Motives, Lifestyle and/or Personality characteristics.

People within the same demographic group can exhibit very different psychographic profiles.

Consumers can thus be sub-divided on the basis of the following psychographic variables.

i. Lifestyle -Consumers' lifestyles are derived from their activities, interests and opinions. Each life style group is influenced by different marketing mixes.

ii. Personality -Type of personality groups may include:

- Authoritarian
- Ambitious
- Assertive
- Self-confident
- Prestige conscious
- Extrovert/Introvert

4) **Behavioral segmentation** -Buyers are divided into groups in the basis of their Knowledge, Attitude, Use or Response to a product.

In this respect, behavioral variables that are used to segment consumer markets include:-

i) Occasions benefits - Buyers can be distinguished according to occasions when they:

- Purchase a product or
- Use a product

E.g. Occasions when public transport is used mostly. Occasion segmentation can help firms expand product usage.

ii) Benefits - Buyers are classified according to different benefits they seek from the product.

Variables here include:-

- Economy (Low price)
- Medical (Decay prevention)
- Bright teeth
- Good taste, e.t.c. for toothpaste.

Benefit segmentation requires determination of:-

- The major benefits that people seek from the product
- The kind of people who look for such benefit
- The major brands that deliver each benefit.

iii) User status -Many markets can be segmented into:

- Non-users.
- Ex-users,
- Potential users,
- First time users and
- Regular users of a product

All these people require different marketing approaches.

iv) Usage rate -Markets can be segmented into:

- Light,
- Medium and
- Heavy user group of products.

v) Loyalty status -A market can be segmented by customer loyalty patterns.

According to the loyalty status, the buyers can be divided into:-

- Hard core loyals – Consumers who buy one brand all the time
- Soft core loyals – Consumers who are loyal to two or three brands
- Shifting loyals – Consumers who shift from favoring one brand to another.
- Switchers – Consumers who show no loyalty to any brand

A company should:

- Study the characteristics of its hard-core customers e.g. whether middle class, larger families, e.t.c.
- By studying soft-core loyals, the company can pinpoint which brands are most competitive with its own.
- By looking at customers who are shifting away from its brands, a company can learn about its marketing weaknesses.
- The company should be aware that what appears to be brand loyalty purchase may reflect.

§ Habits,
§ Indifference,
§ A low price or
§ Non-availability of other brands.

vi) Buyer readiness stage -At any given time, people are in different stages of readiness to buy a product:

- Some people are aware,
- Some are informed,
- Some are interested,
- Some are desirous of buying,
- Some intend to buy.

All these make a big difference in designing the marketing programme.

vii) Attitude - People in a market can be classified according to their degree of enthusiasm for a product.

Five attitude classes can be distinguished e.g.

- Enthusiastic,
- Positive,
- Indifferent,
- Negative and
- Hostile.

viii) Volume segmentation -Involves grouping businesses by size and Purchase patterns

Variables for Segmenting Industrial / Business Markets

Industrial markets can be segmented using the same variables for consumer markets e.g. geographic, demographic and behavioral. Other variables that may be used include volume segments.

1) Demographic

§ Industry – Which industries should we serve?
§ Company size –Which size companies should we serve?
§ Location – What geographic areas should we focus on?

2) Operating variables

§ Technology – What customer technologies should we focus on?

§ User-non-user status – Should we focus on heavy, medium, light users or non-users?
§ Business capabilities – Should we serve business needing many or few services?

3) Purchasing approaches

§ Nature of existing relationship.- Should we serve companies with which we have strong relationships or simply go after the most desirable companies?
§ Power structure – Should we serve companies that are engineering dominated, financially dominated,? E.t.c.
§ Purchasing criteria i.e. focus on quality, price, service e.t.c.

4) Situational factors

§ Urgency – Should we serve companies that need quick and sudden 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.

5) Personal characteristics

§ Buyer-seller similarity – Should we focus on companies whose people and values are similar to ours?
§ Attitude towards risk – Should we focus on risk takers or risk avoiding customers?
§ Loyalty – Should we focus on companies that show high loyalty to their suppliers?

Market Targeting

This is the evaluation of the various segments identified during segmentation and deciding how many and which ones to serve.

Evaluating The Market Segments:

In evaluating different market segments, the firm must look at the following factors

1) Segment size and growth

§ Marketing segment has to be 'right size'. Size can be measured in terms of sales volume.
§ Companies should not only concentrate on sales volume but also on the growth potential of the segment.

2) Segments structural attractiveness – Using Porter's Five Forces Analysis.

A segment might have desirable size and growth characteristics and still not profitable.
The company should evaluate the long-run profitability of the market segment.

Michael Porter has identified five forces that determine the intensive long-run attractiveness of the whole market or any other segment within it. These five forces are:-

§ **Threat of intense segment rivalry** - A segment is unattractive if it already contains strong or aggressive competitors.

§ **Threat of new entrants** - A segment is unattractive if it is likely to attract new competitors who will bring in new capacity, substantial resources and a drive for market share growth.

§ **Threats of substitute products** - A segment is unattractive if there exists actual or potential substitutes for the product.

§ **Threats of growing bargaining powers of buyers** - A segment is unattractive if the buyer's posses strong or increasing bargaining power. Interested in low prices but high quality.

§ **Threat of growing bargaining power and suppliers** - A segment is unattractive if the suppliers possess a strong or increasing bargaining power. They can raise prices or reduce the quality and quantity of products and services offered.

- Even if the segment has positive size and growth and it is attractive, the company has to consider its own objectives and resources.
- The segment can be dismissed because it does not fit in the company's long-run objectives.
- Even if segments fit the company's objectives, it must consider whether it has the required skills and resources to succeed in that segment.

3) **Segment interrelationships**

Segments selected should be inter-related in terms of costs, performance and technology for effectiveness.

Target Market Strategies

There are several different target-market strategies that may be followed. Targeting strategies usually can be categorized as one of the following:

Single-segment strategy - also known as a concentrated strategy. One market segment (not the entire market) is served with one marketing mix. A single-segment approach often is the strategy of choice for smaller companies with limited resources.

Selective specialization - this is a multiple-segment strategy, also known as a <u>differentiated</u> strategy. Different marketing mixes are offered to different segments. The product itself may or may not be different - in many cases only the promotional message or distribution channels vary.

Product specialization - the firm specializes in a particular product and tailors it to different market segments.

Market specialization - the firm specializes in serving a particular market segment and offers that segment an array of different products.

Full market coverage - the firm attempts to serve the entire market. This coverage can be achieved by means of either a mass market strategy in which a single undifferentiated marketing mix is offered to the entire market, or by a differentiated strategy in which a separate marketing mix is offered to each segment.

- Undifferentiated marketing strategy targeting
- Differentiated marketing targeting

With differentiated or multi-segment approach, the marketer targets a variety of different segments with a series of differentiated products. This is typical in the motor industry which has a variety of products such as diesel, four-wheel-drive, sports saloons, and so on.

A firm that is seeking to enter a market and grow should first target the most attractive segment that matches its capabilities. Once it gains a foothold, it can expand by pursuing a product specialization strategy, tailoring the product for different segments, or by pursuing a market specialization strategy and offering new products to its existing market segment.

Another strategy whose use is increasing is individual marketing, in which the marketing mix is tailored on an individual consumer basis. While in the past impractical, individual marketing is becoming more viable thanks to advances in technology.

Market Positioning

This is the act of designing a company's offering and image to occupy a distinctive place in the target market's mind i.e. The act of creating a difference between a company's offer from those of competitors.

Positioning is the process of establishing and maintaining a distinctive place in the market for the organizations' product or brands.

Positioning starts with the product, but positioning is not what you do to a product. Positioning is what you do to the mind of the customer. You should concentrate on the perception of the customer and not the reality of the product. Positioning then is how the product is perceived and evaluated by the target market, relative to competing products. To the consumer perception is reality. That is why it is said that a marketing battle is fought in the minds of consumers. Marketers who attain a superior position in customers' minds have won the marketing battle.

A difference is worth establishing to the extent that it satisfies the following criteria:

1) **Important**: The difference delivers a highly valued benefit to a sufficient number of buyers.
2) **Distinctive:** The difference is delivered in a distinctive way
3) **Superior**: The difference is superior to other ways of obtaining the benefit.
4) **Pre-emptive**: The difference cannot be easily copied by competitors.
5) **Affordable** - The buyer can afford to pay for the difference.
6) **Profitable** - The Company will find in profitable to introduce the difference.

Positioning strategies:-

1) **Attribute positioning** - A company positions itself on an attribute e.g. size, number of years in existence.

2) **Benefit positioning** - The product is positioned as the leader in a certain benefit.

3) **Use or application positioning** - Positioning a product as the best for some use or application.

4) **User positioning** - Positioning a product the best for some user group e.g. Bic pen, food for consumption.

5) **Competitor positioning** - The product claims to be better in some way then a named competitor.

6) **Product category positioning -** The product is positioned as the leader in a certain product category

7) **Quality or price positioning -** The product is positioned as offering the best value

As companies increase their number of claims for their brands, they risk disbelief and loss of clear positioning.

Companies must avoid four major positioning errors:

1. **Under Positioning -** When buyers have only a vague idea of the brand

The brand is seen as just another entry in a crowded marketplace. E.g. When Pepsi introduced its clear crystal Pepsi in 1993 (U.S.A.) customers were distinctively unimpressed. They didn't see 'clarity' as an important benefit of a soft drink.

2. **Over Positioning** - Buyers may have too narrow a image of the brand. These buyers might think that suits at Marks and Spencer start at 15000/= when in fact it offers affordable suits started at 3000/-.

3. **Confused Positioning** - Buyers might have a confused image of the brand resulting from the company making too many claims or changing the brands positioning too frequently eg. Flipkart recently.

4. **Doubtful Positioning** - Buyers might find it hard to believe the brand claims in view of the products features, price or manufacturers. Eg. Fair & Handsome, Fogg deodorant.