**CHAPTER FOUR**

**MARKET SEGMENTATION, TARGETING AND POSITIONING**

**4. INTRODUCTION**

A company that decides to operate in a broad market recognizes that it normally cannot serve all customers in that market. The customers are too numerous and diverse in their buying requirements. Instead of competing everywhere, the company needs to identify the market segments that it can serve most effectively.

To choose its markets and serve them well, many companies are embracing target market. In target marketing, sellers distinguish major market segments, target one or more of those segments, and develop products and marketing programs tailored to each segment. Instead of scattering their marketing effort they can focus on the buyers whom they have the greatest chance of satisfying. Therefore, in order to achieve their objective marketers are required to take three major steps (see figure 4-1).

1. Market segmentation: - dividing a market in to distinct groups of buyers with different needs, characteristics or behavior who might require separate products or marketing mixes.
2. Market targeting: - is the process of evaluating each market segment’s attractiveness and selecting one or more segments to enter.
3. Market positioning: - is formulating competitive positioning for a product and a detailed marketing mix.

Market Segmentation Market Targeting Market Positioning

1. Identify segmentation variables and segment the market.

2. Develop profiles of resulting segments.

3. Evaluate the attractiveness of each segment.

4. Select the target segment(s)

5. Identify possible positioning concepts for each target segment.

6. Select, develop and communicate the chosen positioning concept.

*Figure 4-1 Steps in market segmentation, Targeting and positioning*

**4.1. Market Segmentation**

Market consists of buyers and buyers differ in many ways. Market can be segmented in a number of ways to satisfy different needs and wants in different segments. Here under segmentation topic we will examine levels of segmentation, basis for segmenting consumer and business markets, and requirements for effective segmentation.

**Levels of Market Segmentation**

Market segmentation can be carried out at four levels: mass marketing, segments, niches, and micro marketing.

Mass marketing

Segment marketing

Niche marketing

Micro marketing

**No Segmentation**

**Complete Segmentation**

***Figure-4.2 Levels of marketing segmentation***

**I. Mass marketing**: In mass marketing, the seller engages in the mass production, mass distribution, and mass promotion of one product for all buyers. For example, coca cola sells one type product in the same type container. The traditional argument for mass marketing is that it creates the largest potential markets, which leads to the lowest costs, which in turn can translate into either lower or higher margins. However, many critics point to the increasing splintering of the market, which makes mass marketing more difficult.

The proliferation of ads and distribution channels is making it difficult to practice “one size fits all” markets. No wonder some have claimed that mass marketing is dying. Not surprisingly, many companies are retreating from mass marketing and turning to micromarketing at four levels.

**II. Segment marketing**: A market segment consists of a large identifiable group within a market. A company that practices segment marketing recognizes that buyers differ in their wants, purchasing power, geographical locations, buying attributes, and buying habits. A market segment is a group of individuals or organizations within a market that share one or more common characteristics. Market segmentation, therefore, is the process of dividing a broad market into small segments. In other words, market segmentation is the process of dividing the total market into several homogeneous groups, where any group can be selected as a target market that can be reached with a distinct marketing mix. The basic assumption under market segmentation is that market is heterogeneous and must be segmented into homogeneous groups.

The consumers belonging to a segment are assumed to be quite similar in their wants and needs. Yet they are not identical.

Segmentation marketing offers several benefits over mass marketing such as:

1. The company can market more efficiently, target its products or services, channels and communication programs to ward only consumers that it can serve best.
2. The company can also market more effectively by fine tuning its products, prices and programs to the needs of carefully defined segments.
3. The company may face fewer competitors if fewer competitors are focusing on this market segment.

**III. Niche marketing:** Market segments are normally large identifiable groups within a market. For example, nonsmokers, occasional smokers, regular smokers and heavy smokers can easily be identified. A niche is more narrowly defined group, usually identified by dividing a segment into sub- segments or by dividing a group with a distinctive set of traits who may seek a special combination of benefits. A niche is a more narrowly defined group, typically a small market whose needs are not being well served. Marketers usually identify niches by dividing a segment into sub- segments or by defining a group with a distinctive set of traits who may seed a special combination of benefits.

While segments are fairly large and thus normally attract several competitors, niches are fairly small and normally attract only one or a few competitors. Niches typically attract smaller companies. Larger companies normally do not go for niches. As a defense, however, some larger companies have turned to niche marketing.

An attractive niche is characterized as follows:

* The customers in niche have a distinct and a complete set of needs.
* They will pay a premium to the firm best satisfying their needs.
* The nicher has the required skill to serve the niche in a superior fashion.
* The nicher gains certain economies through specialization.
* The niche is not likely to attract other competitors, or the niche can depend on itself.
* The niche has sufficient size, profit, and growth potential.

**IV. Micromarketing:** Segment and niche marketers tailor their offers and marketing programs to meet the needs of various market segments. At the same time, however, they do not customize their offers to each individual customer. Thus, segment marketing and niche marketing fall between the extremes of mass marketing and micromarketing. Micro marketing is the practice of tailoring products and marketing programs to suit the tastes of specific individuals and locations. Micromarketing includes local marketing and individual marketing.

**A. Local marketing:** Target marketing is increasingly on the character of regional and local marketing, with marketing programs tailored to the needs and wants of local customer groups (trading areas, neighborhoods, even individual stores). In other words, at the local level marketers are customizing their campaigns for trading areas, neighborhoods, and even individual stores. For example, the branches of the same bank that are located in different localities can provide different mixes of banking services depending on the bank’s neighborhood demographics.

Those in favor of localizing a company’s marketing, point to the pronounced regional differences in communities’ demographics and life style. They see national advertising as wasteful because it fails to address local target groups. They also see powerful local retailers who are demanding more fine-tuned product assortments for their neighborhoods. On the other hand, those against local marketing argue that it drives up manufacturing and marketing costs by reducing economies of scale. Logistical problems become magnified when companies try to meet different regional and local market’s requirements. Moreover, a brand’s overall image might be diluted if the product and message differ in different localities.

**B. Individual Marketing:** In the extreme, micromarketing becomes individual marketing– tailoring products and marketing programs to the needs and preferences of individual customers. Individual marketing has also been labeled “segments of one,” “customized marketing” or “one-to-one marketing.” The prevalence of mass marketing has obscured the fact that for centuries customers were served as individuals: the cloth tailor made the suit for individual, the cobbler designed shoes for individual, and so on. At the individual level, companies are practicing both individual and mass customization. The future is likely to see more self-marketing, a form of individual marketing in which individual consumers take more responsibility for determining which products and brands to buy. Today, much of business-to-business marketing is customized, in that a manufacturer will customize the offer, logistics, and financial terms for each major account.

It is a new technologies- specially computers, databases, robotic production, and instant communication media such as e-mail, and fax – that are permitting companies to consider a return to a customized marketing or what is called “mass customization.” Mass customization is the ability to prepare on a mass basis individually designed products and communications to meet each customer’s requirements.

**Requirements for Effective Segmentation**

To be useful market segments must be:

* Measurable: - The size, purchasing power and profits of the segment can be measured.
* Accessible: - The market segment can be effectively reached and served.
* Substantial: - The market segments are large or profitable enough to serve.
* Differentiable: - The segments are conceptually distinguishable and respond differently to different marketing mix elements and programs.
* Actionable: - effective programs can be designed for attracting and serving the segments.

**4.1.1. Bases for Segmenting Consumer Markets**

The commonly used bases for segmenting the consumer market may be grouped into four major categories: Geographic, Demographic, Psycho-graphic, and Behaviorist characteristics. And a firm can use one or combination of these characteristics as the bases for segmenting the consumer market.

1. **Geographic Segmentation**

Geographic segmentation calls for dividing the market in to different geographical units such as nations, states, regions, counties, cities or neighborhoods. The company can decide to operate in one or a few geographical areas or operate in all but pay attention to geographical variations in wants and preferences.

Geographic segmentation helps companies to pay attention to geographical differences in needs and wants and to localize the company’s products, advertising, promotion and sales efforts to fit the needs of individuals in the region.

1. **Demographic Segmentation**

In demographic segmentation, the market is divided into groups based on demographic variables such as age, sex, family size, family life cycle, income, occupation, education, religion race and nationality. These variables are the most popular bases for segmenting customer groups, largely because customers’ needs, wants and usage rates often vary closely with demographic variables and demographic variables are easier to measure than most other types of variables. Even when the target market is described in non-demographic terms (say, personality type) the link back to demographic characteristics is needed in order to know the size of the target market and the media that should be used to reach it efficiently.

1. **Age and life cycle segmentation:** Age segmentation is dividing customers based on age groups like under 10, 10-20, 21-30, 30-50, and above 50 years old.

**Life cycle segmentation:** is dividing customers, based on the life stages customers are in like single, married, married with children, divorced, separated, etc.

1. **Gender segmentation: -** is dividing the market into different groups based on sex like male, female or customers with both sexes.
2. **Income segmentation:** - is dividing customers based on their income levels like, lower income, middle income and upper income.
3. **Generation segmentation:** is dividing customers based on age group. The idea is that each generation is profoundly influenced by the milieu in which it grows up – the music, movies, politics and events of the time.
4. **Social class segmentation:** - is dividing the market based on the social class they exhibit. Seven social classes can be identified like: upper uppers, uppers, upper middles (lower uppers), middle, working class, upper lowers, lower lowers.
5. **Psychographics Segmentation**

In psychographics segmentation, buyers are divided into different groups on the basis of lifestyle and personality characteristics. People within the same demographic group can exhibit very different psychographics profiles.

1. **Lifestyle segmentation**: involves dividing the market into group’s based on lifestyles they exhibit, based on three major dimensions: activities (work, hobbies, shopping, sports, and social events), Interests (food, fashion, family, recreation), opinions (about themselves, social issues, business, products). Life style captures something more than the person’s social class or personality. It profiles a person’s whole pattern of acting and interacting in the world like actualizes, achievers, strivers and strugglers. People’s product interests are influenced by their lifestyles. In fact, the goods they consume express their lifestyle.
2. **Personality and self-concept segmentation**: personality is a person’s distinguishing psychological characteristics that lead to relatively consistent and lasting responses to his or her own environment. It can be described in terms of traits such as: self-confidence, dominance, sociability, autonomy, defensiveness, and adaptability and aggressiveness.

Marketers have used personality variables to segment markets. They endow their products with brand personalities that correspond to consumer personalities. In the late fifties fords and Chevrolets were promoted as having different personalities.

Ford buyers were identified as independent, impulsive, masculine, alert to change, and self-confident, while Chevrolet owners were conservative, thrifty; prestige – conscious, less masculine and seeking to avoid extremes.

1. **Behavioral Segmentation**

In behavioral segmentation, buyers are divided into groups on the basis of their knowledge, attitude, use or response to a product. Many marketers believe that behavioral variables: occasions, benefits, user status, usage rate, loyalty status, buyer readiness stage, and attitude are the best starting point for constructing market segments.

1. **Occasion segmentation:** Buyers can be divided into groups according to occasions when buyers get the idea to buy, actually make their purchase, or use the purchased item. Occasions may include: vacations, marriage, separation, divorce, acquisition of a home, injury or illness, change is employment or career, retirement, death of a family member. Occasions may also be special occasions or regular occasions.
2. **Benefit segmentation:** This is dividing the market into groups according to the different benefits that consumers seek from the product. It requires finding the major benefits people look for in the product class, the kinds of people who look for each benefit and the major brands that deliver each benefit. For example, while traveling with airplane, the traveler either of the three major benefits; comfort, safety and economy or buy any of the three class tickets; first class, business class and economic class.
3. **User status:** Markets can be segmented into groups of nonusers, ex-users, potential users, first – line users and regular users of a product. For example, the blood banks must rely only on regular donors to supply blood. They must recruit new first time donors and contact ex-donors and each will require a different marketing strategy. The company’s position in the market will also influence its focus. Market share leaders will focus on attracting potential users, while smaller firms will often focus on attracting current users away from the market leader.
4. **Usage Rate:** Markets can be segmented into light, medium and heavy users; Heavy users are often a small percentage of the market but account for a high percentage of total consumption. Marketers usually prefer to attract one heavy user to their product or service rather than several light users.
5. **Loyalty status:** A market can be segmented by consumer-loyalty patterns. Consumers can be loyal to brands, stores (sellers) or companies (producers). Buyers can be divided in to groups according to their degree of loyalty status.

* Hard-core loyals: - consumers who buy one brand all the time. It indicates the strength of the company’s products.
* Split loyals:- Consumers who are loyal to two or more brands. This helps the company to identify which brands are most competitive with its own.
* Shifting loyals: - Consumers who shift from one brand to another. Here, the company can learn about its marketing weaknesses and attempt to correct them. The marketer can attract switchers by running frequent sales.
* Switchers: - Consumers who show no loyalty to any brand. They either want something different each time they buy or they buy whatever is on sale.

1. **Buyer readiness stage:** - A market consists of people in different stages of readiness to buy a product. Some are unaware of the product, some are aware, some are informed, some are interested, some desire the product and some intend to buy.

Unaware – aware – informed – interested – desire –intend to buy

1. **Attitude towards product: -** Five attitude groups can be found in a market: enthusiastic, positive, indifferent, negative, and hostile about a product.
   * 1. **Segmenting Business Markets**

Consumer and business marketers use many of same variables to segment their markets. Business buyers can be segmentedgeographically, demographics or by benefits sought, user status, usage rate, and loyalty status. Yet, business marketers use some additional variables such as business customer *operating characteristics; purchasing approaches; situational factors*; and *personal characteristics.*

***Table: Major segmentation variables for Business markets***

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| --- |
| ***Demographics*** |
| * *Industry*: Which industries that buys 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 organization:* should we focus on companies with highly centralized or decentralized purchasing organizations? * *Power structure*: Should we focus on companies that are engineering dominated, finance dominated, or marketing dominated? * *Nature of existing relationships:* Should we focus on companies with which we already have strong relationships or 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? |
| ***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 toward risk:* Should we focus on risk-taking or risk-avoiding customers? * *Loyalty:* Should we focus on companies that show high loyalty to their suppliers? |

The table lists questions that business marketers should ask to determine which customers they want to serve. By segments going after instead of the whole market, companies can deliver just the right *value proposition* (offer) to each segment served and capture more value in return. Almost every company serves at least some business markets. A company can also set up separate systems for dealing with larger or multiple-location customers. Within a target industry and customer size, the company can segment by purchase approaches and criteria. As in consumer segmentation, many marketers believe that buying behavior and benefits provide the best basis for segmenting business markets.

* + 1. **Segmenting International Markets**

Operating in many counties presents new challenges. Different countries, even that are close together, can vary greatly in their economic, cultural and political makeup. Companies can segment international markets using one or a combination of several variables. They can segment by geographic location, grouping countries by regions such as Western Europe, the Pacific Rim, Middle East or Africa.

Geographic segmentation assumes that nations close to one another will have many common traits and behaviors. World markets can also be segmented on the basis of economic factors. For example, countries might be grouped by population income levels or by their overall level of economic development. Countries can be segmented by political and legal factors such as the type of and stability of government, receptivity to foreign firms, monetary regulations, and the amount of bureaucracy. Such factors can play a crucial role in a company’s choice of which countries enter and how cultural factors can also be used groping markets according to common languages, religions, value and attitudes, customs, and behavioral patterns.

Segmenting international markets on the basis of geographic, economic, political, cultural and other factors assumes that segments should consist of clusters of countries however; many companies use a different approach called inter marketing segmentation. Using this approach, they form segments of consumers who have similar needs and buying behavior even though they are located in different countries.

### 4.2. MARKET TARGETING

After a market is segmented, the company must decide which and how many segments to serve. This is what we call market selection (target marketing). A target market consists of a set of buyers who share common needs or characteristics that the company decides to serve. In selecting markets, it is advisable for companies to take into consideration the followings:

* First, target markets should be compatible with the organization’s goals and image.
* Second, the segment’s opportunity should commensurate with the company’s resource.
* Third, the segment must be profitable.
* Fourth, a company ordinarily should seek a market where there are the least and smallest competitors.

**4.2.1. Selecting the market segments**

Having evaluated different segments, the company must decide which and how many segments to serve. It must decide which segments to target based on the evaluation results above. There are five patterns of target market selection.

1. **Single segment concentration:** After segmenting the market into different segments, the company selects only one the most attractive segment in this case. **Advantage:**
2. Through concentrated marketing, the firm gains strong knowledge of the segment’s needs and achieves a strong market position in the segment.
3. The firm enjoys operating economies through specializing its production, distribution, and promotion.
4. When the firm captures leadership in the segment, the firm can earn a high return on its investment.

**Limitations:**

* Concentrated marketing involves higher risks than normal risks.
* A particular market segment turn sour if other competitors invade the segment.
* When consumers preference/ taste/ changes, they will switch over to other brands.

Therefore, it is better for the company to operate in more than one segment depending on its skills, availability of resources and the operating capacity of the firm.

Single-segment concentration

M1 M2  M3

P1

P2

P3

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P= Product M= Market

1. **Selective Specialization:** Here the firm selects a number of segments, each objectively attractive and appropriate, given the firm’s objectives and resources. Each segment should promise to be a money maker.

It helps for diversifying the firm’s risk. In other words, if one segment becomes unattractive, the firm can continue to earn money in other segments. E.g. Radio broadcasting to both older and younger listeners.

Selective specialization

M1 M2 M3

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| --- | --- | --- |
| P1  P2  P3 |  | :::::::::::::  ::::::::::::: |
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1. **Product specialization:** Here the firm concentrates on making a certain product that it sells to several segments. An example would be a microscope manufacturer that sells its microscopes to University laboratories, Gov’t laboratories, and commercial laboratories. The firm makes different microscopes for these different customer groups, but does not produce other instruments that laboratories might use.

Through a product specialization strategy, a firm builds a strong reputation in the specific product area.

**Limitation:** The product may be supplanted by an entirely new technology which might be serious risk for the firm which has specialized only on a single Product.

M1 M2 M3

P1

P2

P3

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1. **Market Specialization**: Here the firm concentrates on serving many needs of a particular customer group. An example would be a firm that sells an assortment of products for University laboratories, including microscopes, oscilloscopes, Bunsen burners, and chemical flasks.

**Advantage**: A firm gains strong reputation for specializing in serving this customer group and becomes a channel for all new products that the customer group could feasibly use.

**Limitations**: The customer group on which the firm is depending may have its budget cut and the firm cannot sell its products as it wishes.

M1 M2 M3

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1. **Full Market coverage:** Here a firm attempts to serve all customers with all the products that they might need. Only very large firms can undertake a full market coverage strategy. Example includes IBM (computer market), General motors (vehicle market), and Coca-Cola (soft drink market).

M1 M2 M3

P1

P2

P3

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Large firms can cover a whole market in two ways

1. Undifferentiated marketing
2. Differentiated marketing
3. **Undifferentiated marketing:** In this market the firm ignores market segment differences and goes after the whole market with one market offer/ product. In this market the firm assumes that all individual customers have similar needs for a specific kind of products. Therefore, it attempts to satisfy the most customers with a single marketing mix. This marketing mix consists of product with little or no variation, one price, one promotion program aimed at everyone, and distribution system to reach all customers in the total market. A prominent example is Coca-Cola Company that offers the same coca cola in different markets.

**Advantage**:

* Mass production reduces production cost.
* Mass ads program keeps down ads costs.
* The absence of segment research and planning lowers the cost of marketing research and product management.
* The company can turn its lower costs into lower prices to win the price sensitive segment of the market.

**Disadvantage**: It is rarely possible for a product or a brand to be all things to all people. Many marketers have expressed strong doubts about application and implementation of this strategy.

1. **Differentiated marketing:** In differentiated marketing the firm operates in several market segments and designs different market programs for each segment. For example, IBM offers many hard-ware and Soft-ware packages for different segments in the computer market.

**Advantage**: This market creates more total sales than undifferentiated marketing.

**Limitation:** It increases the cost of doing business. E.g. product modification costs, R & D and production costs, administrative costs, inventory costs, promotion costs and so on.

**4.3. MARKET POSITIONING**

After a company discovered different segments in the market place and targeted those segments that it can satisfy in superior way, it should identify different means of differentiating its offerings from competitors. Product positioning is the process of creating an image, reputation or perception in the minds of buyers about the organization or its products relative to its competitors (communicating a set of meaningful differences). Positioning is not what you do to a product; it is what you do to the mind of the prospect.

**4.3.1. Dimensions of Differentiation**

1. **Human resource (personnel) differentiation:** Through recruiting, selecting and training of competent people, a firm can exalt its advantage in the sights of consumers. A smiling receptionist and waiter at the door of Hotel and welcoming and communicable salesperson in auto display room can attract customers.
2. **Product differentiation:** Some products are highly standardized and others are highly differentiated. Companies stress on consistency of a brand features, performance, durability, reliability, style and design and reparability. Quality image is also affected by packaging, distribution, advertising and promotion.
3. **Service differentiation:** Brands can be differentiated on the basis of different service dimensions like order ease, delivery, installation, customer training, customer consulting and maintenance and repair.
4. **Image differentiation:** Image is the way the public perceives the company or its products. By using unique names or symbols, the company can differentiate its products from the competitor’s products.
5. **Channel differentiation:** Companies can achieve competitive through the way they design their distribution channels’ coverage, expertise and performance.

The end!