Market Segmentation, Targeting and Positioning

Total market (consumer or industrial) is characterized by

- Numerous buyers
- Buyers who are widely scattered
- Heterogeneous buying requirements

A firm may not be able to serve all customers as the resources (capital and human) required to do so may be substantial. Hence organizations need to select a smaller segment (portion) of the total market to serve.

Historically, selling has been:

1. Mass marketing: mass production, distribution and promotion of one product to all buyers. Aim was to minimize costs & prices and create the largest potential market.
2. Product-differentiated marketing: Two or more products exhibiting different features, styles, qualities etc. are produced. Aim, however, is to offer variety rather than the same product to all segments.
3. Target marketing: Seller distinguishes among many market segments, selects one or more of these segments and then develops products and marketing mixes to suit the various selected segments.

Companies today are fast adopting target marketing.

Target marketing helps sellers to

- identify marketing opportunities better.
- develop the right product for each segment.
- adjust prices, distribution channels, and advertising to reach target market efficiently and effectively.

Target marketing, as a process, involves:

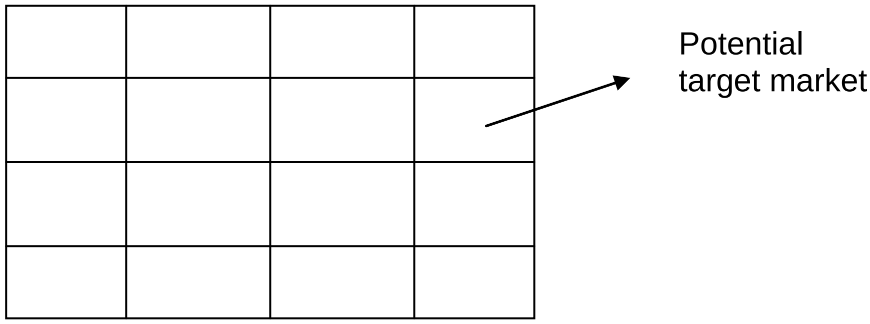
1. Market segmentation dividing market into distinct groups who may require separate products &/or marketing mixes.
2. Market Targeting- evaluation and selection of one or more market segments.
3. Product Positioning – formulation of a competitive positioning for the product & a detailed marketing mix.

Market segment consists of a group of customers who share a similar set of needs and wants.

Segmentation thus disaggregates total market on the basis of "characteristics of customers" in relation the product. An alternative analytical technique is that of "Market Gridding". While market segmentation helps disaggregate total market on the basis of customers, gridding helps to discriminate markets *per se,* that is divide the market on the basis of "distinctions in the use which the product is put to".

Example: Air conditioners. Segmentation of markets for a product like air conditioners would be based on sizes or incomes of consumers. Gridding, on the other hand, looks at the business as one of air conditioning rather than air conditioners. Thus gridding involves dividing the market into different categories such as home / room air conditioning, central air conditioning for commercial complexes or hotels, and industrial air conditioning. The process of dividing the market into a small group based on nature of use allows further fine tuning of marketing programs.

Market segmentation → Market gridding



In the process of market segmentation, the marketer does not create segments; he merely identifies the different segments and decides which one or which ones to target. Segment marketing offers key benefits over mass marketing as the seller can design a better product, price, promotion and distribution package for satisfying a particular segment. He can also simultaneously fine tune his marketing programmes to better counter the competitors marketing programmes.
Anderson and Narus (1995) propose that even segments can be a myth in the sense that not everyone in a segment wants exactly the same product. Hence marketers should develop *flexible market offerings* to members of the segment.

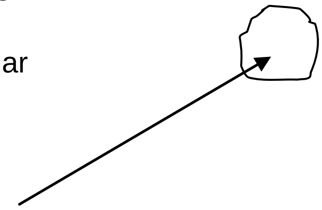
Flexible market offering consists of two parts: a *naked solution* which contains product and service elements that all segment members value; and a *discretionary options* which some members of the segment value. For example, automobiles in India come in a basic version and also higher versions that offer additional features (such as air conditioning or power steering) for which the customers have to pay a higher price.

We can thus define various market segments in different ways. Consider a food product like ice cream. In terms of two product attributes – sweetness and creaminess – three buyer patterns can emerge:

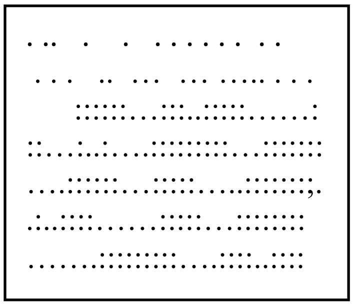
1. Homogeneous preferences

All consumers have roughly the same preferences which means that there are no natural segments. Existing brands may be expected to be quite similar and cluster around the middle of the scale in both the attributes.

All customers are located in this circle having Similar preferences.



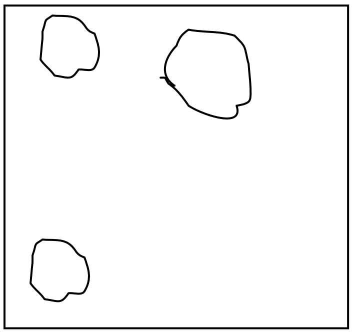
2. Diffused preferences



Consumer preference are scattered throughout the space which implies that consumers greatly differ in their preferences. Given such a situation, the first brand to enter the market would position itself to appeal to most consumers. The second brand would position itself next to the first and fight for a share of the market. Or it may position itself in a corner where the first brand has not been able to attract customers. As other brands come in they get dispersed throughout the space.

3. Clustered preferences

The market may comprise distinct preference clusters which may be regarded as natural clusters. The options available to the first firm in such a market are (i) position in the centre in the hope that it appeals to all groups; (ii) position in the largest market segment (concentrated marketing); or (iii) develop several brands, one for each cluster. If the firm develops only one brand, competition will enter the market and introduce brands in other segments.



Niche Marketing

A niche is a more narrowly defined customer group seeking a distinctive mix of benefits. Niches are identified by dividing a segment into sub-segments.

Characteristics of an attractive niche.

- Customers in the niche have a distinct set of needs
- Customers pay a premium to the firm that best satisfies their needs
- The niche is not likely to attract other competitors
- The niche has size, profit and growth potential
- The marketer selling to a nich may be able to realize economies on account of specialization

- ❖ Segments are fairly large and attract several competitors; Niches ate much smaller and attract only one or two,

Basis for market segmentation

Segmentation is done to cater to the specific needs of different customer groups. How can markets be segmented? There is no single way to segment markets and a variety of factors may have to be considered for segmenting markets. Broadly speaking, there are two categories of factors which may be considered for this purpose - the **descriptive** characteristics of customers, and their **behavioural** characteristics. Descriptive characteristics include geographic, demographic and psychographic variables. Behavioural characteristics include the consumers' responses to benefits, use occasions for products, brands, etc.

1. Geographic – division on geographical basis such as regional, class of city (A, B or C class), rural – urban, etc.

2. Demographic – on basis of demographic variable like age, family size, gender, income, occupation, education, socio-economic status..

3. Psychographic – lifestyle (culture oriented, religion oriented, sports oriented,outdoor oriented; and personality (compulsive, gregarious, authoritarian, ambitious).

4. Behavioral - occasions for product use (regular or special; hotels for conferences or vacations), benefits sought (quality, economy, service, speed); user status (ex-users, potential users, first time users, regular users); usage rate (volume segmentation, light, heavy, medium), Loyalty status (loyally to brands, loyally to stores, strong loyalty, absolute loyalty).

For effective segmentation, segments must show:

1. **Measurability** – purchasing power, demand should be measurable
2. **Accessibility** – segments should be easily reached
3. **Profitability** – segments should be profitable
4. **Actionability** – extent to which segments can be served.

Market Targeting

After segmenting markets, the largest market segments have to be selected for the purposes of evaluation. The objective of this evaluation is to assess the profit potential of the segment, both in the short and long runs.

After segmenting the market, the firm has to decide its coverage. The options available to a firm include:

- ❖ Undifferentiated marketing (Market Aggregation): Selling to the entire market.
- ❖ Differentiated marketing (Multiple segmentation): Selling to several segments with different marketing mix being offered to each.

- Concentrated marketing (Single segment concentration): One segment is targeted with the aim of capturing a large share of the market. (eg. small car)

The above decision depends upon

1. Company resources
2. Product homogeneity
3. Product stage in life cycle
4. Market homogeneity
5. Competitive marketing strategies

BOX 1: Consumer Segmentation Studies: Understanding Consumers Better

Attitudes — Attitudinal data provide a deep look into consumers to help marketers understand why they do or do not purchase particular products. Marketers can use it to understand how consumers see products, not how we want them to see them. The problem with ending our consumer segmentation exercise here is that there are many steps between these core beliefs and product purchases. For many reasons, these core beliefs may or may not be reflected in purchases.

Demographics — High and low-income households, large families and singles, young and old, etc., regardless of how similar their attitudes, needs and channel selections may be, do not often buy the same products for the same reasons. A single set of beliefs may lead a group of consumers to purchase one product and another cluster of consumers to purchase another.

Need States — The need state defines what the consumer is trying to accomplish with a particular purchase. Need states can override attitudes or they can reinforce them. Consumer segmentations cannot be built purely on needs as thy may fail to capture the influence of demographic factors that may tie different purchases together.

Purchase Occasions — The channel options available at the time of purchase, product assortment/variety, price and how the products are shelved all interact with the need the consumer is trying to fulfill, their demography and core beliefs. Again this step cannot be analyzed in alienation. Good consumer segmentation must account for as many of these factors as possible, creating new segments that go deeper in understanding the purchase decision making process.

A successful marketing campaign needs to incorporate all elements of the marketing mix complementing each other. Brand positioning must be communicated clearly and to the right audience. Consumers must be able to find the product where and when they want it, in the right form and package size, and at a price that matches the expectations they have about the product's benefits. To execute in this way requires all the stakeholders from the manufacturer to the sales person on the floor to think about the end consumer in the same way consistently through the same looking glass.

Source:http://www.marketequations.com/white-papers/consumer-segmentation.html

Positioning

Positioning refers to the process of developing an image and perception of a product by a seller in the minds of consumers to influence their thoughts and feelings. This is done with the help of marketing communications including advertising.

Competitor positioning: Positioning in comparison to competitors. E.g., Tata iodized salt versus the other Catch salt promoted as free flowing even in monsoon.

Attribute positioning: Positioning based on a specific use. Titan is more of a style, elegance and relationships, Archies: expression of feelings, etc.

User Positioning: Positioning for use by a particular consumer group. Skin creams for lightening the skin colour for dark complexioned (Fair & Lovely) and skin lifting creams for removing wrinkles for aging consumers. Such positioning caters to innate needs which are often not expressly stated.

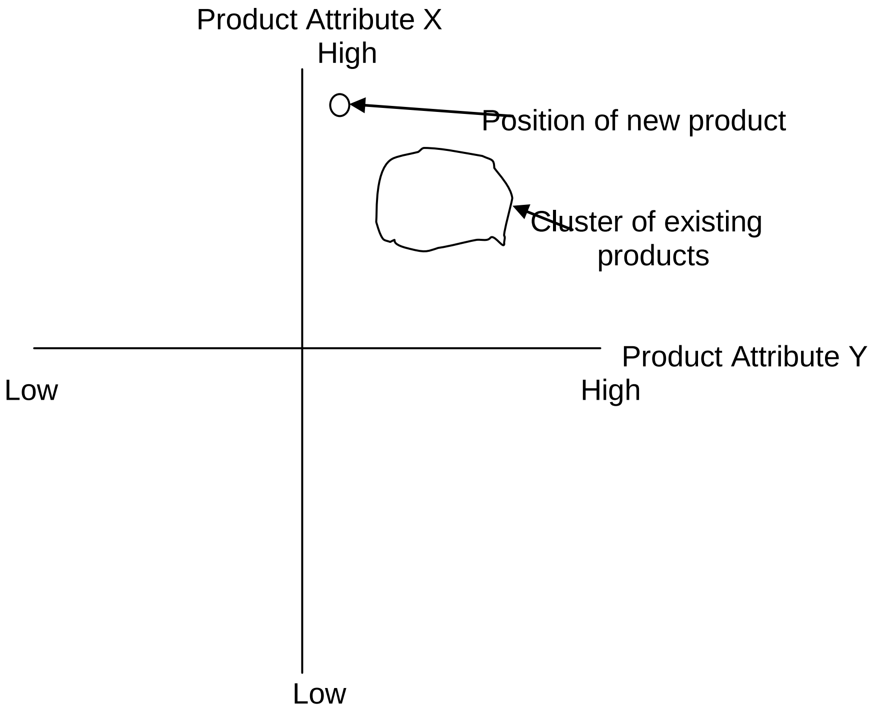
Product Class Positioning: Positioning relative to other product class. Complan - alternative to complete nutrient food, Maggie: fast food, Dove: cleanser and moisturizer.

For the successful positioning of a product, a marketer attempts to answer the following questions:

- What position, if any, do we already have in prospect’s mind?
- What position do we want to own?
- What companies do we compete with and must outperform if we are to establish that position?
- Do we have enough marketing money to occupy and hold this position?
- Can we stick with one consistent positioning strategy?
- Does our creative approach match our positioning strategy?

For positioning firms considers:

1. Product features
2. Benefits sought
3. Income categories
4. User category (adventure – tours)
5. Position of other brands

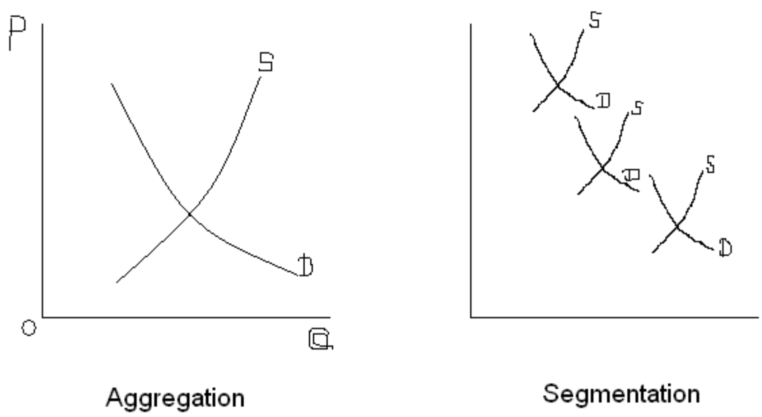


Existing products may be clustered as shown in the figure. The new product may be "positioned differently from the existing products as shown in the figure above. Thus the new product may be at a higher level in terms of attribute X (say taste) and relatively lower in terms of attribute Y (say price) as compared to existing products.

Market Aggregation

Market aggregation is the opposite of market segmentation. The seller treats its total market as one unit, that is one mass whose parts are considered to be alike in all major respects.

In market aggregation the seller assumes that there is a single demand curve for its product. Thus the product is assumed to have a broad market appeal. This is in contrast to market segmentation where the total market is viewed as having a series of demand curves.



Target Market Strategies

- Market Aggregation: Single marketing mix; One mass undifferentiated market
- Single Segment Concentration: Single Marketing Mix aimed at a single selected market segment
- Multiple Segmentation: More than one market segment targeted with a different marketing mix for each selected segment.

References

Anderson, James C. and James A. Narus. 1995. “Capturing the value of Supplementary Services”, *Harvard Business Review*, January-February: 75-83.