



MK 201 Principles of Marketing

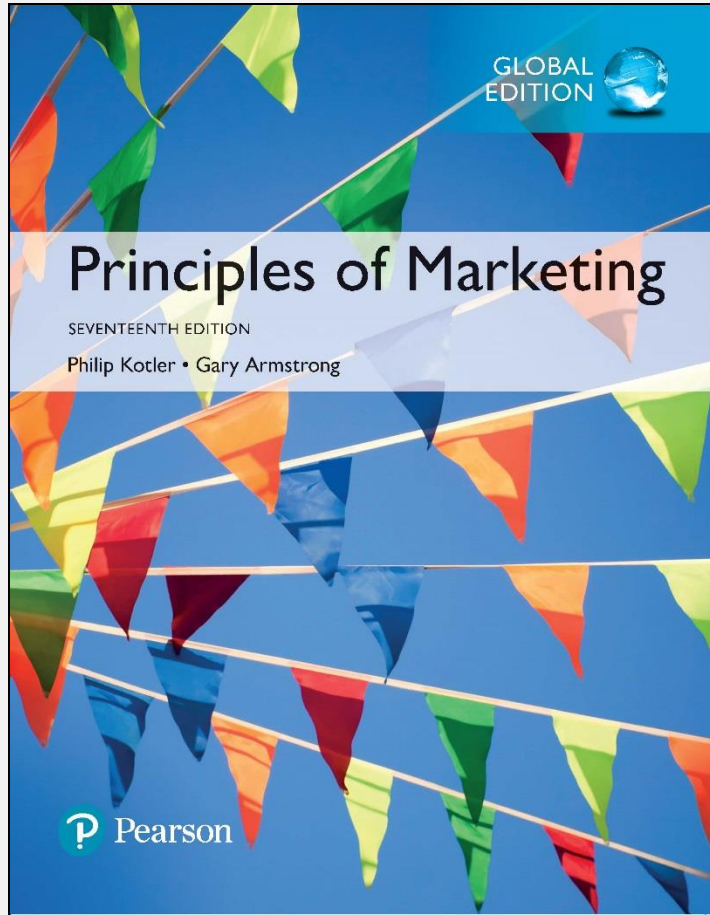
Segmenting, Targeting, Positioning

Session 5

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Principles of Marketing

Seventeenth Edition



Chapter 7

Customer Value-Driven Marketing Strategy:
Creating Value for Target Customers

Learning Objectives

- 7-1** Define the major steps in designing a customer-driven marketing strategy: market segmentation, targeting, differentiation, and positioning.
- 7-2** List and discuss the major bases for segmenting consumer and business markets.
- 7-3** Explain how companies identify attractive market segments and choose a market-targeting strategy.
- 7-4** Discuss how companies differentiate and position their products for maximum competitive advantage.

Learning Objective 1

Define the major steps in designing a customer-driven marketing strategy: market segmentation, targeting, differentiation, and positioning.

Customer-Driven Marketing Strategy

In concept, marketing boils down to two questions: (1) Which customers will we serve? and (2) How will we serve them? Of course, the tough part is coming up with good answers to these simple-sounding yet difficult questions. The goal is to create more value for the customers we serve than competitors do.

Select customers to serve

Segmentation

Divide the total market into smaller segments

Targeting

Select the segment or segments to enter

**Create value
for targeted
customers**

Decide on a value proposition

Differentiation

Differentiate the market offering to create superior customer value

Positioning

Position the market offering in the minds of target customers

Learning Objective 2

List and discuss the major bases for segmenting consumer and business markets.

Market Segmentation

Market segmentation requires dividing a market into smaller segments with distinct needs, characteristics, or behaviors that might require separate marketing strategies or mixes.



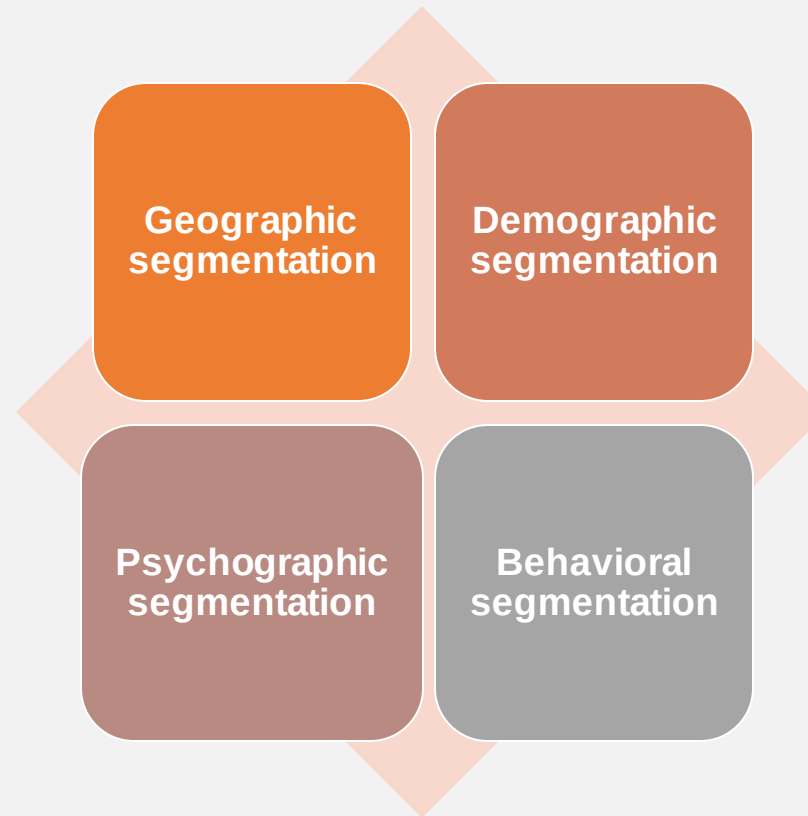
Buyers in any market differ in their wants, resources, locations, buying attitudes, and buying practices. Through market segmentation, companies divide large, heterogeneous markets into smaller segments that can be reached more efficiently and effectively with products and services that match their unique needs.

Market Segmentation

- Segmenting consumer markets
- Segmenting business markets
- Segmenting international markets
- Requirements for effective segmentation

Market Segmentation

Segmenting Consumer Markets





Market Segmentation

Geographic segmentation

Market Segmentation

Segmenting Consumer Markets

Geographic segmentation divides the market into different geographical units such as nations, regions, states, counties, cities, or even neighborhoods.



A company may decide to operate in one or a few geographical areas or operate in all areas but pay attention to geographical differences in needs and wants.

Many companies today are localizing their products, advertising, promotion, and sales efforts to fit the needs of individual regions, cities, and neighborhoods.

Market Segmentation

Segmenting Consumer Markets

Demographic segmentation.



For example, Domino's Pizza, the nation's largest pizza delivery chain, keeps its marketing and customer focus decidedly local. Customers anywhere in the nation can use the online platform or smartphone app to track down local coupon offers, locate the nearest store with a GPS store locator, and quickly receive a freshly-made pizza. They can even use Domino's Pizza Tracker to follow their pies locally from store to door.



Market Segmentation

Segmenting Consumer Markets

Demographic segmentation

Demographic factors are the most popular bases for segmenting customer groups. One reason is that consumer needs, wants, and usage rates often vary closely with demographic variables. Demographic variables are easier to measure than most other types of variables.



Market Segmentation

Segmenting Consumer Markets

Age and life-cycle stage segmentation divides a market into different age and life-cycle groups.

Gender segmentation divides a market into different segments based on gender.

Income segmentation divides a market into different income segments.

Market Segmentation

Segmenting Consumer Markets

Age and life-cycle stage segmentation divides a market into different age and life-cycle groups.



Consumer needs and wants change with age. Some companies offer different products or use different marketing approaches for different age and life-cycle groups. Other companies offer brands that target specific age or life-stage groups. For example, Amazon targeted a younger tablet market for using the Kindle Fire tablet, introducing FreeTime Unlimited, a multimedia subscription service targeted toward 3- to 8-year-olds. Marketers must be careful to guard against stereotypes when using age and life-cycle segmentation.

Market Segmentation

Segmenting Consumer Markets

Gender segmentation divides a market into different segments based on gender.

Gender segmentation has long been used in clothing, cosmetics, toiletries, and magazines. For example, P&G was among the first to use gender segmentation with Secret, a brand specially formulated for a woman's chemistry, and packaged and advertised to reinforce the female image. More recently, the men's personal care industry has exploded, and many cosmetics brands that previously catered mostly to women—like L'Oréal and Nivea—now successfully market men's lines.



Market Segmentation

Segmenting Consumer Markets

Income segmentation divides a market into different income segments.

The marketers of products and services such as automobiles, clothing, cosmetics, financial services, and travel have long used income segmentation. Many companies target affluent consumers with luxury goods and convenience services. Other marketers use high-touch marketing programs to court the well-to-do. Not all companies that use income segmentation target the affluent. For example, many retailers—such as the Dollar General, Family Dollar, and Dollar Tree store chains—successfully target low- and middle-income groups. The core market for such stores is represented by families with incomes under \$30,000.



Market Segmentation

Segmenting Consumer Markets

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



● Lifestyle segmentation: Gazelle caters to a range of lifestyle segments, from daily users to the Dutch royal family.

Patrick Van Katwijk/dpa picture alliance/Alamy Stock Photo

Market Segmentation

Segmenting Consumer Markets

Psychographic segmentation



People in the same demographic group can have very different psychographic characteristics.

In Chapter 5, we discussed how the products people buy reflect their *lifestyles*. Marketers also use *personality* variables to segment markets. For example, different soft drinks target different personalities. Mountain Dew projects a youthful, rebellious, adventurous personality whereas Coca-Cola Zero appeals to target personality types which are more mature, practical, and cerebral but good-humored. Its subtly humorous ads promise “Real Coca-Cola taste and zero calories.”

Market Segmentation

Segmenting Consumer Markets

Psychographic segmentation



Market Segmentation

Segmenting Consumer Markets

Behavioral segmentation divides a market into segments based on consumer knowledge, attitudes, uses of a product, or responses to a product.

Market Segmentation

Segmenting Consumer Markets

Behavioral Segmentation

- Occasions
- Benefits sought
- User status
- Usage rate
- Loyalty status



• Benefit segmentation: Within Fitbit's family of health and fitness tracking products, no matter what bundle of benefits one seeks, "There's a Fitbit for Everyone."

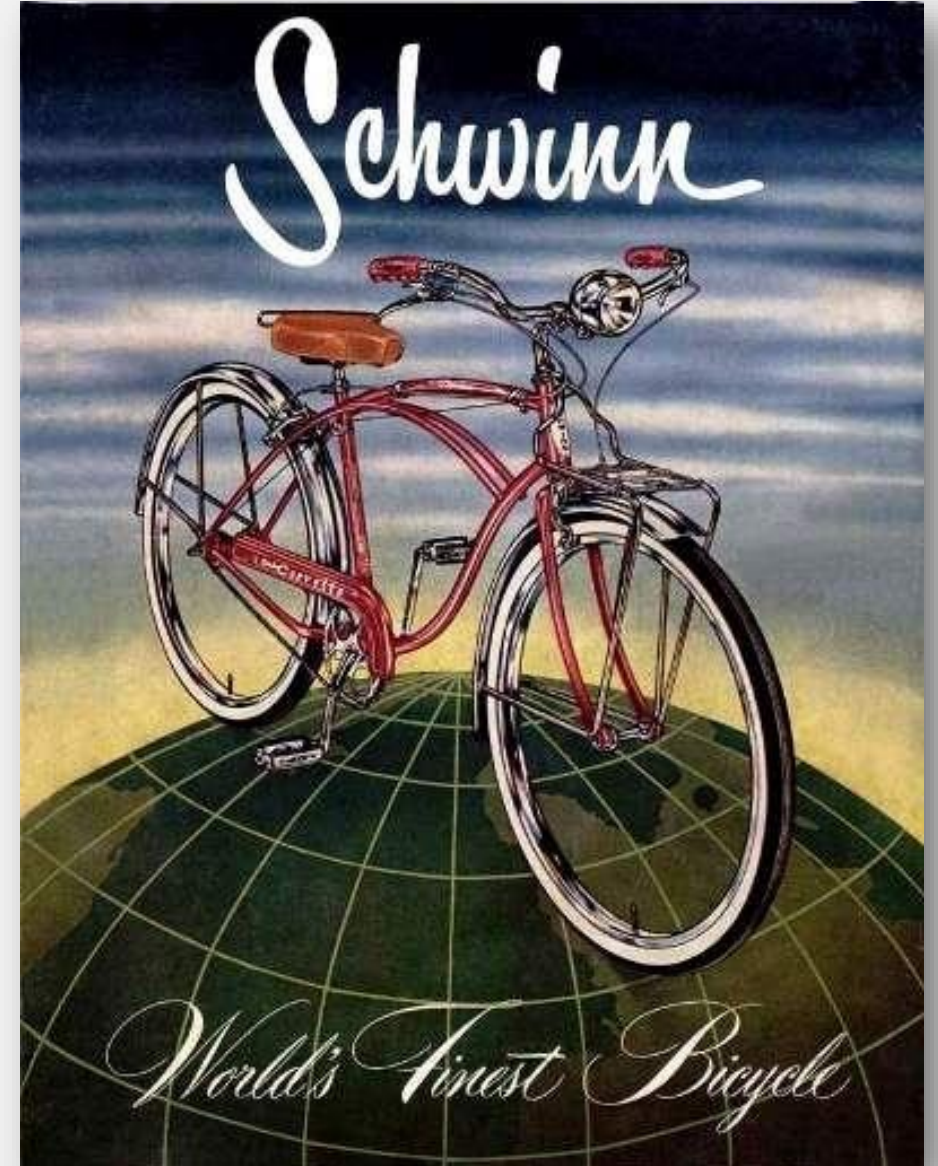
Paul Marotta/Stringer/Getty Images

Market Segmentation

Segmenting Consumer Markets

Behavioral Segmentation

Benefit segmentation: Schwinn makes bikes for every benefit segment. For example, Schwinn's urban bikes are "for riders who want a functional, durable, and stylish bike to commute or ride casually in urban areas."



Market Segmentation

Segmenting Consumer Markets

Behavioral Segmentation

Occasions refer to when consumers get the idea to buy, actually make their purchase, or use the purchased item. **Occasion segmentation** can help firms build up product usage.

Campbell's advertises its soups more heavily in the cold winter months, and Home Depot runs special springtime promotions for lawn and gardens products. Other marketers prepare special offers and ads for holiday occasions or nontraditional occasions.

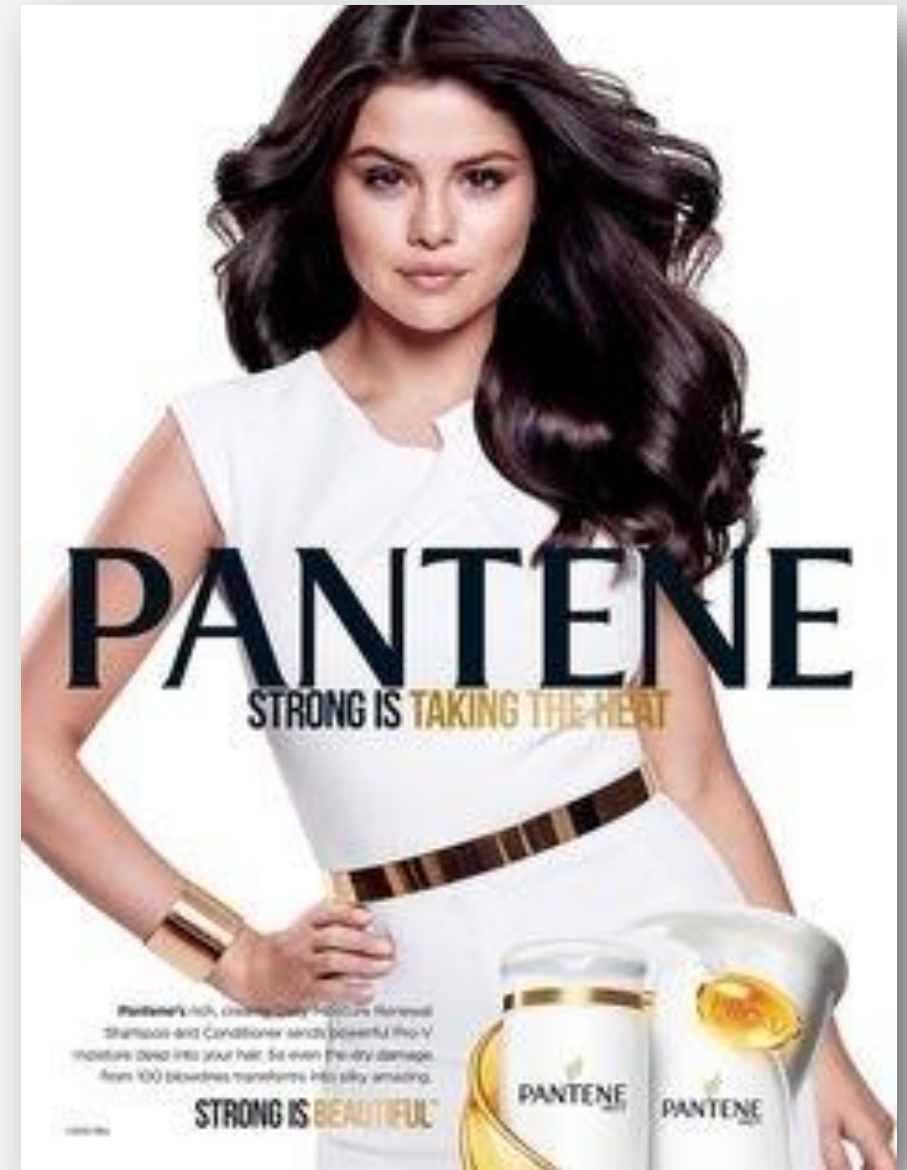


Market Segmentation

Segmenting Consumer Markets

Behavioral Segmentation

Benefits sought refers to finding the major benefits people look for in a product class, the kinds of people who look for each benefit, and the major brands that deliver each benefit.



Market Segmentation

Segmenting Consumer Markets

Behavioral Segmentation

Markets can be segmented by **user status**: nonusers, ex-users, potential users, first-time users, and regular users of a product. Marketers want to reinforce and retain regular users, attract targeted nonusers, and reinvigorate relationships with ex-users.



Market Segmentation

Segmenting Consumer Markets

Behavioral Segmentation

Markets can also be segmented by **usage rate**: light, medium, and heavy product users. Heavy users are often a small percentage of the market but account for a high percentage of total consumption. For instance, a recent study showed that heavy seafood consumers in the United States are a small but hungry bunch. Less than 5 percent of all shoppers buy nearly 64 percent of unbreaded seafood consumed in the United States.



Market Segmentation

Segmenting Consumer Markets

Behavioral Segmentation

Consumers can be loyal to brands, and buyers can be divided into groups according to their degree of **loyalty**. Some consumers are completely loyal—they buy one brand all the time and can't wait to tell others about it. Other consumers are somewhat loyal—they are loyal to two or three brands of a given product or favor one brand while sometimes buying others. Still other buyers show no loyalty to any brand—they either want something different each time they buy, or they buy whatever's on sale. A company can learn a lot by analyzing loyalty patterns in its market, starting with its own loyal customers.



Market Segmentation

Segmenting Consumer Markets

Multiple segmentation is used to identify smaller, better-defined target groups.

Experian's Mosaic USA system classifies U.S. households into one of 71 lifestyle segments and 19 levels of affluence.



● Using Experian's mosaic USA segmentation system, marketers can paint a surprisingly precise picture of who you are and what you might buy. Mosaic USA segments carry colorful names such as Colleges and Cafes, Birkenstocks and Beemers, Bohemian Groove, Hispanic Harmony, Rolling the Dice, Small Town Shallow Pockets, and True Grit Americans that help bring the segments to life.

zeljkodan/Shutterstock

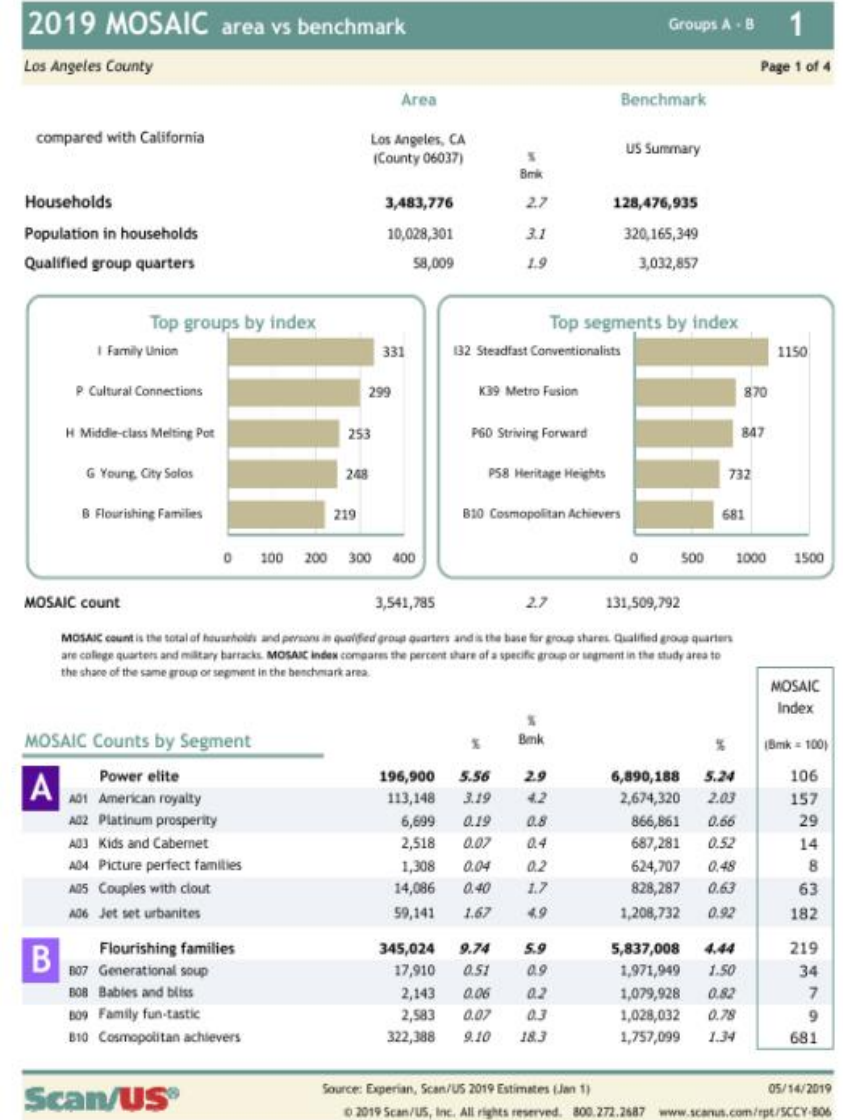
Market Segmentation

Segmenting Consumer Markets



Market Segmentation

Segmenting Consumer Markets



Market Segmentation

Segmenting Business Markets

Consumer and business marketers use many of the same variables to segment their markets.

Additional variables include:

- Customer operating characteristics
- Purchasing approaches
- Situational factors
- Personal characteristics

Market Segmentation

Segmenting Business Markets

Almost every company serves at least some business markets. For example, Starbucks has developed distinct marketing programs for each of its two business segments: the office coffee and food service segments.



Market Segmentation

Segmenting International Markets

Geographic
location

Economic
factors

Political and
legal factors

Cultural
factors

Market Segmentation

Segmenting International Markets

- **Geographic location** involves grouping countries by regions such as Western Europe, the Pacific Rim, the Middle East, or Africa. Geographic segmentation assumes that nations close to one another will have many common traits and behaviors, however there are many exceptions. For example, the Dominican Republic is no more like Brazil than Italy is like Sweden. Many Central and South Americans don't even speak Spanish.
- **Economic factors** involve grouping countries by population income levels or by their overall level of economic development. A country's economic structure shapes its population's product and service needs and, therefore, the marketing opportunities it offers.
- **Political and legal factors** involve segmenting by the type and stability of the government, government receptivity to foreign firms, monetary regulations, and the amount of bureaucracy.
- **Cultural factors** involve grouping markets according to common languages, religions, values and attitudes, customs, and behavioral patterns.

Market Segmentation

Segmenting International Markets

Intermarket segmentation involves forming segments of consumers who have similar needs and buying behaviors even though they are located in different countries.

Market Segmentation

Segmenting International Markets

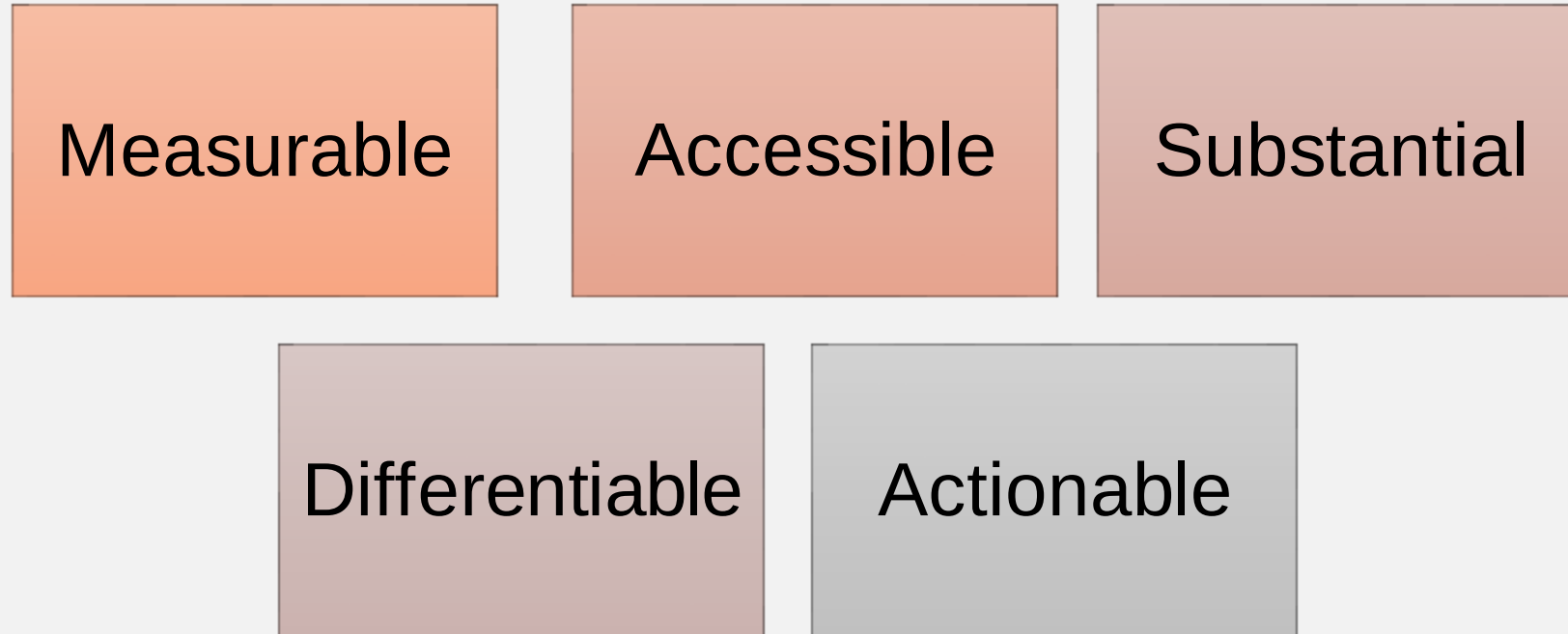
Segmenting international markets based on geographic, economic, political, cultural, and other factors presumes that segments should consist of clusters of countries.

However, as new communications technologies, such as satellite TV and the Internet, connect consumers around the world, marketers can define and reach segments of like-minded consumers no matter where in the world they are using **intermarket segmentation** (also called **cross-market segmentation**.)



Market Segmentation

Requirements for Effective Segmentation



Market Segmentation

Requirements for Effective Segmentation

Measurable: The size, purchasing power, and profiles of the segments can be measured.

Accessible: The market segments 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.

Learning Objective 3

Explain how companies identify attractive market segments and choose a market-targeting strategy.

Market Targeting

Evaluating Market Segments

- Segment size and growth
- Segment structural attractiveness
- Company objectives and resources

Market Targeting

Evaluating Market Segments

Selecting segments that have the right size and growth characteristics is a relative matter. The largest, fastest-growing segments are not always the most attractive ones for every company. Smaller companies may target segments that are smaller and less attractive, in an absolute sense, but that are potentially more profitable for them.



Market Targeting

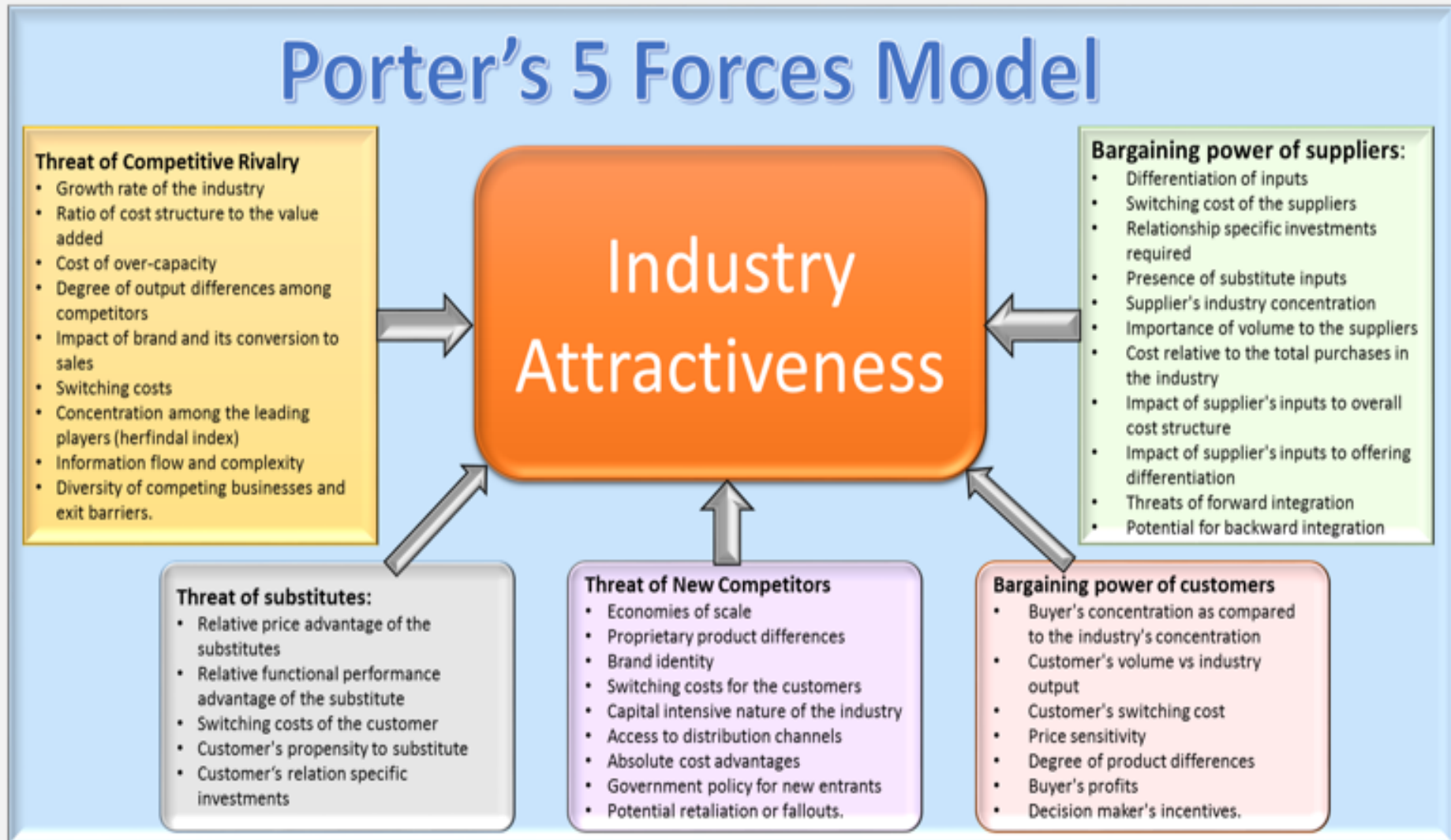
Evaluating Market Segments



Structural factors that affect long-run segment attractiveness include strong and aggressive *competitors*, *new entrants*, *substitute products*, *power of buyers* relative to sellers, and *powerful suppliers* who can control prices, quality, or quantity of ordered goods and services.

Market Targeting

Evaluating Market Segments



Market Targeting

Evaluating Market Segments

Some attractive segments can be dismissed quickly because they do not mesh with the company's long-run objectives. Or the company may lack the skills and resources needed to succeed in an attractive segment. A company should only enter segments in which it can **create superior customer value and gain advantages over its competitors.**



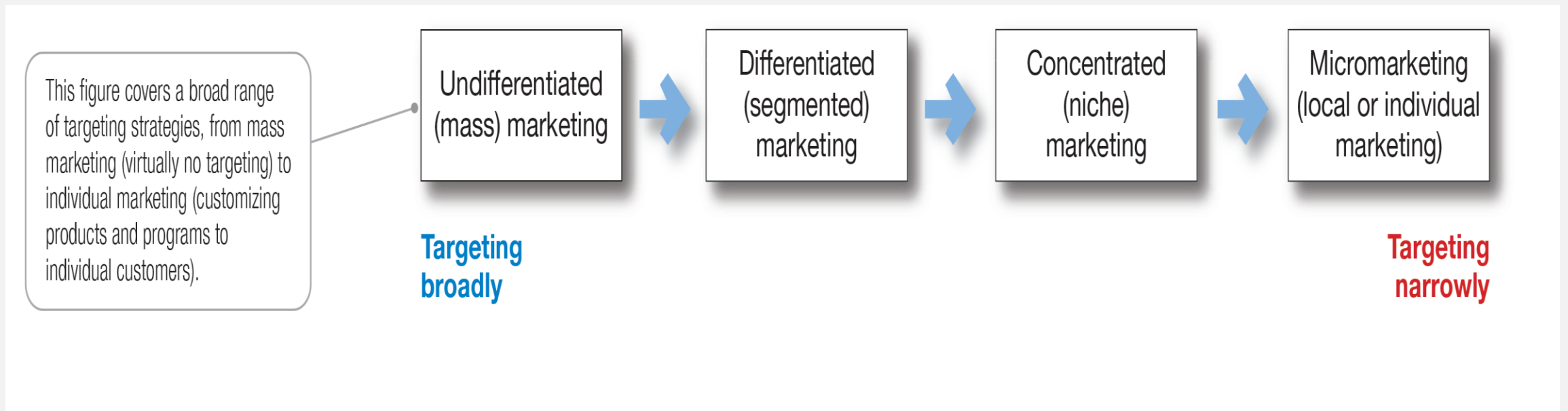
Market Targeting

Selecting Target Market Segments

A **target market** is a set of buyers who share common needs or characteristics that the company decides to serve.

Market Targeting

Figure 7.2 Market-Targeting Strategies.



Market Targeting

Selecting Target Market Segments

Undifferentiated marketing targets the whole market with one offer.

- Mass marketing
- Focuses on common needs rather than what's different

Market Targeting



Market Targeting

Selecting Target Market Segments

Differentiated marketing targets several different market segments and designs separate offers for each.

- Goal is to achieve higher sales and stronger position
- More expensive than undifferentiated marketing



● Differentiated marketing: P&G markets multiple laundry detergent brands, then further segments each brand to service even narrower niches. As a result, it's really cleaning up in the U.S. laundry detergent market, with an almost 60 percent market share.

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Market Targeting

Selecting Target Market Segments

Differentiated marketing

Differentiated marketing increases the costs of doing business. The company must weigh increased sales against increased costs when deciding on a differentiated marketing strategy.



Market Targeting

Selecting Target Market Segments

Differentiated marketing



P&G markets six different laundry detergent brands in the United States, which compete with each other on supermarket shelves. Then, P&G further segments each brand to serve even narrower niches.

Developing a stronger position within several segments creates more total sales than undifferentiated marketing across all segments. Hallmark's differentiated brands account for more than 44 percent of the greeting cards purchased in the United States. Similarly, P&G's multiple detergent brands capture four times the market share of its nearest rival.

Market Targeting

Selecting Target Markets

Concentrated marketing targets a large of a smaller market.

- Limited company resources
- Knowledge of the market
- More effective and efficient



● **Concentrated marketing: Innovative niche Stance Socks thrives in the shadows of larger competitors.**

Stance, Inc.

Market Targeting

Selecting Target Markets

Concentrated marketing

Concentrated marketing: When using a **concentrated marketing** (or **niche marketing**) strategy, a firm goes after a large share of one or a few smaller segments or niches. For example, Stance Socks thrives with high-quality, colorful sock sold through high-end department stores.

Today, the low cost of setting up shop on the Internet makes it even more profitable to serve seemingly miniscule niches. Small businesses, in particular, are realizing riches from serving small niches on the Web.



Market Targeting

Selecting Target Markets

Concentrated marketing

Concentrated marketing can be highly profitable. At the same time, it involves higher-than-normal risks. Companies that rely on one or a few segments for all of their business will suffer greatly if the segment turns sour. Or larger competitors may decide to enter the same segment with greater resources. For these reasons, many companies prefer to diversify in several market segments. In fact, many large companies develop or acquire niche brands of their own.



Market Targeting

Selecting Target Market Segments

Micromarketing is the practice of tailoring products and marketing programs to suit the tastes of specific individuals and locations.

- Local marketing
- Individual marketing

Market Targeting

Selecting Target Market Segments

Local marketing involves tailoring brands and promotion to the needs and wants of local customer segments.

- Cities
- Neighborhoods
- Stores

Market Targeting

Selecting Target Market Segments



Market Targeting

Selecting Target Markets

Individual marketing involves tailoring products and marketing programs to the needs and preferences of individual customers.

Also known as:

- One-to-one marketing
- Mass customization



● Individual marketing: The Rolls-Royce Bespoke design team works closely with individual customers to help them create their own unique Rolls-Royces. “Outside of compromising the safety of the car—or disfiguring the Spirit of Ecstasy—we won’t say no.”

Associated Press

Market Targeting

Selecting Target Market Segments

Choosing a targeting strategy depends on

- Company resources
- Product variability
- Product life-cycle stage
- Market variability
- Competitor's marketing strategies

Learning Objective 4

Discuss how companies differentiate and position their products for maximum competitive advantage.

Differentiation and Positioning

Product position is the way the product is defined by consumers on important attributes.



● **Positioning: IKEA does more than just sell affordable home furnishings: it's the "Life improvement store."**

Used with the permission of Inter IKEA Systems B.V.

Differentiation and Positioning

The company must decide on a *value proposition*—how it will create differentiated value for targeted segments and what positions it wants to occupy in those segments. The place the product occupies in consumers' minds relative to competing products is the position. Products are made in factories, but brands happen in the minds of consumers.

Dreft is positioned as the gentle detergent for baby clothes; at IHOP, you “Come hungry. Leave happy.”; at Olive Garden, “When You’re Here, You’re Family.” In the automobile market, the Nissan Versa and Honda Fit are positioned on economy, Mercedes and Cadillac on luxury, and Porsche and BMW on performance.

Differentiation and Positioning

To simplify the buying process, consumers organize products, services, and companies into categories and “position” them in their minds. A product’s position is the complex set of perceptions, impressions, and feelings that consumers have for the product compared with competing products.

Consumers position products with or without the help of marketers. But marketers do not want to leave their products’ positions to chance. They must *plan* positions that will give their products the greatest advantage in selected target markets, and they must design marketing mixes to create these planned positions.

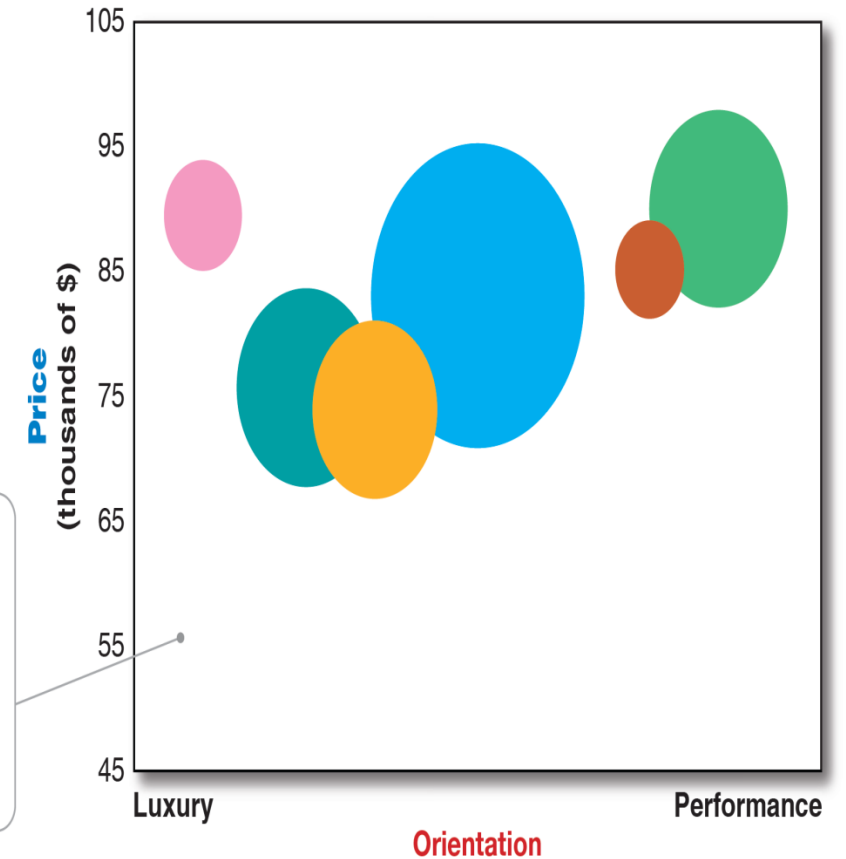
Differentiation and Positioning

Positioning maps show consumer perceptions of marketer's brands versus competing products on important buying dimensions.

● FIGURE | 7.3

Positioning map: Large luxury SUVs

The location of each circle shows where consumers position a brand on two dimensions: price and luxury-performance orientation. The size of each circle indicates the brand's relative market share in the segment. Thus, Toyota's Land Cruiser is a niche brand that is perceived to be relatively expensive and more performance oriented.



Differentiation and Positioning

Choosing a Differentiation and Positioning Strategy

- Identifying a set of possible competitive advantages to build a position
- Choosing the right competitive advantages
- Selecting an overall positioning strategy
- Communicating and delivering the chosen position to the market

Firms must differentiate their offers by building a unique bundle of benefits that appeals to a substantial group within the segment. Above all else, a brand's positioning must serve the needs and preferences of well-defined target markets.

Differentiation and Positioning

Choosing a Differentiation and Positioning Strategy

For example, although both Dunkin' Donuts and Starbucks are coffee and snack shops, they target very different customers, who want very different things from their favorite coffee seller. Starbucks targets more upscale professionals with more high-brow positioning. In contrast, Dunkin' Donuts targets the “average Joe” with a decidedly more low-brow, “everyman” kind of positioning. Yet each brand succeeds because it creates just the right value proposition for its unique mix of customers



Differentiation and Positioning

Choosing a Differentiation and Positioning Strategy

Competitive advantage is an advantage over competitors gained by offering consumers greater value, either through lower prices or by providing more benefits that justify higher prices.

But solid positions cannot be built on empty promises. If a company positions its product as *offering* the best quality and service, it must actually differentiate the product so that it *delivers* the promised quality and service.

Companies must do much more than simply shout out their positions with slogans and taglines. They must first *live* the slogan.

Differentiation and Positioning

Choosing a Differentiation and Positioning Strategy

Identifying a set of possible competitive advantages to differentiate along the lines of:

Product

Services

Channels

People

Image



Differentiation and Positioning

Choosing a Differentiation and Positioning Strategy

Product differentiation: Premium audio brand Bose promises “better sound through research—an innovative, high-quality listening experience.”

To find points of differentiation, marketers must think through the customer’s entire experience with the company’s product or service. An alert company can find ways to differentiate itself at every customer contact point.



Differentiation and Positioning

Choosing a Differentiation and Positioning Strategy

Through *product differentiation*, brands can be differentiated on features, performance, or style and design. Thus, Bose positions its speakers on their striking design and sound characteristics. By gaining the approval of the American Heart Association as an approach to a healthy lifestyle, Subway differentiates itself as the healthy fast-food choice.

Some companies gain *services differentiation* through speedy, convenient, or careful delivery. For example, Jimmy John's doesn't just offer fast food; its gourmet sandwiches are "Freaky Fast."



Differentiation and Positioning

Choosing a Differentiation and Positioning Strategy

Firms that practice *channel differentiation* gain competitive advantage through the way they design their channel's coverage, expertise, and performance. Amazon.com and GEICO, for example, set themselves apart with their smooth-functioning direct channels.

Companies can also gain a strong competitive advantage through *people differentiation*—hiring and training better people than their competitors do.

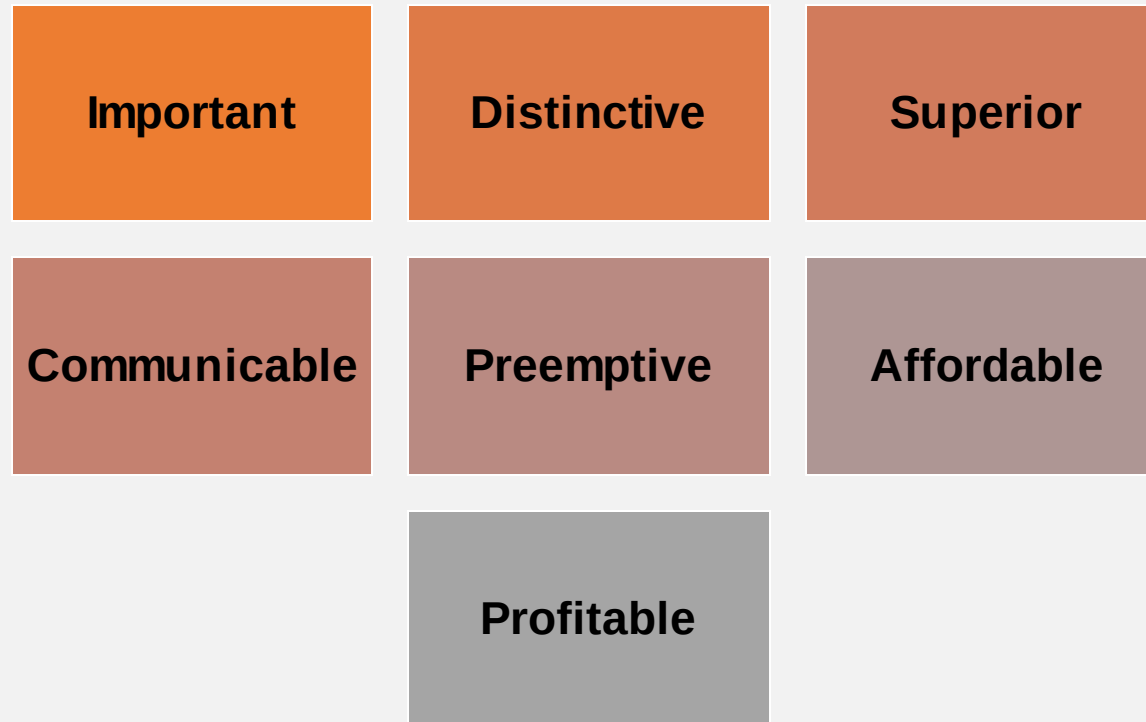
Even when competing offers look the same, buyers may perceive a difference based on company or brand *image differentiation*. The chosen symbols, characters, and other image elements a brand chooses must be communicated through advertising that conveys the company's or brand's personality.



Differentiation and Positioning

Choosing a Differentiation and Positioning Strategy

A competitive advantage should be:



Differentiation and Positioning

Choosing a Differentiation and Positioning Strategy

A competitive advantage should be:

Important: The difference delivers a highly valued benefit to target buyers.

Distinctive: Competitors do not offer the difference, or the company can offer it in a more distinctive way.

Superior: The difference is superior to other ways that customers might obtain the same benefit.

Communicable: The difference is communicable and visible to buyers.

Preemptive: Competitors cannot easily copy the difference.

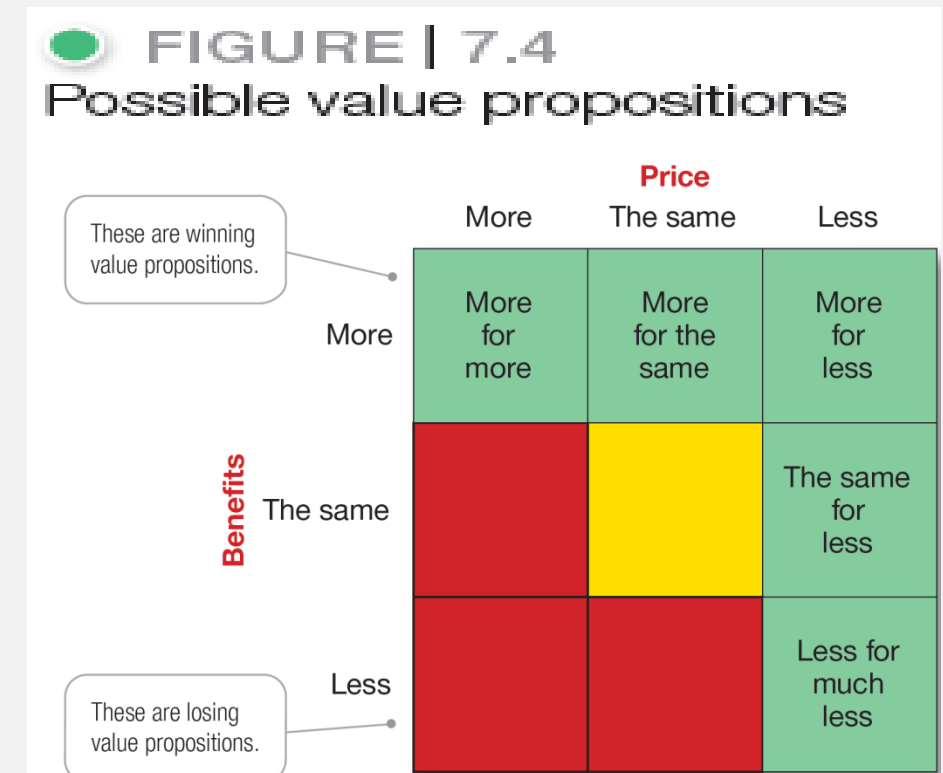
Affordable: Buyers can afford to pay for the difference.

Profitable: The company can introduce the difference profitably.

Differentiation and Positioning

Choosing a Differentiation and Positioning Strategy

Value proposition is the full mix of benefits upon which a brand is positioned.



Differentiation and Positioning

Choosing a Differentiation and Positioning Strategy

The full positioning of a brand is called the brand's **value proposition**—the full mix of benefits on which a brand is differentiated and positioned. It is the answer to the customer's question “Why should I buy your brand?” BMW's “ultimate driving machine” value proposition hinges on performance but also includes luxury and styling, all for a price that is higher than average but seems fair for this mix of benefits.



Differentiation and Positioning

Choosing a Differentiation and Positioning Strategy

Positioning statement summarizes company or brand positioning using this form: **To** (target segment and need) our (brand) **is** (concept) **that** (point of difference)

Differentiation and Positioning

Choosing a Differentiation and Positioning Strategy

Positioning Statement Example for Evernote:

“To busy multitaskers who **need** help remembering things, Evernote **is** a digital content management application **that** makes it easy to capture and remember moments and ideas from your everyday life using your computer, phone, tablet, and the Web.”

Differentiation and Positioning

Communicating and Delivering the Chosen Position

- ✓ Choosing the positioning is often easier than implementing the position.
- ✓ Establishing a position or changing one usually takes a long time.
- ✓ Maintaining the position requires consistent performance and communication.

