



KERIN
HARTLEY
RUDELIUS

MARKETING: The Core 5/e

CHAPTER

8

MARKET
SEGMENTATION,
TARGETING, AND
POSITIONING

McGraw-Hill Education

Copyright © 2013 by The McGraw-Hill Companies, Inc. All rights reserved.

LEARNING OBJECTIVES (LO)

AFTER READING CHAPTER 8, YOU SHOULD BE ABLE TO:

- L01** Explain what market segmentation is and when to use it.
- L02** Identify the five steps involved in segmenting and targeting markets.
- L03** Recognize the bases used to segment consumer and organizational markets.

52

LEARNING OBJECTIVES (LO)

AFTER READING CHAPTER 8, YOU SHOULD BE ABLE TO:

- L04** Develop a market-product grid to identify a target market and recommend resulting actions.
- L05** Explain how marketing managers position products in the marketplace.

53

ZAPPOS.COM'S "WOW" = SEGMENTS + SERVICE



➤ **A Clear Market Segmentation Strategy**

➤ **Delivering WOW Customer Service**

L01

**WHY SEGMENT MARKETS?
WHAT MARKET SEGMENTATION MEANS**

- **Market Segmentation**
- **Market Segments**
- **Product Differentiation**
- **Segmentation: Linking Needs to Actions**
- **The Zappos Segmentation Strategy**



FIGURE 8-1 Market segmentation links market needs to an organization's marketing program through marketing mix actions



FIGURE 8-2 A market-product grid shows the kind of sleeper that is targeted for each of the bed pillows with a different firmness

MARKET SEGMENTS	BED PILLOW PRODUCTS		
	Firm Pillows	Medium Pillows	Soft Pillows
Side sleepers	● =73%		
Back sleepers		● =22%	
Stomach sleepers			● =5%

> Using Market-Product Grids

67

LO1

**WHY SEGMENT MARKETS?
WHEN AND HOW TO SEGMENT MARKETS**

> One-Size-Fits-All Mass Markets No Longer Exist



> One Product and Multiple Market Segments



> Multiple Products and Multiple Market Segments



68

LO1

**Sporting News Baseball Yearbook
What market segmentation strategy is used?**



69

LO1

WHY SEGMENT MARKETS? WHEN AND HOW TO SEGMENT MARKETS

> Segments of One: Mass Customization

- Mass Customization
- Build-to-Order (BTO)



8-10

LO1

WHY SEGMENT MARKETS? WHEN AND HOW TO SEGMENT MARKETS

> The Segmentation Tradeoff: Synergies vs. Cannibalization

- Organizational Synergy
- Cannibalization
- “Tiffany/Walmart” Strategies



8-11

FIGURE 8-3 The five key steps in segmenting and targeting markets that link market needs to a firm’s marketing program



8-12

L02

**STEPS IN SEGMENTING AND TARGETING MARKETS
STEP 1: GROUP POTENTIAL BUYERS INTO SEGMENTS**

> Criteria to Use in Forming the Segments

- Simplicity and Cost-Effectiveness of Assigning Potential Buyers to Segments
- Potential for Increased Profit
- Similarity of Needs of Potential Buyers Within a Segment
- Difference of Needs of Buyers Among Segments
- Potential of a Marketing Action to Reach a Segment

8-13

L03

**STEPS IN SEGMENTING AND TARGETING MARKETS
STEP 1: GROUP POTENTIAL BUYERS INTO SEGMENTS**

> Ways to Segment Consumer Markets

- Geographic Segmentation
- Demographic Segmentation



8-14

L03

**STEPS IN SEGMENTING AND TARGETING MARKETS
STEP 1: GROUP POTENTIAL BUYERS INTO SEGMENTS**

> Ways to Segment Consumer Markets

- Psychographic Segmentation
- Behavioral Segmentation
 - Product Features
 - Usage Rate or Frequency Marketing
 - 80/20 Rule



8-15

LO3

MARKETING MATTERS

To Which "Flock" Do You Belong?



8-16

FIGURE 8-A Segmentation bases, variables, and breakdowns for U.S. consumer markets

Basis of Segmentation	Segmentation Variables	Typical Breakdowns
Geographic	Region	Northeast; Midwest; South; West; etc.
	City size	Under 10,000; 10,000-24,999; 25,000-49,999; 50,000-99,999; etc.
Demographic	Statistical area	Metropolitan and micropolitan statistical areas; Census tract; etc.
	Media-television	210 designated market areas (DMA) in the U.S. (Nielsen)
	Density	Urban; suburban; small town; rural
	Gender	Male; female
Psychographic	Age	Under 6 yrs; 6-11 yrs; 12-17 yrs; 18-24 yrs; 25-34 yrs; etc.
	Race/ethnicity	African American; Asian; Hispanic; White/Caucasian; etc.
	Life stage	Infant; preschool; child; youth; collegiate; adult; senior
	Birth era	Baby boomer (1946-1964); Generation X (1965-1976); etc.
	Household size	1-2; 3-4; 5 or more
	Marital status	Never married; married; separated; divorced; widowed; domestic partner
	Income	Under \$15,000; \$15,000-\$24,999; \$25,000-\$34,999; etc.
	Education	Some high school or less; high school graduate (or GED); etc.
	Occupation	Managerial & professional; technical; sales; farming; etc.
	Behavioral	Personality
Values (VALS 2)		Innovators; Thinkers; Achievers; Experiencers; Believers; Strivers; etc.
Lifestyle (Claritas PRIZM NE)		Blue Blood Estates; Single City Blues; etc. 66 total neighborhood clusters
Needs		Quality; service; price/value; health; convenience; etc.
Behavioral	Outlet type	Department; specialty; outlet; convenience; mass merchandiser; etc.
	Direct	Mail order/catalog; door-to-door; direct response; Internet
	Product features	Situation-specific; general
	Usage rate	Light user; medium user; heavy user
	User status	Nonuser; ex-user; prospect; first-time user; regular user
Awareness/intentions	Unaware; aware; interested; intending to buy; purchaser; rejection	

8-17

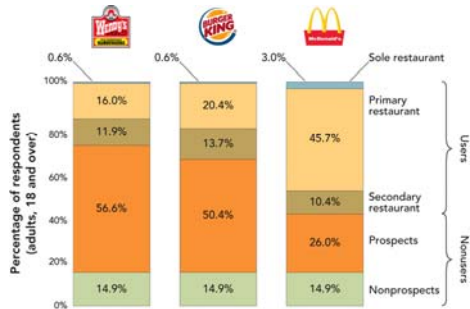
FIGURE 8-B Patronage of fast-food restaurants by adults 18 years and older

User or Nonuser	Specific Segment	Number (1,000s)	Percentage	Actual Consumption (%)	Usage Index Per Person	Importance of Segment
Users	Heavy users (14+ per month)	104,065	46.0%	71.4%	640	
	Medium users (6-13 per month)	64,841	28.6	26.4	380	
	Light users (0-5 per month)	20,561	9.1	2.2	100	
	Total users	189,467	83.7	100.0	—	
Nonusers	Prospects	3,230	1.4	—	—	
	Nonprospects	33,734	14.9	—	—	
Total nonusers	36,964	16.3	—	—	Low	
Total	Users + nonusers	226,431	100.0	—	—	

Source: Experian Simmons Winter 2012 NCS Full Year Adult Survey 12 Month OneView Crosstabulation Report: Based on Visits within the Past 30 Days

8-18

FIGURE 8-4 Comparison of various kinds of users and nonusers for Wendy's, Burger King, and McDonald's fast-food restaurants



Source: Experian Simmons Winter 2012 NCS Full Year Adult Survey 12 Month OneView Crosstabulation Report: Based on Visits within the Past 30 Days

**LO3 STEPS IN SEGMENTING AND TARGETING MARKETS
STEP 1: GROUP POTENTIAL BUYERS INTO SEGMENTS**

> Variables to Use in Forming Segments



- **Students**
 - Dorms, Sororities, & Fraternities
 - Apartments
 - Day Commuters
 - Night Commuters
- **Nonstudents**
 - Faculty & Staff
 - Residents in Area
 - Workers in Area

8-20

**LO3 STEPS IN SEGMENTING AND TARGETING MARKETS
STEP 1: GROUP POTENTIAL BUYERS INTO SEGMENTS**

> Ways to Segment Organizational Markets

- **Geographic Segmentation**
- **Demographic Segmentation**
- **Behavioral Segmentation**




8-21

FIGURE 8-C Segmentation bases, variables, and breakdowns for U.S. organizational markets



Basis of Segmentation	Segmentation Variables	Typical Breakdowns
Geographic	Global region or country Statistical area Density	European Union, South America, etc.; U.S., Japan, India, etc. Metropolitan and micropolitan statistical areas; Census tract; etc. Urban; suburban; small town; rural
Demographic	NAICS code NAICS sector Number of employees Annual Sales	2 digit: Sector; 3 digit: subsector; 4 digit: industry group; etc. Agriculture, forestry (11); mining (21); utilities (22); etc. 1-99; 100-499; 500-999; 1,000-4,999; 5,000 + Under \$1 million; \$1 million-\$9.9 million; \$10 million-\$49.9 million; etc.
Behavioral	Number of locations Kind Where used Application Purchase location Who buys Type of buy	1-9; 10-49; 50-99; 100-499; 500-999; 1,000 + Product; service Installation; component; supplies; etc. Office; production; etc. Centralized; decentralized Individual buyer; group of buyers New buy; modified rebuy; straight rebuy

222

FIGURE 8-5 Wendy's new products and innovations target specific market segments based on a customer's gender, needs, or university affiliation

Wendy's Ad 

MARKET SEGMENT		PRODUCT OR INNOVATION								
GENERAL	GROUP WITH NEED	HOT 'N JUICY HAMBURGERS	DRIVE THRU	FFV SUPER VALUE MEALS	SALAD SENSATIONS	E.FAY	LOW TRANS FAT CHICKEN SANDWICHES	BREAKFAST SANDWICHES	NATURAL CUT FRIES W/ SEA SALT	SHAVE'S HOT 'N JUICY HAMBURGERS
		(1984)	(1976)	(1988)	(2002)	(2003)	(2006)	(2007)	(2010)	(2011)
GENDER	Male	Primary	Primary	Primary	Secondary	Primary	Primary	Primary	Primary	Primary
	Female									
NEEDS	Price/Value			Primary	Secondary					
	Health Conscious						Primary			
	Convenience	Primary			Primary	Primary	Primary	Primary	Primary	
	Meat Lovers	Primary					Primary	Primary	Primary	
UNIVERSITY AFFILIATION	Affiliated (Students, Faculty, Staff)	Primary		Primary	Primary	Primary	Primary	Primary	Primary	Primary
	Non-Affiliated (Residents, Workers)	Primary		Primary	Primary	Primary	Primary	Primary	Primary	Primary










Key:  = Primary market  = Secondary market

223

**LO3 STEPS IN SEGMENTING AND TARGETING MARKETS
STEP 2: GROUP PRODUCTS INTO CATEGORIES**

➤ Individual Wendy's Products 

➤ Groupings of Wendy's Products: Meals

- Breakfast  ?  Dinner  
- Lunch   • After Dinner Snack  
- Between Meal Snack  

224

L04

STEPS IN SEGMENTING AND TARGETING MARKETS
STEP 3: DEVELOP A MARKET-PRODUCT GRID AND ESTIMATE THE SIZE OF MARKETS

- **Forming a Market-Product Grid**
- **Estimating Market Sizes**

MARKETS: TYPE OF SLEEPER	PRODUCTS: TYPE OF PILLOW		
	SOFT PILLOW	MEDIUM PILLOW	FIRM PILLOW
STOMACH SLEEPERS	L	M	S
BACK SLEEPERS	M	L	M
SIDE SLEEPERS	S	M	L

8-25

FIGURE 8-6 Selecting a target market for your Wendy's fast-food restaurant next to an urban university (target market is shaded)

Market Segments	PRODUCTS: MEALS				
	Break-fast	Lunch	Between-Meal Snack	Dinner	After-Dinner Snack
Student					
Dormitory	0	1	3	0	3
Apartment	1	3	3	1	1
Day commuter	0	3	2	1	0
Night commuter	0	0	1	3	2
Nonstudent					
Faculty or staff	0	3	1	1	0
Live in area	0	1	2	2	1
Work in area	1	3	0	1	0

Key: 3 = Large market; 2 = Medium market; 1 = Small market; 0 = No market.

8-26

L04

STEPS IN SEGMENTING AND TARGETING MARKETS
STEP 4: SELECT TARGET MARKETS

- **Criteria to Use in Selecting Target Markets**
 - **Two Types of Criteria**
 - Those That Divide a Market into Segments
 - Those That Actually Pick the Target Segments

8-27

LO4

**STEPS IN SEGMENTING AND TARGETING MARKETS
STEP 4: SELECT TARGET MARKETS**

➤ **Criteria to Use in Selecting Target Markets**

- Market Size
- Expected Growth 
- Competitive Position 
- Cost of Reaching the Segment 
- Compatibility with Organizational Objectives and Resources 

LO4

**STEPS IN SEGMENTING AND TARGETING MARKETS
STEP 4: SELECT TARGET MARKETS**

➤ **Choose the Products & Segments**






- No Breakfast 
- Four Student Segments Only 

LO4

**STEPS IN SEGMENTING AND TARGETING MARKETS
STEP 5: TAKE MARKETING ACTIONS TO REACH TARGET MARKETS**

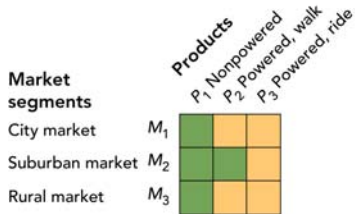
➤ **Immediate Wendy's Segmentation Strategy**

- Day Commuters 
- Between-Meal Snacks 
- Dinners to Night Commuters 

- Keeping an Eye on Competition
- Future Strategies for Wendy's

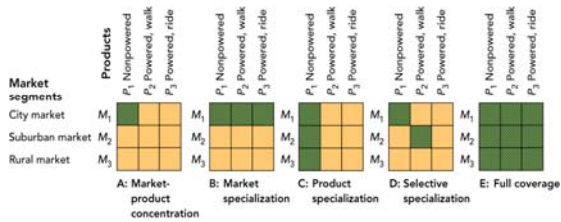
FIGURE 8-E A test of your skills: Where are the synergies?

1. Where are the marketing synergies?
2. Where are the R&D-manufacturing synergies?
3. What is the ideal market-product grid for a merger?



23

FIGURE 8-F Market-product grids show alternative strategies for a lawnmower manufacturer



24

LO4

**STEPS IN SEGMENTING AND TARGETING MARKETS
STEP 5: TAKE MARKETING ACTIONS TO REACH TARGET MARKETS**

- > Market-Product Concentration
- > Market Specialization
- > Product Specialization
- > Selective Specialization
- > Full Coverage



25

LO5

POSITIONING THE PRODUCT

- > **Product Positioning**
- > **Product Repositioning**
- > **Two Approaches to Product Positioning**
 - **Head-to-Head Positioning**
 - **Differentiation Positioning**
- > **Writing a Positioning Statement**

8-27

LO5

POSITIONING THE PRODUCT

- > **Product Positioning w/ Perceptual Maps**
 - **Identify Important Attributes for a Product or Brand Class**
 - **Customers' Ratings of Competing Products or Brands on These Attributes**
 - **Customer's Ratings of the Company's Products or Brands on These Attributes**
 - **Reposition the Company's Products or Brands in the Minds of Consumers**

8-28

LO5

POSITIONING THE PRODUCT

- > **Perceptual Map**
- > **A Perceptual Map to Reposition Chocolate Milk for Adults**



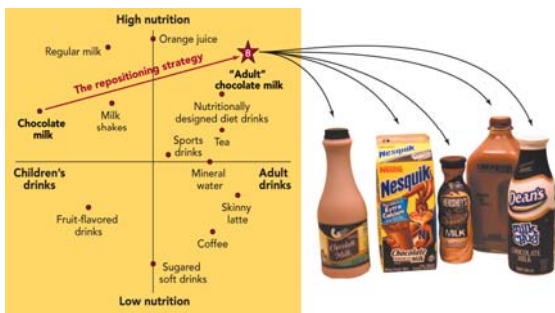
8-29

- **Identify Important Attributes for Adult Drinks**
- **Discover How Adults See Competing Drinks**
- **Discover How Customers See Chocolate Milk**
- **Reposition Chocolate Milk to Make It More Appealing to Adults**

FIGURE 8-G A perceptual map of the location of beverages in the minds of American adults



FIGURE 8-8 The strategy American dairies are using to reposition chocolate milk to reach adults



VIDEO CASE 8

PRINCE SPORTS, INC.: TENNIS RACQUETS FOR EVERY SEGMENT



FIGURE 1 Prince Sports targets racquets at specific market segments

MARKET SEGMENTS			PRODUCT FEATURES IN RACQUET			
MAIN SEGMENTS	SUB SEGMENTS	SEGMENT CHARACTERISTICS (Skill Level, Age)	Brand Name	Length (inches)	Unstrung Weight (ounces)	Head Size (square inches)
PERFORMANCE	Precision	For touring professional players wanting great feel, control, and spin	EXO ³ Ignite 95	27.0	11.8	95
	Thunder	For competitive players wanting a bigger sweet spot and added power	EXO ³ Red 95	27.25	9.9	105
RECREATIONAL	Small Head Size	Players looking for a forgiving racquet with added control	AirO Lightning MP	27.0	9.9	100
	Larger Head Size	Players looking for a larger sweet spot and added power	AirO Maria Lite OS	27.0	9.7	110
JUNIOR	More Experienced Young Player	Ages 8 to 15; somewhat shorter and lighter racquets than those for high school and adult players	AirO Team Maria 23	23.0	8.1	100
	Beginner	Ages 5 to 11; much shorter and lighter racquets; tennis balls with 50% to 75% less speed for young beginners	AirO Team Maria 19	19.0	7.1	82
