Module **2**

Consumer Focused Strategy: Segmentation, Targeting & Positioning

OVERVIEW

Hello once again! Congratulations on successfully completing the first lesson. For you to be able to continue on with this module, you should have completed and understood the lessons in the first module as it is the foundation of this subject. This chapter and all the succeeding ones will be anchored on it. If you feel like there is a need to go back and read the first lesson, please do so; or you may review it from time to time as you move along with this topic. The second module is all about segmentation and positioning, as strategies used in a consumer-focused marketing. As you already know, the overall market is very vast and comprises of individuals or groups of individuals with varying needs, wants, and preferences. On one hand, it is a given that for one to be an effective marketer of its products and services, they should be able to satisfy their customers wants and needs. How then can they be able to offer products and services that will satisfy the needs and wants of the market considering their varying tastes? This is where segmentation and positioning comes in.

LEARNING OUTCOMES

At the end of this lesson, you should be able to:

1. Understand segmentation, target markets, and positioning, and understand why this process is important to marketers
2. Explain how society benefits from market segmentation
3. Describe the factors that influence the determination of a segmentation strategy
4. Discuss various bases of segmentation and illustrate how companies utilize the different bases of segmentation
5. Give examples as to how different product positioning strategies are utilized by companies

2.1 Segmentation, Target Market, and Positioning

Imagine you want to put up a shoe manufacturing business. While you may think this is a simple endeavor as you only have singular product-SHOES!; however there are a lot of considerations to make. What kind of shoes will you make? Will it be for men or women or both? How about the style, color, and materials to use? Will you cater for formal, sporty, or casual? Will your shoes be high-end and exclusive or low-end and affordable? These are just some of the decisions you need to consider in dealing with your shoe business. Now, if you have limitless resources this will not be a problem as you can make all of them and cater to everyone. However, most of the companies, including that of yours have limited resources, so we prioritize. How then can you decide on these considerations? This is where segmentation, target marketing, and positioning come in handy.

Now let's define these terms:

Market segmentation is the process of dividing the large and diverse mass market into subsets of consumers who share common needs, characteristics, or behaviors, and then targeting one or more of those segments with a distinct marketing mix. By identifying groups of highly similar consumers, a marketer can develop products and services specifically tailored to that group's needs that also closely match the capabilities of the organization, thus maximizing the chances of profit and success.

A target market is simply the segment(s) toward which a firm's marketing efforts are directed.

Positioning is the process of communicating with our target market(s) through the use of marketing mix variables—a specific product, price, distribution channel, and promotional appeal—in such a way as to help consumers differentiate a product from competitors and understand how a particular product best satisfies their needs.

A primary aim of organizations operating from a marketing perspective is anticipating and satisfying customer needs and wants. One of the most important ways in which marketers do this efficiently and profitably is through the strategic use of market segmentation and positioning.

Market segmentation allows a company to efficiently focus resources and efforts by avoiding those parts of the market it cannot satisfy well, thereby avoiding unwieldy competition. Given the diverse preferences of consumers today and the myriad products and services available, it is difficult for most companies to be everything to everyone. In addition, when evaluating a market through the segmentation process, a company is able to identify segments that are saturated with strong and powerful competitors, as well as underserved segments that may represent areas of opportunity.

Two Key Assumptions Underlying Market Segmentation:

1. Consumer preferences vary
2. By tailoring a product or service to a segment's specific needs, marketers can make the offering so appealing that the members of the segment are willing to pay a price that offsets the costs associated with catering to the specialized needs of the segment.

Now, using the same example of a shoe manufacturing, let us use the concept of segmentation, target marketing, and positioning. You can segmentize your market by using different measures. Considering the questions we have asked a while ago, we may group our prospect market based on age, gender, their lifestyle, or their income level, even thru their occupation. Now, choosing a particular group of market who share common description is your way of segmentation. Say for example, we chose to cater to athletic type with middle to high income level without considering the age and gender; then that it how we identified our target market. Considering our decision, our target market now, is all those customers who are athletic or sporty who belong to middle or high income level. Thus, it is now clear that the shoes we will be manufacturing would cater to them. Take note that the selection of target market is based on a lot of factors including external environmental factors, competitive situation, the past performance of the company, the internal capability of the company, to name a few. You will now position your company in terms of the product, price, promotional activity, place of marketing and all the other variables of the marketing mix. How you communicate your product to your market is the position you would want your product to be. Say for example, you put emphasis on the quality through technology used, or you focus on the safety features of the shoes, then that is your product position.

Market segmentation and positioning are two of the most important concepts in the study of consumer behavior and in marketing, because consumers today have more product categories from which to choose and more choices within those categories. Marketers conduct a great deal of ***consumer research*** to identify appropriate bases for market segmentation, select appropriate target markets, and develop effective positioning and marketing mix execution strategies.

2.1 How Consumers and Society Benefit from Market Segmentation

Through market segmentation a firm offers products and services specifically tailored to the needs and wants of consumers within a specific segment. While this implies an obvious benefit to consumers, namely having their specific needs catered to, other benefits to consumers and to society may not be so obvious.

These are some of the benefits of market segmentation:

1. By committing efforts and resources on market segmentation, consumers no longer have to receive and evaluate marketing information that is irrelevant or unwanted. This reduces consumers' time spent in search, evaluation, and purchase activities
2. Companies can tailor offerings and messages to their benefit and the benefit of consumers and society.

For example:

A married, suburban, stay-at-home mom doesn't need or desire to receive direct-mail containing an offer for an urban nightclub's rapid dating service any more than a young, urban, single, living in an apartment, needs or wants a telemarketer calling and offering lawn and landscaping services.

Imagine for a moment that marketers never discovered the efficiencies of dividing consumers into segments and targeting those segments. Most consumers are so accustomed to this marketing practice that such a scenario is hard to imagine. But, if the process of market segmentation did not exist, consumers' lives would probably be very different. For instance, imagine getting pizza coupons in the mail from a pizza parlor in Rome, Italy. Or, imagine a telemarketer calling you and attempting to sell you industrial lubricant for your large industrial drill press—you don't have a large industrial drill press in your dorm room or apartment?

How are you doing so far? I hope you can now be able to explain and differentiate the concepts of segmentation, target marketing, and positioning, as well as appreciate their importance. Let us pause with the lessons for a while and take time in answering the following assessment.

ASSESSMENT 2.1

Answer the following:

1. Explain through your own words or by using an example what segmentation, target market, and positioning is
2. In your personal experience as a customer, how has market segmentation benefitted

Were you able to answer all the questions? If so, let's proceed with the rest of the lesson

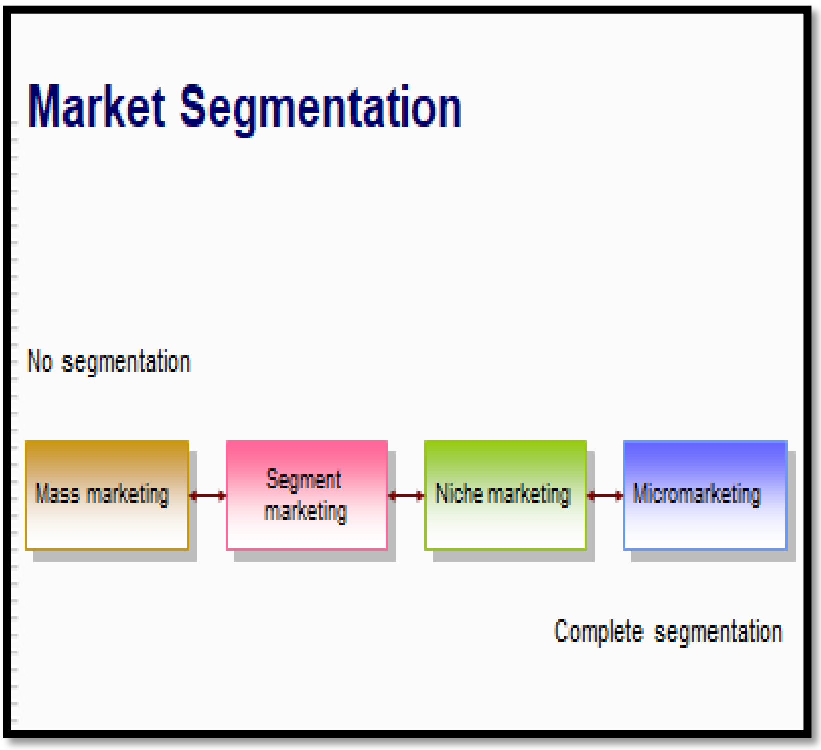
2.3 Factors Influencing Market Segmentation Strategies

Market segmentation is a multi-product strategy: different products are developed for different subcategories. For example, Pepsi Cola markets Pepsi, Diet Pepsi, Pepsi Max, Diet Pepsi Lime, and Caffeine Free Pepsi Wild Cherry Pepsi and Pepsi One to different market segments.

Before we proceed, take note of this term first:

Market aggregation is the opposite of market segmentation—a single-product, one-size-fits-all strategy in which individual differences among consumers are ignored.

Now, let us take note of the following market segmentation strategies:

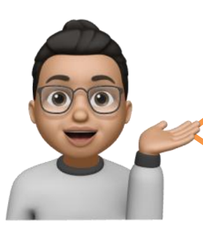


- ***Mass Marketing*** is done when a company chooses not to target specific segments, but rather, pursues an aggregation strategy, offering the same product and marketing mix to all consumers

- Opposite of mass marketing, a firm may choose to market one-to-one with a customer, a strategy also called ***micromarketing***

- ***Niche Marketing*** is when a firm chooses to market to a particular niche, or a small portion of the market segment

- ***Segment Marketing*** is when a firm chooses to market products or services to a particular market segment



Given that there are several ways with which the company may do market segmentation, the question now is when should a firm pursue a specific market segmentation strategy, what specific strategy will they opt for, and how will they choose among these strategies? The best answer follows from four main considerations: ***consumer preference heterogeneity, the majority fallacy, the sales-cost trade-off, and the potential for cannibalization.*** What are these four main considerations? Let's discuss them one-by-one.

Consumer preference heterogeneity is the most important consideration related to market segmentation, it is the extent to which tastes and preferences differ among consumers.

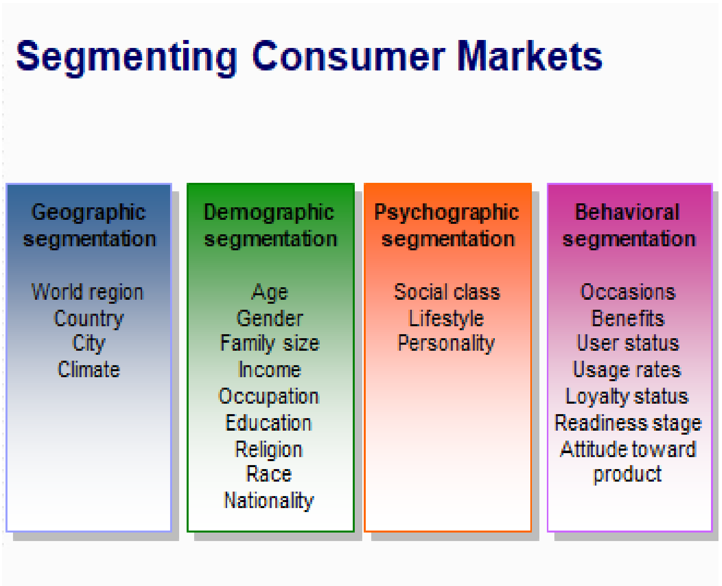
Because it is logical to assume that size of the potential market segment is positively correlated to profit, it is often easy for a company to focus exclusively on large average segments, where the majority of customer preferences lie, and neglect smaller less typical segments. This tendency is called ***the majority fallacy***; pursuing the majority segment is considered a "fallacy" because the largest segment, where competition tends to be most intense, is not always the most profitable. Smaller segments can actually be more profitable when there is less competition

Sales-cost trade-off recognizes that, as market segmentation increases, sales increase because a firm's offerings align more closely to consumers' preferences. But at the same time, costs also increase because a multi-product strategy costs more to implement than a one-product strategy.

Cannibalization occurs when products offered by the same firm are so similar that they compete among themselves, thus creating a case of oversegmentation.

2.4 Bases for Market Segmentation

Segmentation of market can be done based on the following bases:



- In ***geographic based segmentation***, marketers split the market based on physical location of potential customers. An underlying assumption of this market segmentation base is that consumers located in geographic proximity share similar needs and preferences for products and services. Boundaries defined by zip code districts, towns, cities, states, regions, countries, and continents might indeed be useful to a company.

- ***Demographic segmentation*** includes categorization based on age, gender, income, education, occupation, social class, marital status, household size, family life cycle, and culture or ethnicity. Demographics-based segmentation is the most popular segmentation base because demographic characteristics are visible, relatively easy and inexpensive to measure

- **Psychographic segmentation** uses measurement of lifestyle, often combined with measures of attitudes, beliefs, and personalities. Lifestyle, which is simply how we live, is traditionally defined in terms of a person's activities (how they spend their time doing things such as volunteer work, vacationing, and exercising), interests (what they consider important or value in life such as home, recreation, and family), and opinions (how they feel about the world around them such political, religious, and social beliefs).

- **Behavioral-based segmentation** groups consumers based on their preference for a particular product attribute or benefit, usage occasion, user status, rate of product usage, and loyalty status.

How are you doing so far? Were you able to differentiate the various bases in the conduct of segmentation? To help you understand more about the concept, answer the following assessment.

ASSESSMENT TASK 2.2

Using the internet or other resources, research on examples of companies and how they used the different bases of segmentation. Be able to pinpoint the specific basis of segmentation used and present how segmentation was conducted. Put emphasis on the products they have offered as a result of market segmentation. One example should be given for each basis. An example is given below:

Note: you may use a different style of presentation and not strictly follow the example

Example:

Demographic Segmentation

Nissan offers a variety of car models based on several market segments depending on income level and family size.

Psychographic Segmentation

Using the same example also shows that Nissan based their segmentation on psychographics. The different car models shows the different personality and lifestyles of the users**.**

Were you able to answer the assessment? Good job! Now let's proceed with the next topic which is on product positioning.

2.5 Product Positioning

The previous sections have detailed the various segmentation bases by which consumers can be divided, clustered, and targeted. So far, we've explained why it's important for marketers to identify individual customer segments, i.e., the "divide" portion of the divide and conquer strategy. Next, we describe the "conquer" portion of the strategy, namely positioning.

Now take note of this:

Positioning is the process of communicating with target market(s) in such a way as to help consumers differentiate the firm's product from other products and understand how the product can specifically satisfy their needs and wants. Sometimes marketers use terms like value proposition or "The Big Idea!" to describe a brand, product, or company's specific positioning strategy within the market.

According to positioning experts Reis and Trout, the "position" of a product is the place the product occupies in the customers' minds, relative to the competitor's products. What is important about this definition is:

1. a firm must always position in terms of the competition,
2. is not something a marketer does to a product, it's actually something that happens in the mind of the prospect as a result of the brand messages and communication that the marketer provides.

2.5.1 Positioning as a Leader or a Follower

Some brands have the distinction of being the first brand to enter and define a market. These brands are referred to as ***pioneering brands***. Research has shown that pioneering brands have an advantage in the market for a number of reasons.

1. they are novel and interesting; thus, consumers tend to pay much more attention to them than to redundant, copycat brands;
2. when a new product category is created, consumers are typically unsure of their preferences. When this is the case, the combination of features and benefits associated with the pioneering brand seems especially useful, so much so that the pioneer actually sets the ideal points for the category in terms of product features and benefit;
3. when follower brands are introduced, consumers tend to compare follower brands with the pioneer but not vice versa, and consequently, the pioneer seems unique and special while followers seem like pale imitations.

How do firms market a product that isn't the pioneering brand? One strategy for positioning a ***follower brand*** is to separate the brand from the leader by creating what appears to the customer as a new product category. For example, Pepsi has been very successful competing against Coca Cola by positioning itself as a hipper, trendier brand for a new generation.

2.5.2 Positioning Linked to Segmentation Bases

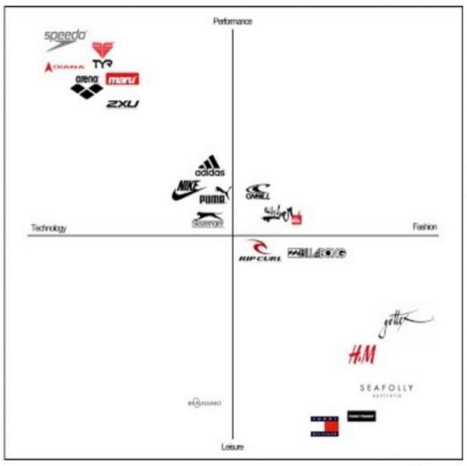
- ✓ ***Positioning by Core Benefit***. One popular strategy employs a core benefit proposition, which relies on a single attribute or benefit that differentiates the brand from competitors' offerings. When positioning with a core benefit, the proposition should be short and easy to remember, and should sharply differentiate the product from competing brands. In others words, the benefit should be exclusively associated with the brand and strongly held in the consumers' minds. For example, Volvo is safety; Federal Express is overnight; Brawny Paper Towels are strong; and Subway is fresh**.**

- ✓ ***Positioning by Price.*** Sometimes it is difficult to focus on a core benefit. Perhaps a competitor already is known for a key benefit; or perhaps a firm's core benefit is complicated and difficult to communicate to the consumer. Price is an alternative attribute. It is easy to understand and communicate, and it is important to most consumers because they consistently use price as a gauge of quality— "You get what you pay for." The assumption that there is a strong relationship between price and quality leads consumers to infer that high price signals high quality. ***This is called the price-quality heuristic***. Communicating price differences among brands to consumers translates into perceived quality differences. Pricing lower than competitors' brands is a strategy often used by store brands, such as Kmart brands, Kroger brands, and so on. These brands typically promote the store brand as being the same as the name brand, simply lower in price. Moreover, retailers can highlight price differences easily by placing store brands next to name brands on the store shelf. Walmart is the most well-known low-price positioned company in history. It sets prices up to 10% less than competitors in many areas.

- ✓ ***Positioning by Product Usage Situation.*** Product usage strategy focuses on when or how a product is purchased and consumed. Promotion that builds a strong association between a particular brand and a particular usage situation leads consumers to think of that brand whenever the situation arises. For example, Campbell's soup is predominantly positioned for use at lunchtime (this strategy dates back to days when schoolchildren came home for lunch). Gatorade is positioned as good for replacing bodily fluids lost during vigorous exercise and participation in sporting activities.

- ✓ ***Positioning by Product User***. Sometimes it is useful for marketers to identify their brand with the user of the product. To do so, marketers use either "real-life" representations—Secret Deodorant is "strong enough for a man but made for a woman," for instance—or through characters that are archetypes (typical, ideal, or classic examples) of the user.

Here are some examples:



Bear in mind that in product positioning, the key for the companies is to effectively communicate how they would want their customers to perceive their products. Brand positioning is closely associated with segmentation and targeting, as you have seen in the discussion above the result of market segmentation and the target market you have chosen can form as basis for positioning your brand. Also, positioning as a leader may have advantages, it does not always follow that every product or brand the company has should be positioned as such; in certain cases, being a brand follower is more fitting to your product or brand.

Now let us see if you have understood brand positioning by answering the following assessment.

ASSESSMENT TASK 2.3

Give examples of companies and their products for each of the following bases of brand positioning:

1. Positioning by core benefit
2. Positioning by Price
3. Positioning by Product Usage Situation
4. Positioning by Product User

I hope you were able to fully grasp the concepts of market segmentation, targeting, and positioning and appreciate its relevance in understanding consumer behavior. If you have further questions please do not hesitate to message me, otherwise, after taking a break for some time, be ready and let's proceed with the next topic.

KEY TERMS

market segmentation	target market	positioning
consumer preference	heterogeneity	majority fallacy
sale-costs trade-off	cannibalization	demographic characteristics
geographic based segmentation	geo-demographic segmentation	psychographics
behavior based segmentation	core benefit proposition	premium pricing

SUMMARY

One of the most important ways in which marketers discover and satisfy customer needs and wants efficiently is through the divide and conquer process of market segmentation and positioning. Market Segmentation is the process of dividing the large and diverse mass market into subsets of consumers who share common needs, characteristics, or behaviors, and targeting one or more of those segments with a distinct marketing mix. By identifying groups of highly similar consumers, a marketer is able to develop products and services specifically tailored to that group's needs that also closely match the capabilities of the organization, thus maximizing the chances of profit and success. Marketers make two underlying assumptions related to market segmentation: first, consumer preferences vary, and second, by tailoring a product or service to a segment's needs, firms can make the offering so appealing that segment members are willing to pay a price that offsets the higher associated costs. In addition to these assumptions, four factors influence a company's market segmentation strategy: consumer preference heterogeneity (the idea that consumer preferences vary), the majority fallacy (the risk of focusing on large average segments and neglecting smaller, less typical segments), the sales-cost trade-off (the fact that market segmentation increases sales and cost simultaneously), and potential for cannibalization (the case in which different products offered by the same company are so similar they compete with each other).

Bases of segmentation include demographic, geographic, psychographic, attributes/benefits, and behavioral. Demographic based segmentation divides customers along vital population statistics. In geographic based segmentation, the market is divided based on physical location of potential customers. Psychographic based segmentation centers on customers' lifestyles. Behavioral based segmentation includes segmenting consumers based on consumer preference for a particular product attribute or benefit, usage occasion, user status, rate of product usage, and loyalty status. Positioning is the process of communicating with our target market(s) through the use of marketing mix variables to help consumers differentiate our product from others and perceive how our product best satisfies their needs. Sometimes marketers use terms like value proposition or "The Big Idea" to describe a brand, product, or positioning strategy. Like the bases of segmentation, there are several strategies companies use to position their products. The best positioning strategy depends on the characteristics of our product, market segmentation bases used, the competition, and the type of mental associations we want consumers to form. If our brand is the pioneer, we should emphasize this in our promotion. If our brand is markedly different on a single easy-to-communicate and important dimension, a single core benefit proposition should be used. If our brand is highly similar to competitors' offerings or difficult to differentiate, we may by be able to differentiate anyway via price, usage situation, or user.

REFERENCES

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Armstrong, G. & Kotler, P. ( ). ***Marketing: An Introduction***.