

Segmentation and Product Differentiation Strategies

Market segmentation divides a market into well-defined slices. A market segment consists of a group of customers who share a similar set of needs and wants. The marketer's task is to identify the appropriate number and nature of market segments and decide which one(s) to target.

Two broad groups of variables are used to segment consumer markets. Some researchers define segments by looking at descriptive characteristics—geographic, demographic, and psychographic—and asking whether these segments exhibit different needs or product responses. For example, they might examine the differing attitudes of “professionals,” “blue collars,” and other groups toward, say, “safety” as a product benefit.

Other researchers define segments by looking at behavioral considerations, such as consumer responses to benefits, usage occasions, or brands, then seeing whether different characteristics are associated with each consumer response segment. For example, do people who want “quality” rather than “low price” in an automobile differ in their geographic, demographic, and/or psychographic makeup?

TABLE 9.1

Major Segmentation Variables for Consumer Markets

Geographic region	Pacific Mountain, West North Central, West South Central, East North Central, East South Central, South Atlantic, Middle Atlantic, New England
City or metro size	Under 5,000; 5,000–20,000; 20,000–50,000; 50,000–100,000; 100,000–250,000; 250,000–500,000; 500,000–1,000,000; 1,000,000–4,000,000; 4,000,000+
Density	Urban, suburban, rural
Climate	Northern, southern
Demographic age	Under 6, 6–11, 12–17, 18–34, 35–49, 50–64, 64+
Family size	1–2, 3–4, 5+
Family life cycle	Young, single; young, married, no children; young, married, youngest child under 6; young, married, youngest child 6 or older; older, married, with children; older, married, no children under 18; older, single; other
Gender	Male, female
Income	Under \$10,000; \$10,000–\$15,000; \$15,000–\$20,000; \$20,000–\$30,000; \$30,000–\$50,000; \$50,000–\$100,000; \$100,000+
Occupation	Professional and technical; managers, officials, and proprietors; clerical sales; craftspeople; forepersons; operatives; farmers; retired; students; homemakers; unemployed
Education	Grade school or less; some high school; high school graduate; some college; college graduate; post college
Religion	Catholic, Protestant, Jewish, Muslim, Hindu, other
Race	White, Black, Asian, Hispanic, Other
Generation	Silent Generation, Baby Boomers, Gen X, Millennials (Gen Y)
Nationality	North American, Latin American, British, French, German, Italian, Chinese, Indian, Japanese
Social class	Lower lowers, upper lowers, working class, middle class, upper middles, lower uppers, upper uppers
Psychographic lifestyle	Culture-oriented, sports-oriented, outdoor-oriented
Personality	Compulsive, gregarious, authoritarian, ambitious
Behavioral occasions	Regular occasion, special occasion
Benefits	Quality, service, economy, speed
User status	Nonuser, ex-user, potential user, first-time user, regular user
Usage rate	Light user, medium user, heavy user
Loyalty status	None, medium, strong, absolute
Readiness stage	Unaware, aware, informed interested, desirous, intending to buy
Attitude toward product	Enthusiastic, positive, indifferent, negative, hostile

Geographic Segmentation

Geographic segmentation divides the market into geographical units such as nations, states, regions, counties, cities, or neighborhoods. The company can operate in one or a few areas, or it can operate in all but pay attention to local variations. In that way it can tailor marketing programs to the needs and wants of local customer groups in trading areas, neighborhoods, even individual stores. In a growing trend called grassroots marketing, marketers concentrate on making such activities as personally relevant to individual customers as possible.



Demographic Segmentation

One reason demographic variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality, and social class are so popular with marketers is that they're often associated with consumer needs and wants. Another is that they're easy to measure. Even when we describe the target market in non-demographic terms (say, by personality type), we may need the link back to demographic characteristics in order to estimate the size of the market and the media we should use to reach it efficiently.

Age and Life-Cycle Stage: Consumer wants and abilities change with age. Toothpaste brands such as Colgate offer three main lines of products to target kids, adults, and older consumers. Age segmentation can be even more refined. Pampers divides its market into prenatal, new baby (0–5 months), baby (6–12 months), toddler (13–23 months), and preschooler (24 months+).

Gender: Men and women have different attitudes and behave differently, based partly on genetic makeup and partly on socialization. Research shows that women have traditionally tended to be more communal-minded and men more self-expressive and goal-directed; women have tended to take in more of the data in their immediate environment and men to focus on the part of the environment that helps them achieve a goal.

A research study of shopping found that men often need to be invited to touch a product, whereas women are likely to pick it up without prompting. Men often like to read product information; women may relate to a product on a more personal level.



Income: Income segmentation is a long-standing practice in such categories as automobiles, clothing, cosmetics, financial services, and travel. However, income does not always predict the best customers for a given product. Blue-collar workers were among the first purchasers of color television sets; it was cheaper for them to buy a television than to go to movies and restaurants.





1kg= ₹73



1kg= ₹100



1kg= ₹124

Generation: Each generation or cohort is profoundly influenced by the times in which it grows up—the music, movies, politics, and defining events of that period. Members share the same major cultural, political, and economic experiences and often have similar outlooks and values. Marketers may choose to advertise to a cohort by using the icons and images prominent in its experiences. They can also try to develop products and services that uniquely meet the particular interests or needs of a generational target.



GAP



FOX



iHeart
RADIO

MUSIC
AWARDS

19

R

ADI

Ti

F

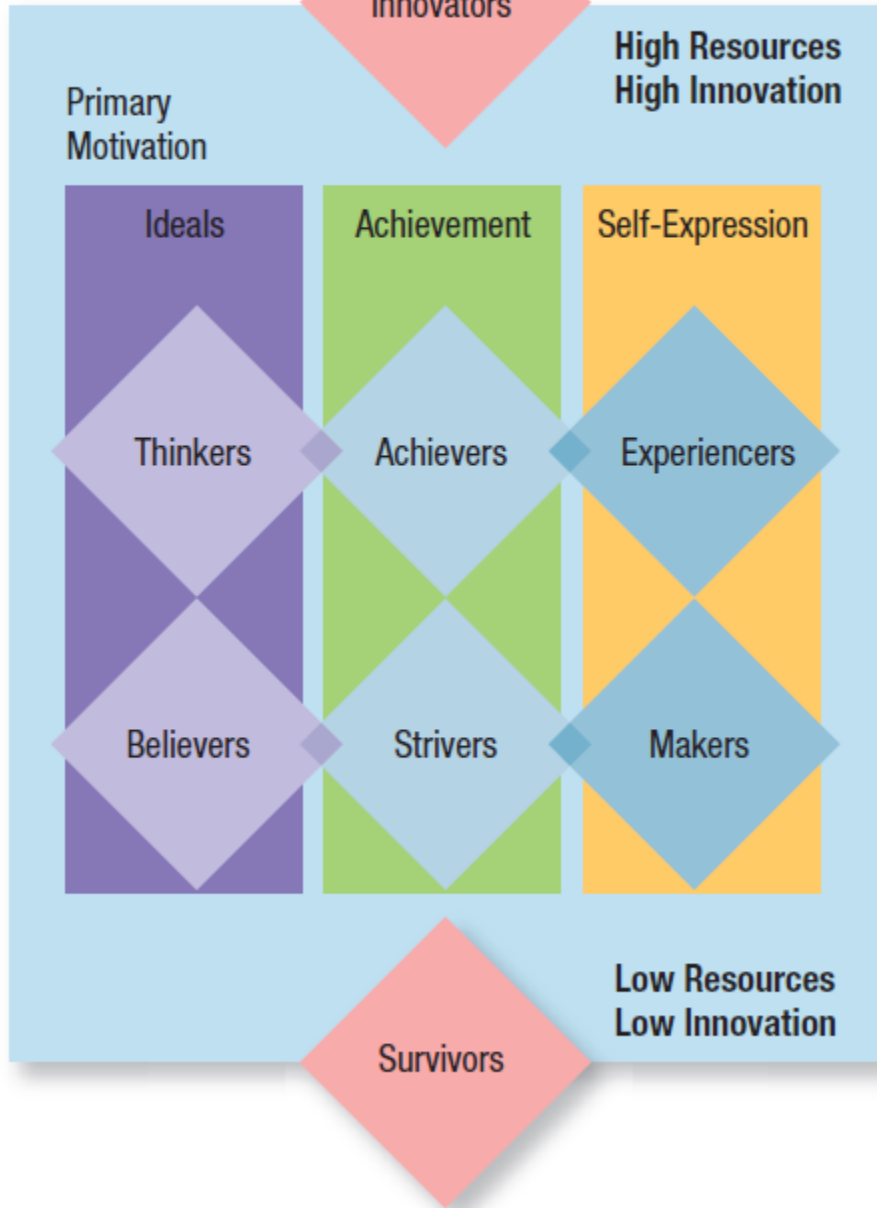


Psychographic Segmentation

Psychographics is the science of using psychology and demographics to better understand consumers. In psychographic segmentation, buyers are divided into groups on the basis of psychological/personality traits, lifestyle, or values. People within the same demographic group can exhibit very different psychographic profiles.

The main dimensions of the VALS segmentation framework are consumer motivation (the horizontal dimension) and consumer resources (the vertical dimension). Consumers are inspired by one of three primary motivations: ideals, achievement, and self-expression. Those primarily motivated by ideals are guided by knowledge and principles. Those motivated by achievement look for products and services that demonstrate success to their peers. Consumers whose motivation is self-expression desire social or physical activity, variety, and risk. Personality traits such as energy, self-confidence, intellectualism, novelty seeking, innovativeness, impulsiveness, leadership, and vanity—in conjunction with key demographics—determine an individual's resources. Different levels of resources enhance or constrain a person's expression of his or her primary motivation.

US VALS Framework



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Behavioural Segmentation

Although psychographic segmentation can provide a richer understanding of consumers, some marketers fault it for being somewhat removed from actual consumer behavior.⁶⁰ In behavioral segmentation, marketers divide buyers into groups on the basis of their knowledge of, attitude toward, use of, or response to a product.

Needs and Benefits- Not everyone who buys a product has the same needs or wants the same benefits from it. Needs-based or benefit-based segmentation identifies distinct market segments with clear marketing implications.

Decision Roles- It's easy to identify the buyer for many products. In the United States, men normally choose their shaving equipment, but even here marketers must be careful in making targeting decisions because buying roles change. When ICI, the giant British chemical company now called AkzoNobe, discovered that women made 60 percent of decisions on the brand of household paint, it decided to advertise its Dulux brand to women.

People play five roles in a buying decision: Initiator, Influencer, Decider, Buyer, and User.

TABLE 9.5**Major Segmentation Variables for Business Markets*****Demographic***

1. *Industry:* Which industries should we serve?
2. *Company size:* What size companies should we serve?
3. *Location:* What geographical areas should we serve?

Operating Variables

4. *Technology:* What customer technologies should we focus on?
5. *User or nonuser status:* Should we serve heavy users, medium users, light users, or nonusers?
6. *Customer capabilities:* Should we serve customers needing many or few services?

Purchasing Approaches

7. *Purchasing-function organization:* Should we serve companies with a highly centralized or decentralized purchasing organization?
8. *Power structure:* Should we serve companies that are engineering dominated, financially dominated, and so on?
9. *Nature of existing relationship:* Should we serve companies with which we have strong relationships or simply go after the most desirable companies?
10. *General purchasing policies:* Should we serve companies that prefer leasing? Service contract? Systems purchases? Sealed bidding?
11. *Purchasing criteria:* Should we serve companies that are seeking quality? Service? Price?

Situational Factors

12. *Urgency:* Should we serve companies that need quick and sudden delivery or service?
13. *Specific application:* Should we focus on a certain application of our product rather than all applications?
14. *Size or order:* Should we focus on large or small orders?

Personal Characteristics

15. *Buyer-seller similarity:* Should we serve companies whose people and values are similar to ours?
16. *Attitude toward risk:* Should we serve risk-taking or risk-avoiding customers?
17. *Loyalty:* Should we serve companies that show high loyalty to their suppliers?

Market Targeting

There are many statistical techniques for developing market segments.⁶⁵ Once the firm has identified its market segment opportunities, it must decide how many and which ones to target. Marketers are increasingly combining several variables in an effort to identify smaller, better-defined target groups. Thus, a bank may not only identify a group of wealthy retired adults but within that group distinguish several segments depending on current income, assets, savings, and risk preferences. This has led some market researchers to advocate a needs-based market segmentation approach.

TABLE 9.6

Steps in the Segmentation Process

	Description
1. Needs-Based Segmentation	Group customers into segments based on similar needs and benefits sought by customers in solving a particular consumption problem.
2. Segment Identification	For each needs-based segment, determine which demographics, lifestyles, and usage behaviors make the segment distinct and identifiable (actionable).
3. Segment Attractiveness	Using predetermined segment attractiveness criteria (such as market growth, competitive intensity, and market access), determine the overall attractiveness of each segment.
4. Segment Profitability	Determine segment profitability.
5. Segment Positioning	For each segment, create a “value proposition” and product-price positioning strategy based on that segment’s unique customer needs and characteristics.
6. Segment “Acid Test”	Create “segment storyboard” to test the attractiveness of each segment’s positioning strategy.
7. Marketing-Mix Strategy	Expand segment positioning strategy to include all aspects of the marketing mix: product, price, promotion, and place.

Effective Segmentation Criteria

Not all segmentation schemes are useful. We could divide buyers of table salt into blond and brunette customers, but hair color is undoubtedly irrelevant to the purchase of salt. Furthermore, if all salt buyers buy the same amount of salt each month, believe all salt is the same, and would pay only one price for salt, this market is minimally segmentable from a marketing point of view.

To be useful, market segments must rate favorably on five key criteria:

- **Measurable:** The size, purchasing power, and characteristics of the segments can be measured.
- **Substantial:** The segments are large and profitable enough to serve. A segment should be the largest possible homogeneous group worth going after with a tailored marketing program. It would not pay, for example, for an automobile manufacturer to develop cars for people who are under four feet tall.
- **Accessible:** The segments can be effectively reached and served.
- **Differentiable:** The segments are conceptually distinguishable and respond differently to different marketing mix elements and programs. If married and single women respond similarly to a sale on perfume, they do not constitute separate segments.
- **Actionable:** Effective programs can be formulated for attracting and serving the segments.

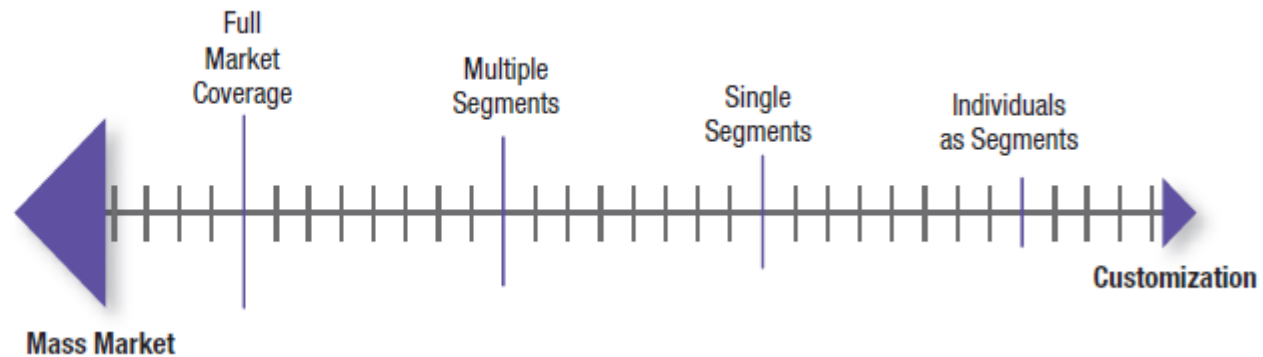
Evaluating and Selecting the Market Segments

In evaluating market segments, the firm must look at two factors: the segment's overall attractiveness and the company's objectives and resources. How well does a potential segment score on the five criteria? Does it have characteristics that make it generally attractive, such as size, growth, profitability, scale economies, and low risk? Does investing in it make sense given the firm's objectives, competencies, and resources? Some attractive segments may not mesh with the company's long-run objectives, or the company may lack one or more competencies necessary to offer superior value.

Marketers have a range or continuum of possible levels of segmentation that can guide their target market decisions. As Figure 9.4 shows, at one end is a mass market of essentially one segment; at the other are individuals or segments of one person each. Between lie multiple segments and single segments. We describe approaches to each of the four levels next.

| Fig. 9.4 |

Possible
Levels of
Segmentation



Full Market Coverage: With full market coverage, a firm attempts to serve all customer groups with all the products they might need. Only very large firms such as Microsoft (software market), General Motors (vehicle market), and Coca-Cola (nonalcoholic beverage market) can undertake a full market coverage strategy. Large firms can cover a whole market in two broad ways: through differentiated or undifferentiated marketing.

Multiple Segment Specialization: With selective specialization, a firm selects a subset of all the possible segments, each objectively attractive and appropriate. There may be little or no synergy among the segments, but each promises to be a moneymaker. The multisegment strategy also has the advantage of diversifying the firm's risk.

Single-Segment Concentration: With single-segment concentration, the firm markets to only one particular segment. Porsche concentrates on the sports car enthusiast and Volkswagen on the small-car market—its foray into the large-car market with the Phaeton was a failure in the United States. Through concentrated marketing, the firm gains deep knowledge of the segment’s needs and achieves a strong market presence. It also enjoys operating economies by specializing its production, distribution, and promotion. If it captures segment leadership, the firm can earn a high return on its investment.

Individual Marketing: The ultimate level of segmentation leads to “segments of one,” “customized marketing,” or “one-to-one marketing.” As companies have grown proficient at gathering information about individual customers and business partners (suppliers, distributors, retailers), and as their factories are being designed more flexibly, they have increased their ability to individualize market offerings, messages, and media. Mass customization is the ability of a company to meet each customer’s requirements—to prepare on a mass basis individually designed products, services, programs, and communications.

Understanding Positioning and Value Propositions

Positioning is the act of designing a company's offering and image to occupy a distinctive place in the minds of the target market. The goal is to locate the brand in the minds of consumers to maximize the potential benefit to the firm. A good brand positioning helps guide marketing strategy by clarifying the brand's essence, identifying the goals it helps the consumer achieve, and showing how it does so in a unique way. Everyone in the organization should understand the brand positioning and use it as context for making decisions.

One result of positioning is the successful creation of a customer-focused value proposition, a cogent reason why the target market should buy a product or service.

TABLE 10.1 Examples of Value Propositions		
Company and Product	Target Customers	Value Proposition
Hertz (car rental)	Busy professionals	Fast, convenient way to rent the right type of a car at an airport
Volvo (station wagon)	Safety-conscious upscale families	The safest, most durable wagon in which your family can ride
Domino's (pizza)	Convenience-minded pizza lovers	A delicious hot pizza, delivered promptly to your door

Positioning requires that marketers define and communicate similarities and differences between their brand and its competitors. Specifically, deciding on a positioning requires:

- (1) choosing a frame of reference by identifying the target market and relevant competition,
- (2) identifying the optimal points-of-parity and points-of-difference brand associations given that frame of reference, and
- (3) creating a brand mantra summarizing the positioning and essence of the brand.

Choosing a Competitive Frame of Reference

The competitive frame of reference defines which other brands a brand competes with and which should thus be the focus of competitive analysis. Decisions about the competitive frame of reference are closely linked to target market decisions. Deciding to target a certain type of consumer can define the nature of competition because certain firms have decided to target that segment in the past (or plan to do so in the future) or because consumers in that segment may already look to certain products or brands in their purchase decisions.

Identifying Potential Points-of-Difference and Points-of-Parity

Once marketers have fixed the competitive frame of reference for positioning by defining the customer target market and the nature of the competition, they can define the appropriate points-of-difference and points-of-parity associations.

Points-of-Difference

Points-of-difference (PODs) are attributes or benefits that consumers strongly associate with a brand, positively evaluate, and believe they could not find to the same extent with a competitive brand. Associations that make up points-of-difference can be based on virtually any type of attribute or benefit. Louis Vuitton may seek a point-of-difference as having the most stylish handbags, Energizer as having the longest-lasting battery, and Fidelity Investments as offering the best financial advice and planning.

Strong brands often have multiple points-of-difference. Some examples are Apple (design, ease-of-use, and irreverent attitude), Nike (performance, innovative technology, and winning), and Southwest Airlines (value, reliability, and fun personality).

Creating strong, favorable, and unique associations is a real challenge, but an essential one for competitive brand positioning.

Points-of-Parity

Points-of-parity (POPs), on the other hand, are attribute or benefit associations that are not necessarily unique to the brand but may in fact be shared with other brands. These types of associations come in three basic forms: category, correlational, and competitive.

Category points-of-parity are attributes or benefits that consumers view as essential to a legitimate and credible offering within a certain product or service category. In other words, they represent necessary—but not sufficient—conditions for brand choice. Consumers might not consider a travel agency truly a travel agency unless it is able to make air and hotel reservations, provide advice about leisure packages, and offer various ticket payment and delivery options. Category points-of-parity may change over time due to technological advances, legal developments, or consumer trends, but to use a golfing analogy, they are the “greens fees” necessary to play the marketing game.

Competitive points-of-parity are associations designed to overcome perceived weaknesses of the brand in light of competitors’ points-of-difference. One good way to uncover key competitive points-of-parity is to role-play competitors’ positioning and infer their intended points-of-difference. Competitor’s PODs will, in turn, suggest the brand’s POPs.

Points-of-Parity Versus Points-of-Difference

For an offering to achieve a point-of-parity on a particular attribute or benefit, a sufficient number of consumers must believe the brand is “good enough” on that dimension. There is a zone or range of tolerance or acceptance with points-of-parity. The brand does not literally need to be seen as equal to competitors, but consumers must feel it does well enough on that particular attribute or benefit. If they do, they may be willing to base their evaluations and decisions on other factors more favorable to the brand. A light beer presumably would never taste as good as a full-strength beer, but it would need to taste close enough to be able to effectively compete.

Often, the key to positioning is not so much achieving a point-of-difference as achieving points-of-parity!

Multiple Frames of Reference

It is not uncommon for a brand to identify more than one actual or potential competitive frame of reference, if competition widens or the firm plans to expand into new categories.

For example, Starbucks could define very distinct sets of competitors, suggesting different possible POPs and PODs as a result:

1. Quick-serve restaurants and convenience shops (McDonald's and Dunkin' Donuts)—Intended PODs might be quality, image, experience, and variety; intended POPs might be convenience and value.
2. Home and office consumption (Folgers, NESCAFÉ instant, and Green Mountain Coffee K-Cups)—Intended PODs might be quality, image, experience, variety, and freshness; intended POPs might be convenience and value.
3. Local cafés—Intended PODs might be convenience and service quality; intended POPs might be product quality, variety, price, and community.

Note that some potential POPs and PODs for Starbucks are shared across competitors; others are unique to a particular competitor.

Straddle Positioning

Occasionally, a company will be able to straddle two frames of reference with one set of points-of-difference and points-of-parity. In these cases, the points-of-difference for one category become points-of-parity for the other and vice versa. Subway restaurants are positioned as offering healthy, good tasting sandwiches. This positioning allows the brand to create a POP on taste and a POD on health with respect to quick-serve restaurants such as McDonald's and Burger King and, at the same time, a POP on health and a POD on taste with respect to health food restaurants and cafés.

Straddle positions allow brands to expand their market coverage and potential customer base.

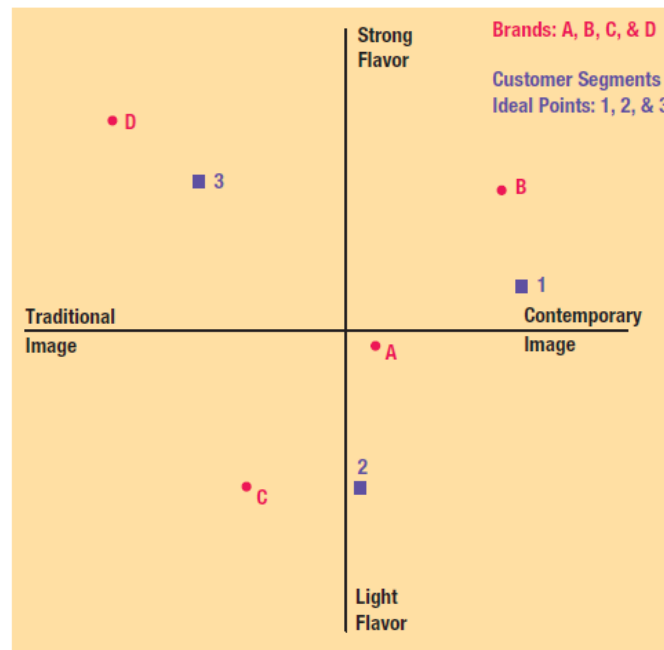
Choosing Specific POPs and PODs

To build a strong brand and avoid the commodity trap, marketers must start with the belief that you can differentiate anything. Michael Porter urged companies to build a sustainable competitive advantage. Competitive advantage is a company's ability to perform in one or more ways that competitors cannot or will not match.

Marketers typically focus on brand benefits in choosing the points-of-parity and points-of-difference that make up their brand positioning. Brand attributes generally play more of a supporting role by providing “reasons to believe” or “proof points” as to why a brand can credibly claim it offers certain benefits. Marketers of Dove soap, for example, will talk about how its attribute of one-quarter cleansing cream uniquely creates the benefit of softer skin. Singapore Airlines can boast about its superior customer service because of its better trained flight attendants and strong service culture.

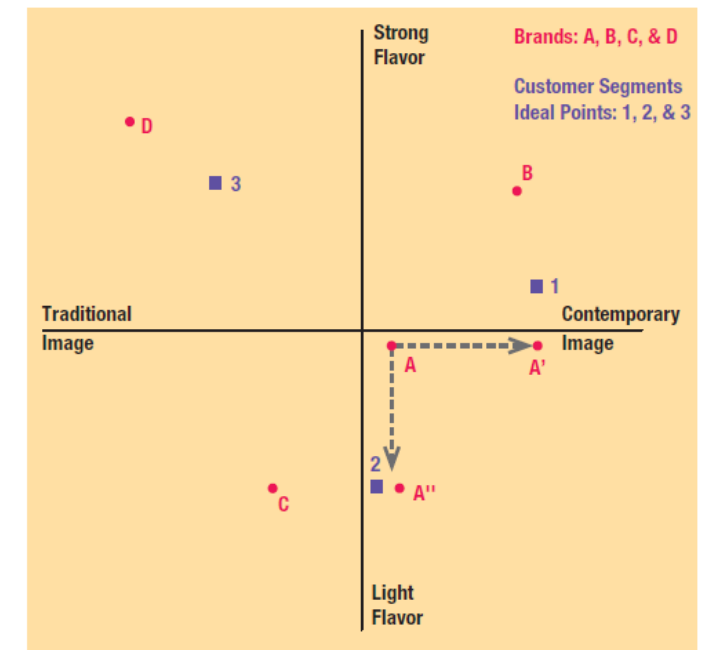
Perceptual Maps

For choosing specific benefits as POPs and PODs to position a brand, perceptual maps may be useful. Perceptual maps are visual representations of consumer perceptions and preferences. They provide quantitative pictures of market situations and the way consumers view different products, services, and brands along various dimensions. By overlaying consumer preferences with brand perceptions, marketers can reveal “holes” or “openings” that suggest unmet consumer needs and marketing opportunities.



| Fig. 10.1a |

(a) Hypothetical Beverage Perceptual Map: Current Perceptions



| Fig. 10.1b |

(b) Hypothetical Beverage Perceptual Map: Possible Repositioning for Brand A

Brand Mantras

To further focus brand positioning and guide the way their marketers help consumers think about the brand, firms can define a brand mantra. A brand mantra is a three- to five-word articulation of the heart and soul of the brand and is closely related to other branding concepts like “brand essence” and “core brand promise.” Its purpose is to ensure that all employees within the organization and all external marketing partners understand what the brand is most fundamentally to represent with consumers so they can adjust their actions accordingly.



Nike's brand mantra of “authentic athletic performance” is visibly reinforced by its endorsements of top athletes like champion tennis player Rafael Nadal.