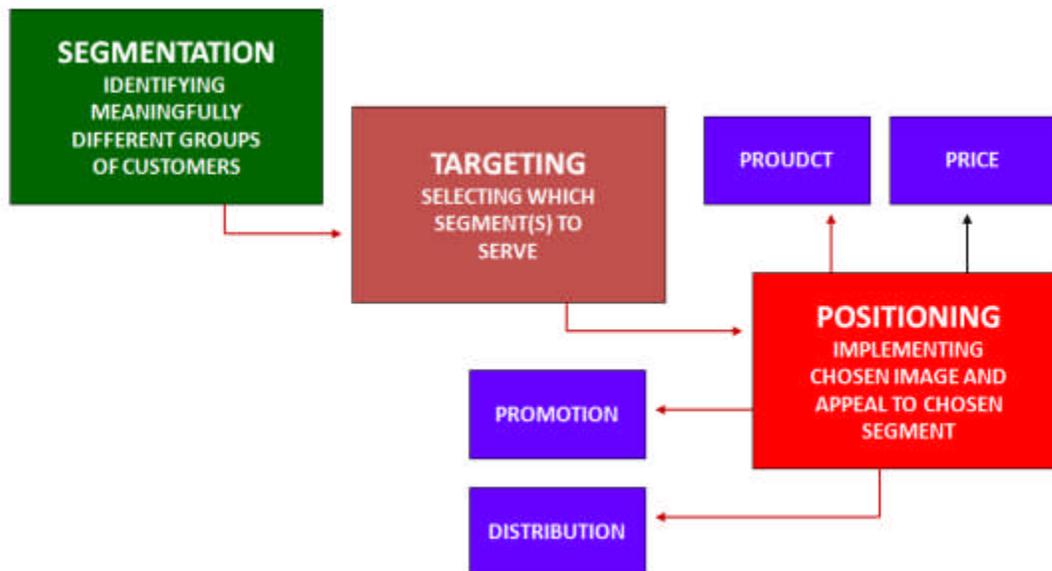


SUMMARY OF CLASSROOM MATERIAL

SEGMENTATION, TARGETING, AND POSITIONING

Segmentation, targeting, and positioning together comprise a three stage process. We first (1) determine which kinds of customers exist, then (2) select which ones we are best off trying to serve and, finally, (3) implement our segmentation by optimizing our products/services for that segment and communicating that we have made the choice to distinguish ourselves that way:



Segmentation involves finding out what kinds of consumers with different needs exist. In the auto market, for example, some consumers demand speed and performance, while others are much more concerned about roominess and safety. In general, it holds true that “You can’t be all things to all people,” and experience has demonstrated that firms that specialize in meeting the needs of one group of consumers over another tend to be more profitable.

Generically, there are three approaches to marketing. In the *undifferentiated* strategy, all consumers are treated as the same, with firms not making any specific efforts to satisfy particular groups. This may work when the product is a standard one where one competitor really can’t offer much that another one can’t. Usually, this is the case only for commodities. In the *concentrated* strategy, one firm chooses to focus on one of several segments that exist while leaving other segments to competitors. For example, Southwest Airlines focuses on price sensitive consumers

who will forego meals and assigned seating for low prices. In contrast, most airlines follow the *differentiated* strategy: They offer high priced tickets to those who are inflexible in that they cannot tell in advance when they need to fly and find it impractical to stay over a Saturday. These travelers—usually business travelers—pay high fares but can only fill the planes up partially. The same airlines then sell some of the remaining seats to more price sensitive customers who can buy two weeks in advance and stay over.

Note that segmentation calls for some tough choices. There may be a large number of variables that can be used to differentiate consumers of a given product category; yet, in practice, it becomes impossibly cumbersome to work with more than a few at a time. Thus, we need to determine which variables will be *most* useful in distinguishing different groups of consumers. We might thus decide, for example, that the variables that are most relevant in separating different kinds of soft drink consumers are (1) preference for taste vs. low calories, (2) preference for Cola vs. non-cola taste, (3) price sensitivity—willingness to pay for brand names; and (4) heavy vs. light consumers. We now put these variables together to arrive at various combinations.

Several different kinds of variables can be used for segmentation. *Demographic* variables essentially refer to personal statistics such as income, gender, education, location (rural vs. urban, East vs. West), ethnicity, and family size. Campbell's soup, for instance, has found that Western U.S. consumers on the average prefer spicier soups—thus, you get a different product in the same cans at the East and West coasts. Facing flat sales of guns in the traditional male dominated market, a manufacturer came out with the Lady Remington, a more compact, handier gun more attractive to women. Taking this a step farther, it is also possible to segment on *lifestyle and values*." Some consumers want to be seen as similar to others, while a different segment wants to stand apart from the crowd. Another basis for segmentation is *behavior*. Some consumers are "brand loyal"—i.e., they tend to stick with their preferred brands even when a competing one is on sale. Some consumers are "heavy" users while others are "light" users. For example, research conducted by the wine industry shows that some 80% of the product is consumed by 20% of the consumers—presumably a rather intoxicated group. One can also segment on *benefits sought*, essentially bypassing demographic explanatory variables. Some consumers, for example, like scented soap (a segment likely to be attracted to brands such as Irish Spring), while others prefer the "clean" feeling of unscented soap (the "Ivory" segment). Some consumers use toothpaste primarily to promote oral health, while another segment is more interested in breath freshening.

In the next step, we decide to *target* one or more segments. Our choice should generally depend on several factors. First, how well are existing segments served by *other* manufacturers? It will be more difficult to appeal to a segment that is already well served than to one whose needs are not currently being served well. Secondly, how large is the segment, and how can we expect it to grow? (Note that a downside to a large, rapidly growing segment is that it tends to attract competition). Thirdly, do we have strengths as a company that will help us appeal particularly to one group of consumers? Firms may already have an established reputation. While McDonald's has a great reputation for fast, consistent quality, family friendly food, it would be difficult to convince consumers that McDonald's now offers gourmet food. Thus, McD's would probably be better off targeting families in search of consistent quality food in nice, clean restaurants.

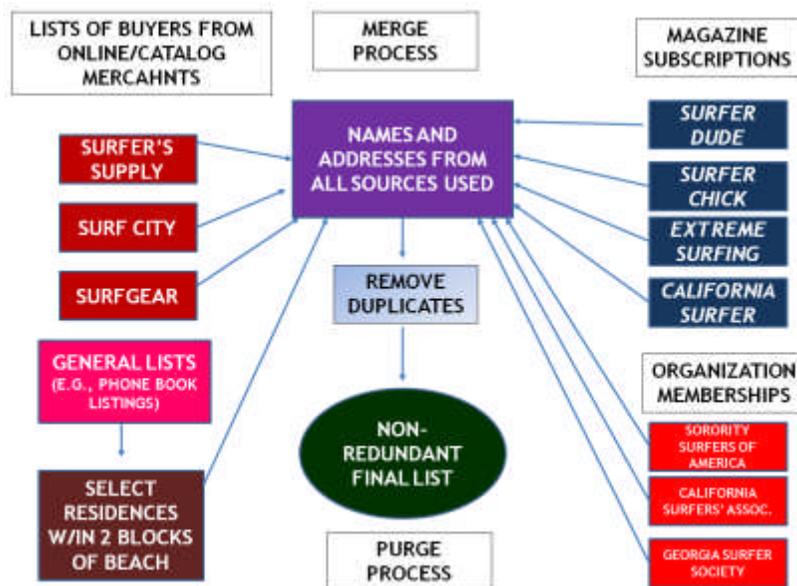
The direct marketing industry has developed very sophisticated targeting methods. These are often useful when there is a need to reach buyers of specialty products through catalogs.

Today, it is possible to buy lists of consumers based on a variety of characteristics. Some of these lists may be based on:

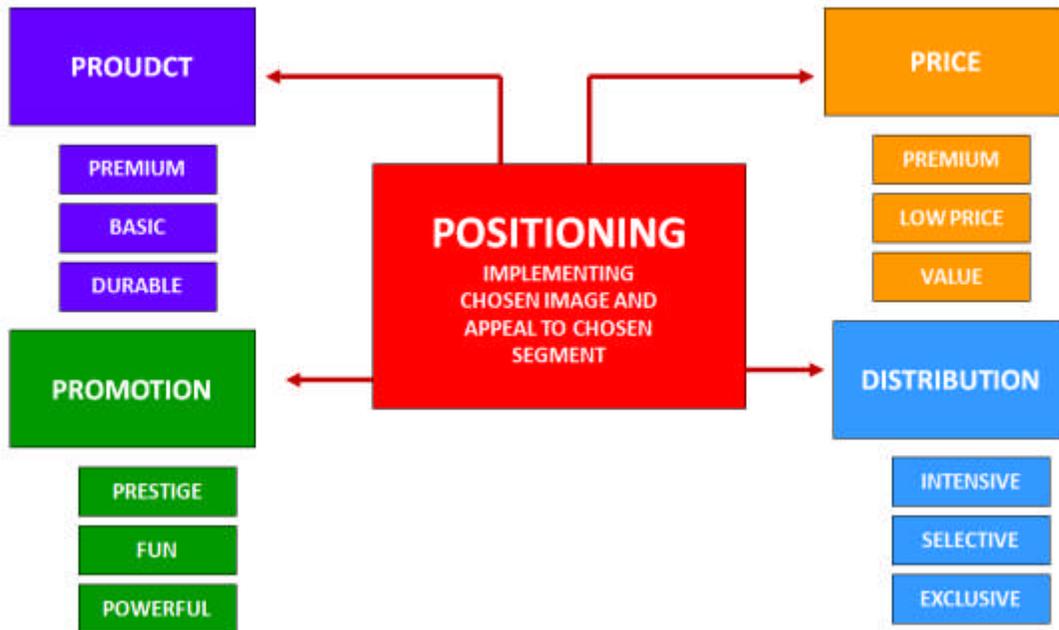
- Magazine subscriptions
- Purchases from other online merchants
- Motor vehicle and real estate titles
- Ownership of products based on warranty registration
- Membership in associations
- Government licensure (e.g., veterinarians, dentists, attorneys)
- Yellow page listings
- Medical conditions
- People who have recently moved

Any one individual source is unlikely to contain all the names of potential buyers for a given criterion. Therefore, direct mailers will often buy numerous different lists (the “merge” process). These lists, however, overlap a great deal. It is likely, for example, that many surfing enthusiasts will subscribe to several magazines, be members of at least one organization, and shop from one or more merchants. Therefore, there will be a number of duplicates. In the “purge” process, these duplicates are removed. This, however, is not as easy as it may sound since the way that names (e.g., John Jones and J. E. Jones) and addresses (e.g., 123 Main Street #45; 123-45 Main Street; 123 Main St., Apt 45) are written may differ between lists. Therefore, lists are first standardized to a chosen format. In addition, given that many names are often misspelled, phonetic comparisons are often used.

Here is an illustration of a merge-purge process to find a list of potential buyers from a new catalog surfing gear vendor:



Positioning involves *implementing* our targeting. For example, Apple Computer has chosen to position itself as a maker of user-friendly computers. Thus, Apple has done a lot through its advertising to promote itself, through its unintimidating icons, as a computer for “non-geeks.” The Visual C software programming language, in contrast, is aimed a “techies.”



Michael Treacy and Fred Wiersema suggested in their 1993 book *The Discipline of Market Leaders* that most successful firms fall into one of three categories:

- **Operationally excellent firms**, which maintain a strong competitive advantage by maintaining exceptional efficiency, thus enabling the firm to provide reliable service to the customer at a significantly lower cost than those of less well organized and well run competitors. The emphasis here is mostly on low cost, subject to reliable performance, and less value is put on customizing the offering for the specific customer. Wal-Mart is an example of this discipline. Elaborate logistical designs allow goods to be moved at the lowest cost, with extensive systems predicting when specific quantities of supplies will be needed.
- **Customer intimate firms**, which excel in serving the specific needs of the individual customer well. There is less emphasis on efficiency, which is sacrificed for providing more precisely what is wanted by the customer. Reliability is also stressed. Nordstrom's and IBM are examples of this discipline.
- **Technologically excellent firms**, which produce the most advanced products currently available with the latest technology, constantly maintaining leadership in innovation. These firms, because they work with costly technology that need constant refinement, cannot be as efficient as the operationally excellent firms and often cannot adapt their products as well to the needs of the individual customer. Intel is an example of this discipline.

Treacy and Wiersema suggest that in addition to excelling on one of the three value dimensions, firms must meet acceptable levels on the other two. Wal-Mart, for example, does maintain some level of customer service. Nordstrom's and Intel both must meet some standards of cost effectiveness. The emphasis, beyond meeting the minimum required level in the two other dimensions, is on the dimension of strength.

Repositioning involves an attempt to change consumer perceptions of a brand, usually because the existing position that the brand holds has become less attractive. Sears, for example, attempted to reposition itself from a place that offered great sales but

unattractive prices the rest of the time to a store that consistently offered “everyday low prices.” Repositioning in practice is very difficult to accomplish. A great deal of money is often needed for advertising and other promotional efforts, and in many cases, the repositioning fails.

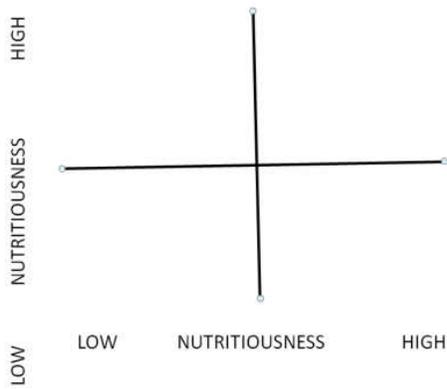
To effectively attempt repositioning, it is important to understand how one’s brand and those of competitors are perceived. One approach to identifying consumer product perceptions is *multidimensional scaling*. Here, we identify how products are perceived on two or more “dimensions,” allowing us to plot brands against each other. It may then be possible to attempt to “move” one’s brand in a more desirable direction by selectively promoting certain points. There are two main approaches to multi-dimensional scaling. In the *a priori* approach, market researchers identify dimensions of interest and then ask consumers about their perceptions on each dimension for each brand. This is useful when (1) the market researcher knows which dimensions are of interest and (2) the customer’s perception on each dimension is relatively clear (as opposed to being “made up” on the spot to be able to give the researcher a desired answer). In the *similarity rating* approach, respondents are not asked about their perceptions of brands on any specific dimensions. Instead, subjects are asked to rate the extent of *similarity* of different pairs of products (e.g., How similar, on a scale of 1-7, is Snicker’s to Kitkat, and how similar is Toblerone to Three Musketeers?) Using a computer algorithms, the computer then identifies positions of each brand on a map of a given number of dimensions. The computer does not reveal what each dimension means—that must be left to human interpretation based on what the variations in each dimension appears to reveal. This second method is more useful when no specific product dimensions have been identified as being of particular interest or when it is not clear what the variables of difference are for the product category.

Two types of methods can be used to identify consumer perceptions of brands.

A Priori Perceptual Maps. This method involves first identifying dimensions on which consumers will be asked to rate brands. There are two situations in which this might be chosen:

1. It is believed to be likely that (1) you, the researcher, can accurately identify the dimensions that appear to be most important for consumers in differentiating different offerings (either brands or product categories) and (2) you believe that consumers can accurately rate their actual perceptions (even if he or she may not be used to talk about the products in these terms).
2. Specific dimensions are of managerial interest for making decisions even if these dimensions may not be the ones that consumers consider to be most important in differentiating the brands or product categories.

If we take this approach and identify, for purposes of illustration, that the most important dimensions to differentiate “non-alcoholic beverages” are sweetness and nutritiousness, we would ask people to write in selected brands (e.g., Pepsi, Jones Soda, Hansen’s) or product categories (soda, juice, iced tea, and energy drinks) where they belong on a map like this:



Multidimensional Scaling. In certain cases, it may not be obvious which dimensions are most important to differentiate within a given product category. Further, consumers may not be used to talking about these dimensions. In such cases, it often turns out to be more effective to ask respondents to rate how “similar” different brands or categories are relative to to each other. Suppose we ask for ratings on a scale from 0 (not at all similar) to 10 (extremely similar):

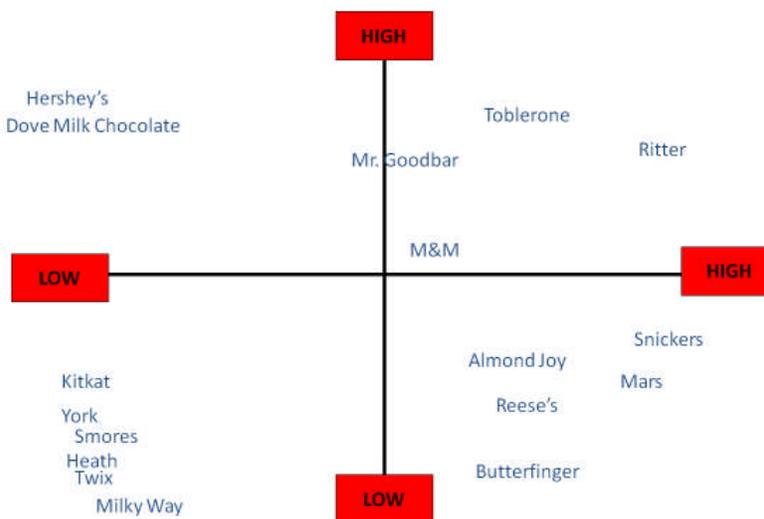
	Hershey's	Mr. Goodbar	Toblerone	Kitkat	Mars	M&M	Snickers
Hershey's	10						
Mr. Goodbar		10					
Toblerone			10				
Kitkat				10			
Mars					10		
M&M						10	
Snickers							10

THIS REGION IS REDUNDANT SINCE IT INVOLVES COMBINATIONS IN A DIFFERENT ORDER

CONSUMER RATES THE SIMILARITY OF PAIR ITEMS HERE

ALL ITEMS ARE BY DEFINITION "EXTREMELY SIMILAR" TO THEMSELVES --> 10/10.

After consumers complete the similarity ratings, a computer algorithm will be used to “extract” dimensions of interest. We may receive a result like this:



The computer can only identify where the different brands/products appear on the dimensions identified; it *cannot* tell what these dimensions mean. Thus, human judgment must be used to interpret the dimensions.

The similarity rating method is more appropriate to use when (1) it is not clear which product dimensions seem most important to consumers in differentiating brands/products or (2) consumers may not be able to make reliable conscious judgments as to how each brand/category fares on the given dimensions. This method is, however, somewhat more cumbersome.

SOME EXAMPLE BASES FOR SEGMENTATION

Segmentation Approach	Example Variables	Example Levels
Demographics	Gender	Male, Female
	Age	0-17, 18-30, 30-45, 46-60, 61+ NOTE: Specific age groupings will vary with product and other context
	Ethnicity	White, African American, Hispanic, Asian-American, Native American, Other (NOTE: Depending on the product and situation, "Hispanic" and "Asian American" may need to be broken down further)
	Home ownership	Yes, No
	Occupation	Blue Collar, White Collar, Clerical/Administrative, Other (More specific categories may be needed for some situations)
	Marital status	Married, single—never married, divorced, living together—not married
	Residence Community	Rural, Urban, Suburban (finer categories may be needed)
	Geography	Northeast, Southeast, Central, Southwest, Far West
Benefit Desired	Calorie-Richness tradeoff	Reduced calories more important than taste, taste more important than calories, balance between taste and calories
	Ease of use vs. flexibility	Easy Use, Features, Balance
	Food Taste	Spicy, medium, bland
Behavior	Price sensitivity (willingness to pay in a given category given that some brand in the category will be bought)	High, Medium, Low
	Brand Loyalty	Very low (strong tendency to switch brands), low (frequent switching), medium (occasional switching), high (some switching but rare), very high (rare or no switching)
	Willingness to spend (on products in general—may include the question of whether to buy in a given	Extremely high, high, moderate, low, very low

Segmentation Approach	Example Variables	Example Levels
	category rather than just how much to spend	
	Variety seeking	High, medium, low
	Involvement	High, medium, low
	Store choice—food	Discount, supermarket—high end, supermarket—low end, specialty food stores, convenience store, warehouse clubs, direct-from-farmer
	Store choice—electronics	Discount stores (e.g., Wal-Mart), “category killer” stores (e.g., Best Buy, Fry’s), specialty stores, online
	Frequency of use	Never, rarely, sometimes, frequently
	Quantity of consumption	Non-user, light, moderate, high
Usage occasion	Consumption setting	Home—everyday, home—guests or celebration, work, travel
Psychographics (demographics + lifestyle)	PRIZM (zip code based)	“Guns & Pickups,” “Kids & Cul-de-Sacs,” “Heartlanders,” “Young Digerati”
	VALS 2	Belongers (medium income, prefer to be like others), Achievers (successful, like to stand out), Socially Conscious (driven by social concern), Sustainers (poor and resentful, unhealthy diet), Survivors (poor but less resentful, try to stay healthy)
	Activity level	Inactive, mental but not physical activity, physical activity, both mental and physical activity
	Social preference	Spending time alone, spending time with spouse/children, spending time with friends/others, spending time both with family and friends