

SEGMENTATION – TARGETING – POSITIONING

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The strategic marketing planning process flows from a mission and vision statement to the selection of target markets, and the formulation of specific marketing mix and positioning objective for each product or service the organization will offer. Leading authors like Kotler present the organization as a value creation and delivery sequence. In its first phase, choosing the value, the strategist "proceeds to segment the market, select the appropriate market target, and develop the offer's value positioning. The formula - segmentation, targeting, positioning (STP) - is the essence of strategic marketing." (Kotler, 1994, p. 93).

Market segmentation is an adaptive strategy. It consists of the partition of the market with the purpose of selecting one or more market segments which the organization can target through the development of specific marketing mixes that adapt to particular market needs. But market segmentation need not be a purely adaptive strategy: The process of market segmentation can also consist of the selection of those segments for which a firm might be particularly well suited to serve by having competitive advantages relative to competitors in the segment, reducing the cost of adaptation in order to gain a niche. This application of market segmentation serves the purpose of developing competitive scope, which can have a "powerful effect on competitive advantage because it shapes the configuration of the value chain." (Porter, 1985, p. 53).

According to Porter, the fact that segments differ widely in structural attractiveness and their requirements for competitive advantage brings about two crucial strategic questions: the determination of (a) where in an industry to compete and (b) in which segments would focus strategies be sustainable by building barriers between segments (Porter, 1985, p. 231).

Through market segmentation the firm can provide higher value to customers by developing a market mix that addresses the specific needs and concerns of the selected segment. Stated in economic terms, the firm creates monopolistic or oligopolistic market conditions through the utilization of various curves of demand for a specific product category (Ferstman, C., & Muller, E., 1993). This is an expanded application of the microeconomic theory of price discrimination, where the firm seeks to realize the highest price that each segment is willing to pay. In this case the theory's reliance on price is broadened to include all 4 P's of the marketing mix (Wilkie, 1990, P. 98). This application of microeconomic theory is particularly applicable to organizations active in product

categories that are cluttered with competition. It is also useful where sufficiently large markets with distinct sets of value preferences are found, or when the organization chooses to proactively build a stronghold by creating value preferences among a set of consumers.

Segmentation as a process consists of segment identification, segment selection and the creation of marketing mixes for target segments. The outcome of the segmentation process should yield "true market segments" which meet three criteria: (a) Group identity: true segments must be groupings that are homogeneous within segments and heterogeneous across groups. (b) Systematic behaviors: a true segment must meet the practical requirement of reacting similarly to a particular marketing mix. (c) The third criteria refers to efficiency potential in terms of feasibility and cost of reaching a segment (Wilkie, 1990). In addition, Gunter (1992) recommends considering the stability of market segments over time and different market conditions.

Stage one - segment identification

The first stage of market analysis consists of segment identification. The analyst has the option of segmenting the market using different sets of criteria including personal characteristics of the consumer, benefits sought, and behavioral measures of the consumer (Wilkie, 1990, p. 101). Within these categories the options available are truly overwhelming and in many cases different segmentation approaches will steer strategy along very different paths. Utilizing multiple segmentation approaches is recommended by several authors (Porter, 1985; Gunter, 1992).

There is no recipe for choosing which variables to utilize when segmenting. The identification of segmentation variables is among the most creative parts of the segmentation process, because it involves conceiving dimensions along which products and buyers differ, that carry important structural or value chain implications. Furthermore, "the greatest opportunity for creating competitive advantage often comes from new ways of segmenting, because a firm can meet buyer needs better than competitors or improve its relative cost position" (Porter, 1985, p. 247).

Segmentation variables

Wilkie (1990) divides segmentation variables into three categories: personal characteristics, benefits sought,

and behavioral measures. The following section will explain each set of variables in broad terms.

Personal characteristics

The set of personal characteristics includes all the variables that can be used to describe or identify particular individuals. They include a vast array of personal attributes, media exposure, demographic, geographic, and geodemographic, lifestyles (activities, interests, opinions), and psychographics.

Psychodemographics and geodemographics have become popular segmentation tools. However, despite the wealth of literature recently published it is important to keep in mind that they are tools available to the researcher and not the only segmentation variable groups to consider. The power in serving segmentation stems from their reduced cost and actionability. Because they originated together, the two concepts have been confused for one another but they are now recognized as distinct consumer typology sets (Piirto-Heath, R. 1995).

Geodemographics.

Geodemographic models are conceptually based on the assumptions that (1) neighborhoods contain homogeneous groups of individuals, that (2) such groups can be clustered and are share similarities across geographies. The most commonly known geodemographic classification systems in the US are Claritas' PRIZM, CACI's ACORN, and Donnelley's ClusterPLUS.

The clusters are identified using census data and geographic information. Current systems develop a surrogate measure for socioeconomic ranking utilizing a mixture of educational attainment, income, home value, occupation and age; this information is laid over satellite-generated data measuring urban, suburban, rural settings. The analysis is enriched using other variables and survey data to extract the different clusters. Households sharing similar education, income, life stage, dwelling type and type of community do tend to have similar purchasing habits. This makes geodemographic clusters highly actionable and reachable. The cluster is defined in a well-rounded "picture" that includes research on media habits, purchasing patterns for many categories, and the possibility to match individual promotional response to the geodemographic classification. Segmenting consumers by geodemographic clusters enhances potential for directly identifying and reaching prospects. The geodemographic approach permits prospect identification down to the census block level so the implementation of distribution, direct marketing, and other strategies are simplified. One of the disadvantages of this system is that it is a classification of heads of household. To this date there has been no profiling of other household members. The other major disadvantage of geodemographic approaches is

precisely the reason why psychographics has become so popular: it describes segments by many of their characteristics but not by their attitudes, values, beliefs or personality orientations.

Psychographics

Psychographics classify consumers by their values and lifestyles. Though psychographic classifications are now abundant, among the best known are VALS 2 and LOV. Psychographic studies range from the general profiling of lifestyles to the product specific segmentation based on psychographic elements. Psychographic variables are classified into three categories: product attributes, lifestyle attributes, and psychological attributes.

The study of lifestyles is largely explained in terms of the AIO's: attitudes, interests, and opinions. These are a reflection of a mix of economic, cultural and social values. Values in turn are largely shaped by early lifetime experiences. Among the strongest forces forming values are the triad of institutions (family, religion, and school), media, and government (Gunter 1992).

The use of psychographics is important not only as a consideration during the initial segmentation but as an important element for the segment evaluation and marketing mix formulation phases of the STP process. "Although typically used more in advanced analysis than initial segmentation studies, psychographics can be very useful in identifying and explaining the behavior of markets. For example, although the market for cars can be defined in geodemographic terms, psychographically a researcher may be able to identify many reasons or motives underlying car buying behavior which could help to design a more effective promotional and marketing strategy" (Gunter, B. & Furnham, A., 1992, p. 64).

Benefits sought

The second group of variables used to segment consumers includes all those related with the benefits and needs they seek to fulfill and the nature of their demand for different products and services. It also encompasses value preferences such as quality, price, style, image, etc.

Behavioral Measures

The third category of segmentation variables is behavioral measures. It includes product usage and actual behavior such as buying patterns, usage data, channel, ownership, quantities, brand loyalty, attitudes, etc.

Wilkie (1990) explains that variables in the first category are unchangeable by the marketer, so the segmentation by this level of variables should yield adaptive strategies that recognize the reality of consumer

characteristics and find ways to use them to the firm's advantage. The second level is relatively stable over time since individuals are not likely to change their values and beliefs as Ries & Trout (1981, 1990, 1996) have categorically stated. At the third level, change is the norm and so this is where the marketer can influence the target audience (Wilkie, 1990).

Segmentation techniques

Once segmentation variables have been pre-selected and the data is collected, it is necessary to choose the statistical process by which the segments will be identified. The segmentation technique to be used depends largely on the type of data available (metric or non metric variables), and the kinds of dependence observed - that is, dependence or interdependence (Cooper D. & Emory, W., 1995, p. 521). Among the most common segmentation techniques used are factor analysis, cluster analysis, discriminant analysis, and multiple regression. Among newer and increasingly utilized techniques include chi-squared automatic detection (CHAID), LOGIT, and Log Linear Modeling (Magidson, J., 1990).

Traditionally cluster analysis has been utilized but its use has declined because of increased criticism of its empirical nature (Mitchell, V. W., 1994) and the emergence of new methods. Newer systems and algorithms such as CHAID permit the use of chi-squared analysis which does not force ordinal and nominal data into continuous variables, and permits not only the identification of segments but also their ranking by profitability or some other measure of desirability (Magidson, J. 1993). The segmentation process is complex and thus prone to error. Data integrity tests and validity assessments should be included along the process as well as in the final outcome review.

Once clusters have been identified they are described using other variables not included in forming the clusters. This descriptive process is intended to yield a full bodied description of the market segments, which will be useful in the evaluation process but most importantly in the marketing mix creation stage. Multiple discriminant analysis is often used for this purpose (Gunter, B., & Furnham, A., 1992).

Stage two - segment evaluation

The second stage consists of evaluating the segments. The first element that needs to be defined is the criteria by which the segments will be evaluated. In a nonprofit setting segment desirability is not necessarily determined by profitability and market share objectives. If a measure of profitability or desirability can be quantified, the markets can be ranked using tree analysis or gains charts.

Approaches vary with some suggesting a quantitative evaluation of the resulting segments (Sarabia, 1996), while others highlight other strategies for evaluation. A way to approach market segment evaluation is through the examination of a market structure by constructing a spatial model where similarities and dissimilarities are mapped. This representation of the market is then used in conjunction with demand estimating and forecasting models to determine possible positioning alternatives for a product (Johnson, R., 1995). This analysis can be enhanced by using a chi-squared trees analysis and correspondence analysis to generate compositional perceptual maps, which are "vital to understanding consumer brand positioning" (Bendixen, M., 1995).

Other elements should also be considered such as simplicity and potential adaptability of the segmentation structure across national boundaries. Kotler (1990) suggests considering three key factors: segment size and growth, segment structural attractiveness, and company objectives and resources. Porter (1985) proposes a similar approach but also recommends studying the firm's resources and skills as reflected in the value chain, and their suitability to target market alternatives. Aaker (1995) bases his selection criteria on the SWOT analysis produced during the strategic marketing planning process. Berrigan & Finkbeiner (1992) propose a somewhat similar process that includes market structure analysis, market opportunity analysis, product portfolio analysis, resource capabilities analysis and competitive analysis.

Stage three - targeting through marketing mix

The third stage of the market segmentation process is the creation of a specific market mix to fulfill the needs, as well as market conditions of each specific target segment (Wilkie, 1990; Gunter & Furnham, 1992; Kotler, 1994). Although many authors limit the market segmentation process to market identification rather on the key elements of the entire process, most companies fail to give due importance to other stages in market segmentation such as product positioning and mix development (Sarabia, 1996).

Once the firm has chosen a market segment it must choose a generic competitive strategy. At this point it is also necessary to review the selected strategy across segments and explore general strategic approaches. In some cases it might become apparent that a counter-segmentation strategy is applicable. In other cases, the development of distinct mixes for each segment uncovers inconsistencies or lack of resources at the corporate level and so it is necessary to revert to the segment evaluation stage.

According to Kotler (1994, p. 293) the only sustainable generic strategy in a segmented market is differentiation. He explains that the only other generic

competitive strategy alternative (low cost) is not sustainable in a segmented market. In addition, a strategy successful at differentiating must generate customer value, provide perceived value, and be difficult to copy.

At this point in the process the company selects those ways in which it will distinguish itself from its competitors. In most cases the differentiation involves multiple elements. In fact, "most successful differentiation strategies involve the total organization, its structure, systems, people, and culture." (Aaker, 1996). One way to differentiate is through brand equity building. A strategy based on brand is likely to be sustainable because it creates competitive barriers. A brand strategy permits the strategist to work with complex concepts and not limit the differentiation strategy to just a few competitive differences. This approach is consistent and reinforces the STP approach. A successful brand strategy builds barriers to protect the selected position by creating associations of the positioning variables with the brand name in the prospect's mind.

Positioning

Gunter and Furnham (1992) prescribe that after selecting target markets the strategist should develop positioning objectives to then develop them into a detailed marketing mix. However, Aaker (1996) recommends developing the positioning objective only after the brand identity and value proposition have been developed. In exploring the latter, it is useful to understand Aaker's definition of positioning is "the part of the brand identity and value proposition that is to be actively communicated to the target audience and that demonstrates an advantage over competing brands." Kotler (1994) refers to it as the unique selling proposition. Explained in other words, the positioning statement is the point where the bundle of attributes join to form one concept which aims at capturing the essence of that which the target audience seeks in the product category.

The benefit of following Aaker's recommendation lies in the expanded range of position alternatives. Three places are suggested in looking for brand position elements: the core identity (central, timeless essence of a brand), points of leverage within the identity structure (an attribute, sub-brand, special feature, or service), and the value proposition (benefits that drive relationships with target audiences).

According to Brooksbank (1994), the positioning strategy should include three components: customer targets, which are the product of the segmentation study;

competitor targets, which are a product of the analysis of external environment; and competitive advantage, which is also a product of the environmental analysis.

In developing the positioning objective, Ries (1996) is concise and clear: "positioning is not what you do to the product, but what you do to the mind." Understanding how the mind receives, stores or rejects information will improve the chances of making the positioning objective coincide with actual positioning in the target audience. Although Ries & Trout have written several works relating to positioning, perhaps the key elements they require of a positioning strategy are: simplicity, a search for the obvious, placing the product at the heart of the category, and working to line up the strategy with the market's existing perceptions, attitudes, and beliefs.

Ries & Trout (1990) suggest the position is the mental angle used to enter the prospect's mind and the role of the entire strategy is to support that tactic. It appears that the process as outlined by Porter, Aaker, Kotler, Ries and Trout for STP is one in which the different elements interact: strategy points to the markets, research unveils position alternatives and the position tactic requires a full strategy to support it.

The literature reviewed here is by no means comprehensive. There are far too many studies on the subject matter for that, but this exploration should provide an understanding of the theoretical framework within which the STP process can be conducted.

Practical Approaches

Undertaking a Segmentation, Targeting and Positioning process is probably one of the most important processes management should undertake both at the onset of a new offer creation as well as part of a periodic revision of the portfolio of offers and strategies used by the organization. The process can be one that tests one's ability to think creatively and so that is one important reason why frequently companies seek the assistance of an outside researcher to help them through the process. Working in tandem, marketing analysts/researchers and business executives can achieve effective STP strategies.

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