Chapter 3

Markets and customers

Market boundaries; target marketing

LEARNING OBJECTIVES

After reading this chapter you will:

- appreciate the meaning and importance of the concept of market boundaries
- realize the relationship of market boundaries to the key process of target marketing
- be familiar with the steps in target marketing
- understand the different bases which may be used to segment consumer and organizational markets, including some of the more recent developments in this area
- be aware of the main considerations in evaluating markets for targeting strategies
- be familiar with the concepts and techniques relating to product positioning

INTRODUCTION

In Chapter 2 we explored key questions pertaining to analysing and understanding buyer behaviour in consumer and industrial markets. Although these questions were examined against a general framework for improving our understanding of how and why customers purchase, together with the broad range of behavioural forces and factors which impinge upon these decisions, the emphasis was on the behaviour of individuals, whether final consumers, or organizations. We now examine how individual customers aggregate to form **market segments**, and how these form part of a larger market, the boundaries, or limits, of which need to be clearly defined. The notion of boundaries in markets leads us to a key strategic process in contemporary marketing referred to as **target marketing**. We start by examining the concept of a 'market' and the important issue of defining **market boundaries**.

THE CONCEPT OF A MARKET: DEFINING MARKET BOUNDARIES

Until the strategic marketing planner has defined the market(s) the organization currently and potentially may operate in, few effective strategic decisions can be taken. Defining the market affects virtually every element of strategic marketing planning. Consider a question that practically every strategic marketing planner will need to ask and answer, namely: 'What is our market share?' The answer to this, and many other questions of importance to strategic marketing, depends on how we 'define' the market. A market definition is not always easy. Take, for example, the 'holiday market'; a company thinking about potential in this market, with a view to possible entry, could consider the 'holiday market' as comprising the total number and value of all holidays taken in any one year. However, within this total market there are many different types of holidays and ways of classifying them. For example, we can distinguish between winter and summer holidays, package holidays and self-catering holidays, domestic and overseas holidays, and so on. Although they are all 'holidays', they differ significantly. If the company was to assess, for example, market size, requirements for competitive success, market growth or market profitability it would probably find that each of these holiday markets would differ substantially. An example of the strategic importance of an organization identifying which market(s) it is in is given by Hooley *et al.*[1] when they describe a senior management meeting some years ago at the Parker Pens company. A new managing director challenged experienced senior managers to identify Parker's main competitors. Most suggested other marketers of writing implements; some suggested the telephone and other non-written forms of communication.

However, they were taken aback when the new MD identified the main competitor as being Ronson cigarette lighters. The reason was that at that time, many Parker pens were purchased as gifts. A leading alternative for a quality pen at that time was a quality cigarette lighter.

This example shows the importance not only of identifying the market you are in, but, as emphasized by Brassington and Pettit,[2] of looking at this from the perspective of the customer. The marketing planner must be careful to define market(s) and in so doing be aware of the different dimensions available. We now consider some of these dimensions, where appropriate, commenting upon their uses and limitations.

Product/industry-based definitions

Conventionally, many markets are defined, or at least thought of by those working in them, on the basis of products and/or industries, e.g. the computer software market or the industrial adhesives market. This definition centres on the nature of the product(s) or service(s) produced and marketed. As we can also see, even a product-based definition can lead to either very broad, generic product class definitions, which are akin to defining the market on an industry basis (e.g. the computer software market) or at the other extreme, a narrow product item-based definition, e.g. the writing instruments market.

Initially, this might seem a logical and simplistic way to define a market even if we still have the problem of how broad or narrow to pitch our product-based definitions. The problem with product based definitions is that although they accord with how many companies are in their existing and potential markets, they can be, and often are, misleading for marketing planning purposes. In particular, product-based definitions neglect the fact that customers purchase benefits, not products, and even where generic product class or industry-based definitions are used, as opposed to product item definitions, there is a danger of defining the market too narrowly.

This danger of product-based market definitions was recognized and highlighted in Levitt's[3] classic article on 'Marketing myopia' as long ago as 1960. He suggested that many companies were defining their businesses in product terms and hence too narrowly. This in turn, he suggested, was leading at best to missed opportunities and, at worst, business failure. Levitt cites the case of the American railroad companies who appeared to define and operate their businesses on the assumption that they were in the 'railway market'. Arising from this, he claimed that many of these companies had subsequently either gone out of business or were struggling to survive. The reason was that they had failed to define their market accurately. In short, according to Levitt, product-based market definitions are indicative of a lack of customer orientation in a business and result in a narrow and shortsighted view of marketing opportunities and threats. In order to avoid these problems, he suggests defining markets in terms of 'generic need'.

Generic need-based definitions

In suggesting a **generic** need-based **definition** of markets, Levitt argues that the market is better seen from the point of view of 'that which the customer buys' rather than 'what the organization or industry makes'. Accordingly, the railroad business would have been better to define their market as 'transportation' rather than 'railway market'. Similarly, a cosmetics company might define its market (generic need) as the 'beauty' market; an insurance company the 'peace of mind' market; and a camera company the 'memories' market. Using our previous Parker Pens example, their market was the 'gifts' market. This is a more customer and marketing-oriented method of defining markets. The advantages of a generic need-based definition include:

- It forces an organization to look at its markets from a customer perspective.
- It widens the perspective on what currently and potentially constitutes competition, i.e. it helps define competition.
- It helps in identifying future opportunities and threats.
- It helps identify key factors in competitive marketing success.

Taking the Mickey

Mickey Mouse, probably the most famous American Disney cartoon character and certainly the longest serving, is the official mascot of the Walt Disney Company. The survival of this character and its still central role in the company's public persona illustrates the debt Disney owes to its cartoon business. Walt Disney built his business on wonderfully produced cartoons using innovative animation skills. However, there is a limit to the market for cartoon characters. Furthermore, although there is an enduring quality to the cartoon genre, children today have been brought up on a diet of video and arcade-type games which means that the former novelty of going to the cinema and seeing adventures and characters on screen has over the years lost some of its appeal. However the Disney brand name and image was and still is very powerful. Most adults remember going to see Disney films such as *Snow White* or *Pinocchio* with great affection and nostalgia. Faced with a flattening demand, increased competition and changing customer needs and wants, Disney's dilemma in the 1970s became how to lever its powerful brand assets and company image into developing new markets. Wisely, Disney decided to build on its core brand and image strengths while looking for new growth markets. By identifying its markets as being broadly entertainment, Disney was able to diversify its portfolio without losing sight of what it was good at doing. One of Disney's earliest and most successful ventures outside of animated cartoons was theme parks. Initially developed in America, Disney theme parks and resorts have spread to other parts of the world such as Paris and Hong Kong. There is now a Disney cruise line.

Another venture has been into the non-animation film world. Included under the Studio Entertainment division is: Touchstone pictures, Dimension films, Miramax and Hollywood pictures as well as the original Walt Disney animation studios. The Disney television group includes ABC, ABC news, Disney Channel, Disney Family Movies, Radio Disney and more besides. Disney has also entered the interactive world with its Interactive Media group including: Disney.com, ABC.com, clubpenguin.com and espn.com. Under Disney Consumer Products there is: World of Disney Stores, Muppets Holding Company, Disney Store, Baby Einstein and Disney Publishing Worldwide. In 2008 total revenue was US$ 37.8 billion. Not bad . . . for a mouse!!

Source: Adapted from http://corporate.disney.go.com.

Given the Boot

The UK health and beauty group, Boots, began trading in 1849 selling herbal remedies from a small shop in Nottingham. It is now the UK's leading supplier and retailer of health and beauty products. However, recent years have not been easy for the group. Boots has faced intense and growing competition from some of its rivals particularly discount health and beauty retailers and supermarkets, many whom have opened their own pharmacies. There has been intense competition from manufacturers and marketers of many of the products that Boots themselves produce and market under their own brand names, such as toiletries, cosmetics and pain relief products.

A few years ago Boots management decided that the way forward was to expand their core health and beauty business by adding new products and services. The company introduced more health and beauty services in-store, such as manicure, pedicure and skin care clinics, 'minor' beauty surgery such as breast augmentation and 'Botox' treatment as well as introducing gym and fitness centres.

At face value, this seemed to make sense as these products and services were congruent with Boots' core business and positioning. After several experimental ventures in selected stores with some of these proposed ideas, Boots realized that even with their long experience in the health and beauty business this was a step too far and the idea was quietly dropped.

Drawing on Levitt's article to illustrate these advantages, consider the case of the film industry in the 1960s. Levitt suggested planners in this industry had defined their market and hence structure their marketing plans as being in the movies market. The generic need they were supplying however was in fact 'entertainment'. Therefore, they failed to anticipate the threat to their markets from the new 'competitor' television. Consequently, they lost out to this newer form of entertainment and could only watch with concern as their customer base dwindled, attracted to a cheaper, more innovative and more convenient way of fulfilling entertainment needs.

Most companies recognize the dangers of defining their markets and businesses too narrowly and have moved more towards these generic need-based definitions. Disney was once known as, and thought of themselves as, an animated film company. Their portfolio of businesses suggests they now think of themselves as being in the entertainment business.

Although the concept of generic needs for defining market boundaries is helpful in avoiding a myopic view of markets, in strategic marketing planning terms it also has drawbacks including the problem of precisely what is meant by 'generic needs' and how broadly we define these. We have seen that with this approach to defining markets, the intention is deliberately to push back the narrower market boundaries to which product/industry-based definitions give rise. However, the danger with using generic needs to define markets is that we can end up with definitions that are so broad as to be meaningless and are possibly misleading for marketing planning purposes.

Consider the example of cosmetic product manufacturers being in the generic needs market of 'beauty'. Clearly, there are many ways in which this need can be filled by customers. For example, the customer can meet this need by visiting a health farm or a plastic surgeon. Similarly, the customer could join a gymnasium, go on a diet, or purchase a new outfit; indeed, many other permutations are possible in terms of making an individual more attractive. From the point of view of the cosmetics company we ask: Is it helpful and realistic to define a market in such wide generic terms as beauty? For example, is a cosmetics company really in competition with a manufacturer of clothing or a plastic surgeon? The answer, of course, is 'no'. This is useful in reminding us that we must think of competition from outside the industry and helps prevent a myopic view of markets, customers and competition, but it is too broad to be of operational use in defining market boundaries and helping to develop marketing plans.

What is needed is an approach to defining markets that is neither too narrow nor too broad and is classified in terms of customer function or group and technology.

CUSTOMER FUNCTIONS, TECHNOLOGY AND CUSTOMER GROUP-BASED DEFINITIONS

Customer functions

We have seen that customers purchase benefits when they buy. For example, when we purchase a car it fulfils the functions of transport, prestige, convenience, etc. When we purchase a watch we purchase time measurement, status, etc. But similar products often serve different use functions (benefits) and hence different markets. Products and services with similar use functions are in similar markets, and hence they are in competition. In this context, let us consider computer software. Instead of defining the market in terms of generic needs, which might be 'rapid and accurate information processing', we might identify and define different markets according to the function(s) computer software serves or the ways in which it is used. For example, Function A might be 'games and entertainment' while Function B could be 'business problem analysis'. Clearly, each of these functions represents a very different market. We can see that the concept of functions served is very close to our previous generic needs basis of market definition. Identifying different functions, however, provides different customer benefits and represents more meaningful ways to define markets. We still have to decide how narrowly or widely to define functions (and hence markets); e.g. the 'business problem analysis' function could be broken down further into sub-functions as shown in Figure 3.1.

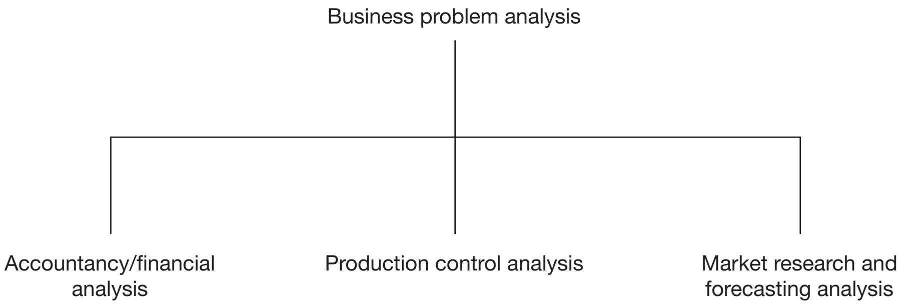


FIGURE 3.1 A 'business problem analysis function'

The question of how broadly or narrowly to define functions can only be resolved by reference to the strategic purpose of our definition. For example, if we are concerned to consider potential competition from outside conventional industry boundaries, we need to think at a higher level of abstraction than if we were evaluating direct competitor threats. The more broadly we define use-functions, the more expansive the market becomes. There is a stage where the definition of a use-function is so wide as to lose all value. Different use-functions attract different competitors and products and services that serve different use-functions serve different markets.

Technology

The second key dimension for market definition is the type of technology used to fulfil a function e.g. the function of 'convenience meals' can be met by technologies of canned foods, boil-in-the-bag or microwave. Similarly, the function of 'packaging' can be fulfilled by the alternative technologies of plastic, metal or glass. In defining the market, the strategic marketing planner must determine the technological bases to be used.

Customer groups

Most markets comprise sub-markets or segments, which comprise smaller groups of customers. Each of these sub-groups is homogeneous with regard to an important attribute, e.g. benefits sought, but heterogeneous when compared to other sub-groups with respect to these dimensions. The market for clothing, for example, can broadly be broken down into male and female subgroups. In turn, each of these broad sub-groups can be further divided into, for example, different age groups and/or income groups or 'fashion conscious' vs. 'traditional' groups. The definition of 'market' should specify which of these customer groups is to be served.

Combining factors to define market boundaries

Combining these three factors, we are in a position to illustrate how they may be used to define existing and potential market boundaries. An illustration of how these three elements might be combined is contained in Figure 3.2 for a supplier of drugs for medical use. Market boundaries in Figure 3.2 are defined by any combination of the three axes. There are different cells in the matrix of options each representing what are essentially individual building blocks for market definition. Each cell in the matrix may be defined in terms of customer function, customer group and technology. From the point of view of the drugs supplier, the current market boundary may be redefined using any one or combination of the basic dimensions e.g. new customer groups can be added, new functions served or alternative technologies used. The market cell shown in Figure 3.3 might represent the current 'served' market for the company. The remaining cells represent potential markets.

Practical illustrations of the different market boundaries, using the medical analogy, are:

Homeopathic drugs (technology) supplied to *chemists* (customer group) for the *prevention* (customer function) of disease (see Figure 3.3).

Synthetic drugs (technology) supplied to *private hospitals* (customer) for the *treatment* (customer function) of disease.

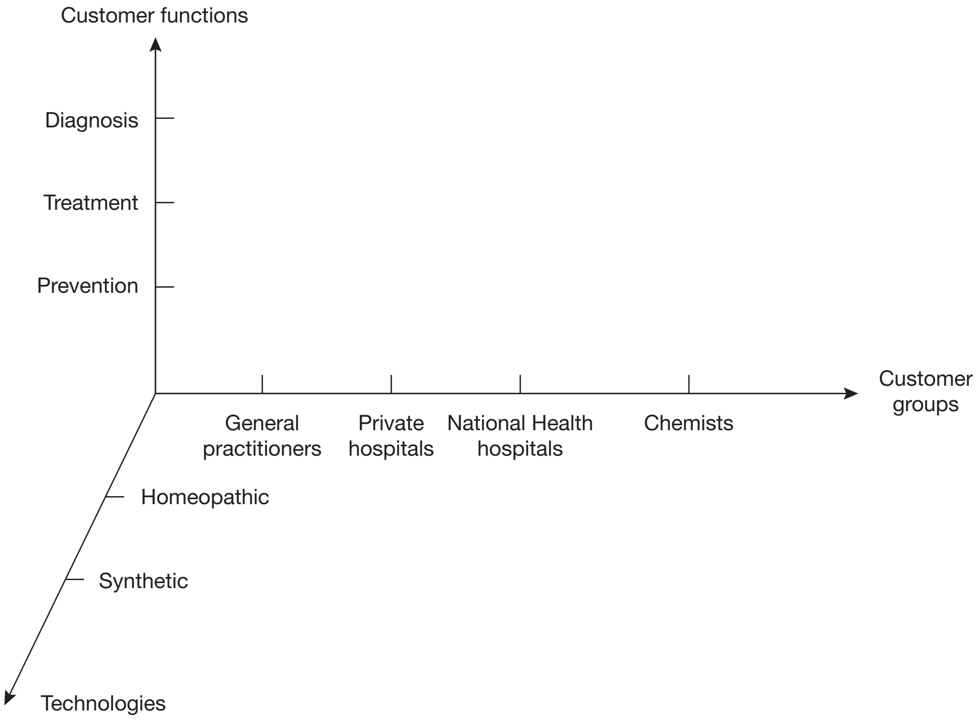


FIGURE 3.2 Market boundary definition

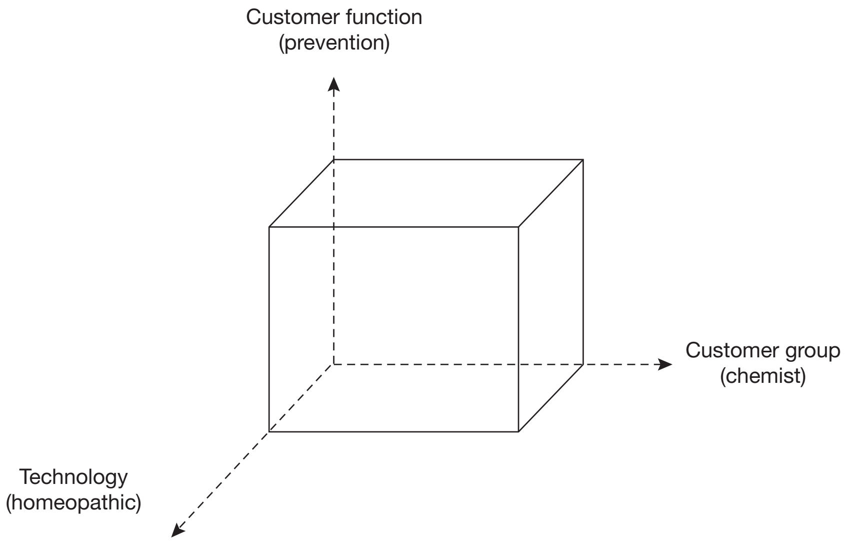


FIGURE 3.3 An illustrative market cell

In practice, the process of identifying and grouping market cells is complex. In particular, it requires detailed and objective market analysis combined with substantial managerial experience and insight.

Ultimately market boundaries are determined by customers and their perceptions, needs and choice behaviour rather than by the marketer. For example, we can establish how a market is divided into sub-markets by asking customers, or potential customers, how they choose between different product offerings. An interesting insight into the way customers, through their choice decisions, ultimately determine the limits of a market, and hence factors such as who or what constitutes competition, can be obtained by asking consumers to identify a list of products they feel could be used in a particular context or application. This approach is sometimes referred to as '**item by use analysis**'. For example, within the total market for chocolate, some customers may see a particular chocolate product as being most appropriate for snack occasions e.g. Mars Snickers which uses this theme in its advertising. So far as the customer is concerned, a key sub-division of this chocolate snack market is based on the primary need a particular product fulfils, in this case the 'snacks' market. However, Mars makes ice cream bars and here the product could be viewed as the 'dessert' market.

Despite the added complexities of this more sophisticated approach to defining market boundaries, it offers significant advantages over both product/industry-based definitions, and definitions based on generic needs. In order to use this three-dimensional approach, we need to understand how and why markets divide into different customer groups and also the range of customer functions which may be represented in the market. Identifying alternative technologies is less problematic. Advanced research techniques are enabling marketers to identify market boundaries more easily.

Understanding different customer groups and functions leads to what, for strategic market planning purposes, is a most important area of marketing, namely **market segmentation,** together with the related decision areas of **targeting** and **positioning**.

MARKET SEGMENTATION, TARGETING AND POSITIONING

In the example of the hypothetical supplier of medical drugs, the market served consisted of just one cell or segment. The total market, however, comprises several market segments. In other words, the market is not homogeneous, but rather is made up of separate cells of demand preferences. As Proctor[4] points out, the marketer's approach must be based on the acceptance that 'there are different demands in the market place'. It is this heterogeneity of markets that gives rise to the need for effective segmentation, targeting and positioning; three distinct steps in the process of what is known collectively as target marketing.

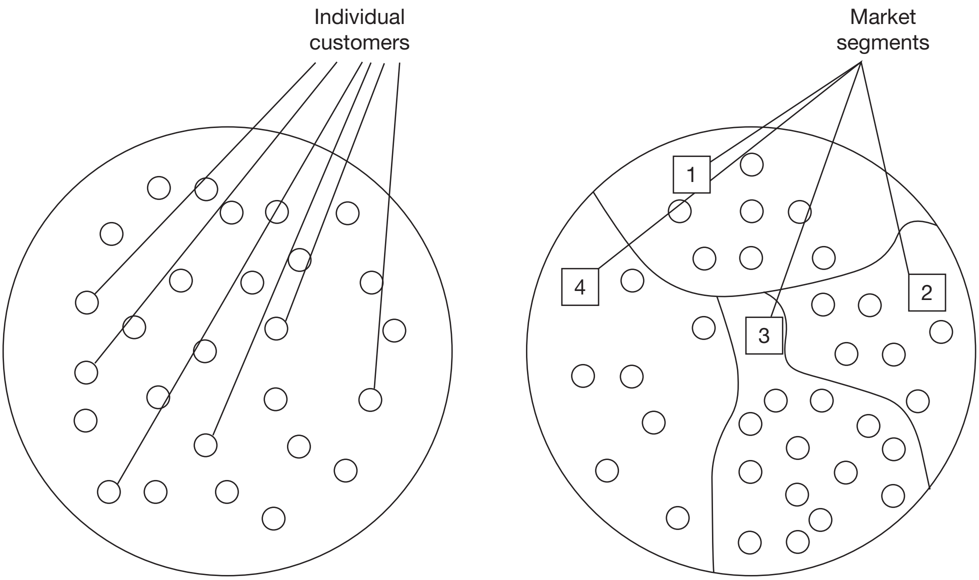
The meaning and importance of target marketing

The concept of target marketing is a logical interpretation of the basic philosophy of marketing. Essentially, it comprises the identification of different needs for specific groups or segments of customers, deciding which of these groups the organization should target or serve (and on what basis) and then designing marketing mix programmes so the needs of these targeted groups are then more closely met.

As explained above target marketing derives from the fact that demand within markets is heterogeneous. In the 'total' market for a product or service, different groups of customers will be looking for different clusters of benefits. In order to understand this better, you should reflect on the products and services you purchase. Do you purchase exactly the same kind of products as your friends and neighbours? Are your specific requirements with respect to purchasing certain products and brands different? Perhaps your friends and neighbours have different tastes in clothes or in the type of holidays they take. Perhaps they purchase and drive different cars or use different brands of toothpaste or breakfast cereals. Market segmentation, targeting and positioning starts by recognizing that within the total demand and market for a product, specific tastes and requirements often differ. We refer to a market that is characterized by differing specific preferences as being heterogeneous. Market segmentation therefore breaks down the total market for a product or service into distinct patterns or segments of customers who share similar demand preferences within each segment. This is illustrated in Figure 3.4(a) and (b).

In Figure 3.4(a) there is no market segmentation. Each and every customer in the total market is assumed to have similar demand preferences and wants, i.e. demand is homogeneous. In fact demand in most markets is heterogeneous as we have already explained. Hence, the total market can be broken down into segments of customers, as shown in Figure 3.4(b).

Effective segmentation is achieved when we group together customers who share similar patterns of demand and where we can differentiate each segment in the pattern of demand from other segments in the market. In other words, effective segmentation is achieved when the clustering gives rise to **homogeneous demand** within, and **heterogeneous demand** between, each segment. Most markets are capable of being segmented.



(a) Total market i.e. no segmentation

(b) Total market segmented into sub-groups/segments

FIGURE 3.4 The meaning of market segments

Salt of the Earth

Do all markets segment? Are there any markets where every customer wants the same thing i.e. demand is homogeneous?

When posed this question, people invariably suggest the market for salt is one where there are no different segments. After all, one salt is much the same as another. We put it in our food and apart from health issues think no more about it.

The mention of health gives us a clue as to the existence of a distinct market segment within the overall market for salt. We are now aware that too much salt is bad for our health, but many people do not like the idea of cooking and eating without salt. As a result there are now healthier versions of salt available with different constituents targeted specifically at this segment.

Once we recognize that there are different salt products aimed at different segments we find there is a whole range of different types of salt targeting the needs of different segments of the market e.g. 'up-market' sea salt, 'hand dried' crystals, basic salt products for price-conscious consumers, extra large packets for the catering trade and even rock salt for those who simply want to clear their paths of snow and ice. A bewildering range of salt products can by found by keying 'salt' into your search engine.

The fact that most markets are made up of heterogeneous demand clusters means companies have to decide which of these clusters to serve. Most companies recognize that they cannot effectively serve all the segments in a market. They must instead target their marketing efforts. Imagine you are a part of the project team developing a new car. Should the proposed new model be a two, four or five-seater model? Should it have a 1000, 2000 or 3000cc engine? Should it have leather or fabric seats? In deciding these issues, the overriding factor is customer demand, i.e. what are the customers' needs? Some customers (segments) may want a five-seater, 2000cc model with leather upholstery, while others may prefer a four-seater with a 1000cc engine and fabric seats. One solution is to compromise and produce a four-seater 1500cc model with leather seats and fabric trim. Clearly, such a model would go some way to meeting the requirements of both groups of buyers, but because the needs of neither market segment are precisely met and catered for, customers might prefer and purchase from suppliers who meet their requirements exactly.

ADVANTAGES OF TARGET MARKETING: CRITERIA FOR EFFECTIVE SEGMENTATION

Engaging in target marketing:

1 provides an understanding of competition;
2 gives insights into competitive advantage, and how this can be best applied;
3 allows the company to better appreciate of what customers need;
4 enables the company to produce more effective marketing plans;
5 uses company resources more effectively.

Stuck for Choice

Major car producers such as Ford, Chrysler and Fiat produce a model and variations on that model for virtually every segment of the market. The following is a list of the model range of passenger cars available from Ford in September 2009:

Ka
Fiesta
Focus
C-Max
S-Max
Kuga
Galaxy

Most of these main model variants are available with several engine options, several trim variants, a myriad of colours, and a huge range of accessories. Provided the customer wants a Ford they would be hard put not to find something that suited them. In short, the patterns of demand we referred to earlier require that marketers develop specific marketing mixes (i.e. products, prices, promotional appeals and distribution channels that are aimed or targeted at specific market segments). This 'targeting' vs. 'mass marketing' approach is referred to as using a '**rifle approach**' as opposed to using a '**shotgun approach**' to achieve market impact.

In order to secure these advantages, the base(s) used for segmentation should fulfil the following criteria:

1 *Measurability/identifiability*: The base(s) used to segment a market should lead to ease of identification (who is in each segment) and measurability (how large is each segment).
2 *Accessibility*: The base(s) used should ideally lead to marketers being able to reach selected market targets with their marketing efforts.
3 *Substantiality*: The base(s) used should ideally lead to segments that are sufficiently large to be worthwhile serving as distinct market targets.
4 *Meaningfulness*: The base(s) used should lead to segments that have different preferences/needs and show clear variations in market behaviour and response to marketing efforts.

Of all requirements for effective segmentation, this last one is the most important. It is an essential prerequisite in identifying and selecting market targets. These criteria are examined later in this chapter when we discuss the variety of bases for segmenting markets. Of course target marketing is not without its disadvantages which are:

1 It increases both production and marketing costs, i.e. economies of scale and the advantages of mass production are reduced and individual marketing campaigns need to be implemented for each market segment.

2 It requires more marketing research and information than if we do not segment and target.
3 There is a danger of brand proliferation and different company products competing against each other.
4 Critics argue that some approaches to segmentation and targeting help reinforce prejudices and stereotypes and are a form of 'customer abuse' by the marketer (see Rotfeld).[5]

We now examine steps in target marketing and how these steps work in practice.

STEPS IN TARGET MARKETING

Most marketers conceive of target marketing as comprising a series of steps or stages (see Solomon *et al.*).[6] The following is a sequence of steps to be taken when conducting a segmentation, targeting and product positioning exercise:

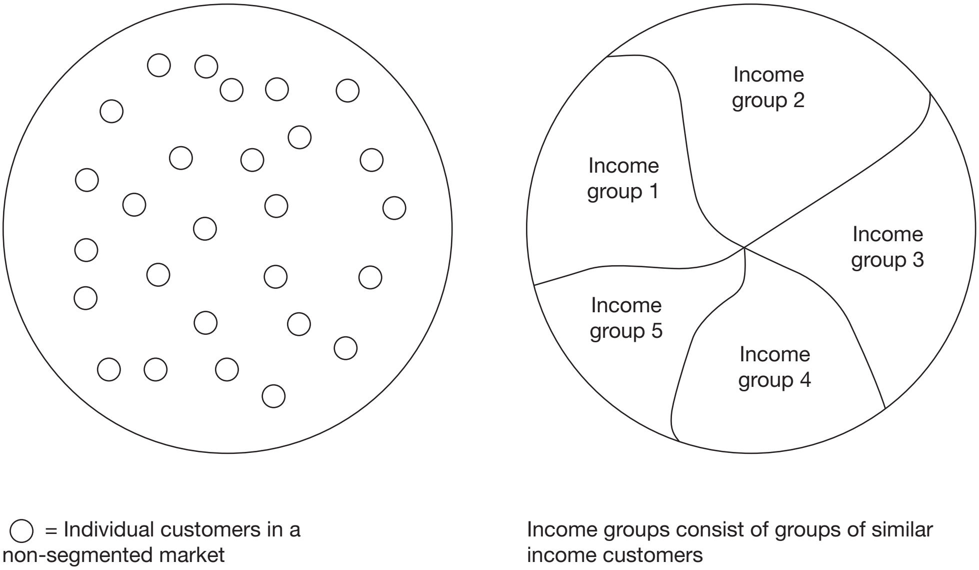
1 Divide the market into segments, selecting bases for segmentation.
2 Evaluate and appraise the market segments resulting from the above.
3 Select an overall targeting strategy.
4 Select specific targets in line with the previous step.
5 Develop product positioning strategies for each target segment.
6 Develop an appropriate marketing mix for each target segment to support the positioning strategy.

We now examine each of these steps to appreciate further what target marketing means.

Dividing a market into segments

In segmentation, targeting and positioning, we are seeking to identify distinct sub-sets of customers in the total market for a product. Any sub-set might eventually be selected as a market target, and on that basis a distinctive marketing mix can be developed. For example, we might find that in the market for hi-fi equipment we can identify a number of distinct sub-sets (segments) of customers based upon income levels. This is shown in Figures 3.5(a) and (b). Continuing the example, we may find that income segments can be broken down further into a combination of income and age segments as illustrated in Figures 3.6(a) and (b).

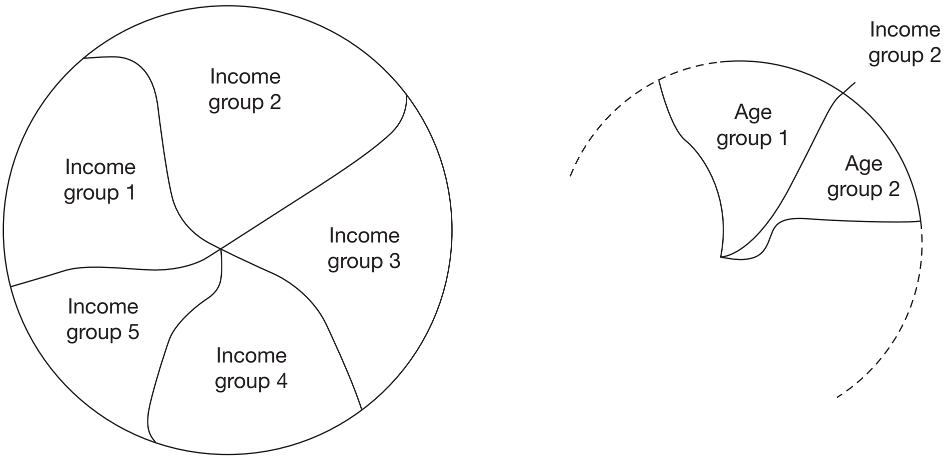
We need to recognize that in the example [Figure 3.6(b)] we assume that both income and age are associated with differences in buyers' behaviour towards the product, i.e. different age/income groups will have different needs/preferences with respect to hi-fi products (e.g. under 35s might prefer the same audio in an aluminium case and over 35s might prefer the same audio, but with a wooden case) and each might to respond to a different marketing approach. If we are correct in our assumption, this means that the bases selected for segmentation (age/income) are meaningful ones on which to segment the market. This is the most important criterion for effective segmentation. In addition, both these segmentation bases pose relatively few problems for the marketer in terms of identifying/measuring and reaching the segments to which they give rise; in the UK we know what proportion of the total population falls into discrete age groups (i.e. identifying/measuring). Furthermore, media habits of different age groups, e.g. television viewing and readership of



(a) Total market prior to segmentation

(b) Market segmented on basis of income groups

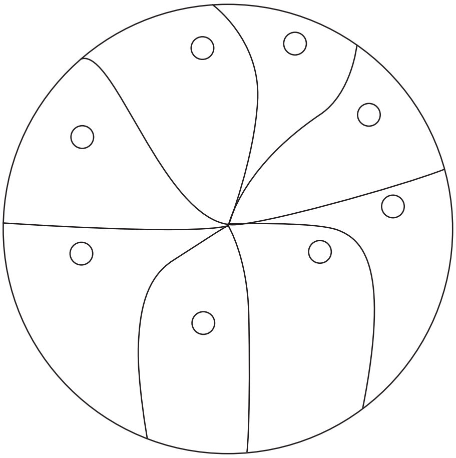
FIGURE 3.5 Segmenting the market for hi-fi by income



(a) Market segmentation on basis of income

(b) Market segmentation on basis of income/age

FIGURE 3.6 Further segmentation of each income group based on age



◯ = A single customer who forms a single segment

FIGURE 3.7 Complete market segmentation

magazines/newspapers, enables marketers to use direct marketing for selected target age groups (known as **reachability**). These are 'ideal' criteria for effective segmentation and count for little if they are not associated with meaningfulness. With regard to the criterion of 'substantiality', the hi-fi example shows that a market may be segmented using a succession of different bases. This leads to the breaking down of the market into an increasing number of smaller and smaller segments. The ultimate point to which this process can be taken is illustrated in Figure 3.7 where the market has been completely segmented into individual buyers, i.e. a fully customized market.

The extent to which it makes business sense to continue to subdivide markets in this way depends on how worthwhile the resulting segments are in serving as distinct market targets with a separate marketing mix. In some product markets, complete segmentation (i.e. tailoring the marketing mix to individual customers) is not simply desirable, but essential; in shipbuilding or the supply of aircraft, each customer may be treated as a separate market. For many consumer product markets, such 'customizing' of the marketing effort would be unnecessary and prohibitively expensive.

In the hi-fi example we used the bases of income and age in segmenting the market. However, here is no 'right' way to segment a market, and different bases/combinations of bases, particularly motivational ones, should be sought by the marketer. A number of relatively common bases, which we now examine, are frequently used by marketers, starting with bases that are typically used in consumer product markets, followed by those used in organizational product markets.

Bases for segmenting consumer markets

Segmentation must fulfil various criteria for being effective. We now discuss some of these, starting with geographic and demographic bases and moving on to some of the more recent developments, in particular the use of geodemographic, lifestyle and combination bases and those that use the behaviour of consumers themselves as the basis for identifying market segments.

We begin with two conventional and widely used bases for segmenting consumer markets: geographic and demographic segmentation.

Geographic segmentation

This consists of dividing a market on the basis of different geographical units. In international marketing, different countries may be deemed to constitute different market segments. Similarly, within a country a market may be segmented regionally into, for example, north versus south segments. **Geographic segmentation** is still widely used, at least as one element in a combination of segmentation bases. Clearly, geographic segmentation is potentially at its most powerful and useful when considering international markets, and this is looked into in more detail in Chapter 16.

Demographic segmentation

This approach comprises a variety of bases and the more common ones include:

social class/occupation;
age;
sex;
income;
education;
family size;
nationality;
family life cycle.

Demographic bases were for many years the most popular for **segmentation** in consumer product markets, first because they were felt to be most strongly associated with differences in consumer demand (i.e. they are meaningful) and second because demographic information is relatively easy to obtain. With the exception of family life cycle and social class/occupation, their meaning and potential application is self-evident. Brief explanations of these two exceptions are now provided:

Family life cycle

This basis for **life cycle segmentation** centres on the idea that consumers pass through a series of distinct phases in their lives. Each phase is associated with different purchasing patterns and needs.

The unmarried person living at home may have very different purchasing patterns from a chronological counterpart who has left home and recently married. It is also recognized that purchasing patterns of adults often change as they move towards retirement.

The Newspaper Society together with the British Market Research Bureau (BMRB) have developed a 'life stage' classification system. Based on detailed market research and analysis, this life stage classification identifies the following life stage segments for classifying consumer groups:

live with parents;
left parents' home and live alone or in shared accommodation;
live with partner only;
no children;
children in household, majority pre-school age;
children in household, majority beyond school age;
children have all left home;
live with partner or alone.

These life stages can be grouped into three major categories, namely:

pre-family stages;
people with children at home;
people with children who have left home.

The developers of this system claim that it works well in distinguishing between different customer groups with regard to their lifestyles, media habits, and most importantly, their purchasing patterns.

Occupation/social class

These are linked together because official socio-economic group categorizations are based upon occupation. In the UK, this occupation is that of the 'chief income earner', because this is what is regarded as being the criterion that determines the social class of the household. It is a family classification unlike gender, which is an individual classification. Of all the demographic bases for segmenting consumer product markets, **occupational social class segmentation** is the most widely used as it so universally known and is simple to apply.

Social class scores highly against the segmentation criteria of 'identifiability' and to a lesser extent 'accessibility'. It is a simple task to classify individuals on the basis of occupation and then to reach the different social classes so categorized, according to their different patterns of media usage and shopping habits. Table 3.1 shows the system of social class gradings used in the UK together with an indication of the types of occupations associated with each.

TABLE 3.1 Occupation and social class

Social class grading	*Occupation*
A	Higher managerial
B	Intermediate management
C1	Supervisory/lower management
C2	Skilled manual
D	Semi-skilled/unskilled
E	Lowest levels of subsistence, e.g. state pensioners with no supplementary income

As occupation is the only factor in this system used to ascribe social class, it is important that the codex used to classify occupations into the six different social categories is valid, because the different occupations used to designate social class discriminate and distinguish between different customer groups who might have different purchasing patterns, to meet the 'meaningful' criterion identified earlier. Although this long established system of assigning social class is widely used in marketing, there is increasing doubt as to the extent to which social class is nowadays a 'meaningful' basis for segmenting some markets. This arises from the fact that they are no longer so strongly related to income groups. For example, it is often the case that the skilled manual group (C2) earn higher incomes than supervisory or intermediate management counterparts (C1 or B). Such groups are often in a position to purchase products and services that were traditionally the prerogative of higher social grades.

Many of the more traditional demographic bases including social class have become less meaningful to marketers as bases for segmenting consumer markets. Indeed, in the case of social class, there is evidence to suggest that this basis for segmentation may be a poor predictor of customer needs and behaviour, and might even be misleading. Because of this, the UK Office of National Statistics has developed an updated social class system which more nearly reflects the social groupings of today. This system, though still based on occupation, has eight new categories of socio-economic groups as opposed to the existing six, and these are illustrated in Table 3.2.

Although this system of classification is new, it is interesting in the way in which some of the occupations of the former system of social grading have been reassigned. The traditional system as shown in Table 3.1 is still the most popular for market researchers, but our notion of social class and its use in marketing is changing. For example, as we move towards new, more complex measures of social class this basis of segmentation is perhaps becoming more of a pschycographic/lifestyle basis of segmentation described below rather than a true demographic basis. Certainly, ideas about the nature, meaning and uses of social class in market segmentation are changing.

Concern regarding the predictive power of these more conventional demographic bases for segmenting consumer markets, coupled with improvements in data collection and analysis methods,

TABLE 3.2 Occupation and social class new classification

1	Higher managerial and professional
2	Lower managerial and professional
3	Intermediate occupations
4	Small employers and own account workers
5	Lower supervisory and technical occupations
6	Semi-routine occupations
7	Routine occupations
8	Long term unemployed

has led to the development of new bases in consumer markets. We group these newer segmentation bases into three types: 'geodemographic' bases; 'lifestyle/psychographic' bases and 'combination' bases.

Geodemographic bases

As the term implies, **geodemographic segmentation** of consumer markets is based on a combination of demographic and geographic factors. It is easier to understand the ideas behind geodemographic segmentation if we look at one of the first systems of geodemographic segmentation used in the UK, namely, the **ACORN system** (short for 'A Classification of Residential Neighbourhoods'). The ACORN system is produced by CACI, and like many of the geodemographic systems of segmentation, it is based on census of population data. In the UK this census data is collected on a decennial cycle during each year that ends with 1 and on a 10 per cent sample basis on every year that ends with 6, and consists of the collection and analysis of detailed information on every household concerning factors such as, for example, household size, incomes, occupations, car ownership etc. ACORN categorizes all 1.9 million UK postcodes, using over 125 demographic statistics in England, Scotland, Wales and Northern Ireland, and 287 lifestyle variables, giving a good understanding of clients and prospects. These districts can be described on the basis of the type of property and householder predominantly prevalent in each census enumeration district. Research has established that the different types of property and the neighbourhoods in which they are located, are strongly related to purchasing behaviour and patterns, so much so that in some cases it is possible from the type of neighbourhood and property to predict details such as average wine consumption by households in the area, holiday preferences and incidence of frozen food purchase.

The six major categories, together with the different 17 groups related to them, are shown in Table 3.3. The ACORN system is a good indicator of some patterns of purchasing such as brand choice and average spend, and goes some way towards fulfilling the 'meaningfulness' criterion mentioned earlier.

Among some of the marketing applications where ACORN is useful are:

- compilation of direct mailing lists;
- site location of new stores and distribution outlets;
- management of advertising campaigns, particularly in the local press;
- quantifying sales potential in any given area.

Another geodemographic system of segmentation is the **MOSAIC system**. This system classifies groups of homes on the full postcode. On average, 15 houses share a single postcode and each group shares a MOSAIC classification. According to the MOSAIC system (developed by CCN Marketing) there are 58 types of residential area in the UK (an example being M12: 'lower income enclaves in high income suburbs'). The system is used largely for targeting direct mailshots according to MOSAIC category. It allows users to 'cherry pick' and send personal communications to categories of household in specific locations that they wish to target.

Geodemographic segmentation systems are now widely available and are important to marketers. As with any segmentation base, these are not perfect. We know, for example, that in some census enumeration districts the types of neighbourhood and property can differ considerably even though

TABLE 3.3 ACORN groups in the United Kingdom

Gallery	*Group*	*Type*
Wealthy Achievers	Wealthy Executives	01 Affluent mature professionals, large houses 02 Affluent working families with mortgages 03 Villages with wealthy commuters 04 Well-off managers, larger houses
	Affluent Greys	05 Older affluent professionals 06 Farming communities 07 Old people, detached houses 08 Mature couples, smaller detached houses
	Flourishing Families	09 Larger families, prosperous suburbs 10 Well-off working families with mortgages 11 Well-off managers, detached houses 12 Large families & houses in rural areas
Urban Prosperity	Prosperous Professionals	13 Well-off professionals, larger houses and converted flats 14 Older Professionals in detached houses and apartments
	Educated Urbanites	15 Affluent urban professionals, flats 16 Prosperous young professionals, flats 17 Young educated workers, flats 18 Multi-ethnic young, converted flats 19 Suburban privately renting professionals
	Aspiring Singles	20 Student flats and cosmopolitan sharers 21 Singles & sharers, multi-ethnic areas 22 Low income singles, small rented flats 23 Student Terraces
Comfortably Off	Starting Out	24 Young couples, flats and terraces 25 White collar singles/sharers, terraces
	Secure Families	26 Younger white-collar couples with mortgages 27 Middle income, home owning areas 28 Working families with mortgages 29 Mature families in suburban semis 30 Established home owning workers 31 Home owning Asian family areas
	Settled Suburbia	32 Retired home owners 33 Middle income, older couples 34 Lower income people, semis
	Prudent Pensioners	35 Elderly singles, purpose built flats 36 Older people, flats
Moderate Means	Asian Communities	37 Crowded Asian terraces 38 Low income Asian families

. . . continued

TABLE 3.3 ACORN groups in the United Kingdom . . . *continued*

	Post Industrial Families	39	Skilled older family terraces
		40	Young family workers
	Blue Collar Roots	41	Skilled workers, semis and terraces
		42	Home owning, terraces
		43	Older rented terraces
Hard Pressed	Struggling Families	44	Low income larger families, semis
		45	Older people, low income, small semis
		46	Low income, routine jobs, unemployment
		47	Low rise terraced estates of poorly-off workers
		48	Low incomes, high unemployment, single parents
		49	Large families, many children, poorly educated
	Burdened Singles	50	Council flats, single elderly people
		51	Council terraces, unemployment, many singles
		52	Council flats, single parents, unemployment
	High Rise Hardship	53	Old people in high rise flats
		54	Singles & single parents, high rise estates
	Inner City Adversity	55	Multi-ethnic purpose built estates
		56	Multi-ethnic, crowded flats

Source: CACI LIMITED (2009) 'ACORN' is a registered trademark of CACI Limited.

they are grouped into, for example, one ACORN category. We must be careful to establish that the geodemographic system being used is appropriate to particular markets and products. Systems like ACORN are usually linked with market research survey systems such as the Target Group index survey conducted in the UK by the British Market Research Bureau. This is be used to assess the potential effectiveness of any proposed geographic segmentation basis for a particular market.

Lifestyle segmentation

A more contemporary basis for segmenting consumer markets is **lifestyle segmentation**, referred to as '**psychographics**'. It is based on the fact that individuals have characteristic modes and patterns of living that may influence their motivation to purchase selected products and brands, e.g. some individuals may prefer a 'homely' lifestyle, whereas others may see themselves as living a 'sophisticated' lifestyle.

Two examples of lifestyle/psychographic segmentation techniques serve to illustrate this approach to segmenting consumer markets.

Young and Rubicam's '4 Cs'

The advertising agency Young and Rubicam developed a lifestyle segmentation system that analysed how consumers perceive themselves and how these perceptions are reflected in their interests, values and activities, giving rise to different purchasing preferences and brand choices. Using marketing research involving in-depth interviews, focus groups and questionnaires, they identified three main lifestyle groups based on a Cross Cultural Consumer Characterization (**the 4 Cs**). Each of these three main lifestyle groups contains a number of sub-groups as follows:

Lifestyle Group	**Sub-groups**
The Constrained	Resigned poor
	Struggling poor
The Middle Majority	Traditionalists
	Mainstreamers
	Aspirers
	Succeeders
The Innovators	Transitionals
	Reformers

This classification was based on the notion that each group and sub-group, in this case because of their lifestyle/personalities, had differing needs and would exhibit different purchasing patterns and brand choices. For example, in the '4 Cs' system, in the Middle Majority group, mainstreamers were found to be consumers who were conventional in their lifestyle patterns and values. They found that mainstreamers prefer and purchase well-known brands. They tend not to purchase supermarket 'own label' brands. Similarly, mainstreamers tended to buy from domestic rather than overseas producers wherever possible. In contrast, aspirers, who were motivated to improve themselves, tended to purchase the latest products and brands which in their view would bestow higher status on them. They tend to indulge in the latest activities and pastimes and purchase conspicuously. Young and Rubicam therefore suggested that knowing the lifestyle group to which an individual belongs can be used in market segmentation and targeting, and in particular development of promotional campaigns to appeal to various target groups.

The VALS system

Developed by the Stanford Research Institute, this approach to lifestyle/psychographic segmentation is based on information collected from self-administered questionnaires embracing respondents' Activities, Interests, and Opinions (**AIO measures**) together with motives, attitudes, and aspects such as values. The updated system of **VALS** (and **VALS 2**) (which stands for Values and Life Styles) uses two key dimensions to classify customers into eight lifestyle types. These two dimensions are 'Self Orientation', and 'Resources Available to Sustain the Self Orientation'. These are used to classify a customer into one of the following lifestyle categories:

- 'fulfilled'
- 'believer'
- 'achiever'
- 'striver'
- 'struggler'

- ‘experiencer’
- ‘maker’

For example, ‘experiencers’ are action-oriented with regard to the self-orientation dimension and have a lifestyle characterized by a high degree of physical and social activity coupled with variety-seeking and risk-taking behaviour. With regard to the ‘resources available’ dimension, they have the most resources of any of the eight lifestyle groups to sustain their self-orientation. This lifestyle group seeks wealth, power and fame, and are substantial consumers of exercise and sports products, tending not to be conformist in their purchasing. The VALS2 system is now regarded as the major lifestyle/psychographic system in the USA. Like the ‘4 Cs’ system, VALS 2 is used predominantly to develop promotional appeals.

These are two of a number of lifestyle systems for classifying consumers. In recent years, marketers have become increasingly interested in the potential of lifestyle segmentation for developing more effective marketing strategies. Not without problems with regard to underpinning concepts and problems of data collection and analysis associated with many lifestyle segmentation techniques, lifestyle segmentation has proved powerful for developing marketing and particularly promotional strategies.

These approaches to consumer market segmentation are examples of **associative segmentation**. That is, they are used where we feel that differences in purchasing behaviour/customer needs may be associated with them. If we use social class or lifestyle to segment a market, we assume that purchasing behaviour is a function of social class or lifestyle. Most problems with using such associative bases tend to be related to the issue of the extent to which they are truly associated with, or are a reflection of, actual purchasing behaviour. Because of this, many marketers believe it is more sensible to use **direct** bases for segmenting markets. Such bases take consumer behaviour as the starting point for identifying different segments, and they are referred to as **behavioural segmentation** bases.

Behavioural bases for segmentation

Examples of the more frequently used behavioural bases in consumer markets include:

- **Occasions for purchase**
  Here, segments are identified on the basis of differences in the occasions for purchasing the product e.g. in the market for perfume, occasions for purchase might include a Christmas gift, a birthday gift or a wedding anniversary present or simply an opportunity to try out the perfume brand.
- **User/usage status**
  The distinction here may be made between ‘heavy’, ‘light’ and ‘non-user’ segments.
- **Benefits sought**
  The total market for a product or service is broken down into segments distinguished by the principal benefits sought by each segment e.g. the shampoo market includes these benefit segments that can be observed from manufacturers’ advertisements:

  – cleanliness;
  – protection from dandruff, greasiness and dryness;

- provides scalp medication;
- imparts feelings of 'well being'.

A 'benefits sought' basis for segmentation can provide useful insights into the nature and extent of competition and the possible existence of gaps in the market. Benefits sought bases of segmentation have been shown to be useful in markets ranging from student clothing[7] through to the market for beef in Brazil.[8]

- **Loyalty status**
  This direct approach is based on the extent to which different customers are loyal to certain brands (**brand loyalty**) or retail outlets (**store loyalty**). Identifying segments with different degrees of loyalty enables a company to determine which of its customers or prospective customers may be brand or store-loyal prone. Once they are convinced of the relative merits of a brand or supplier, such customers are unlikely to transfer their allegiances.

Where existing brand loyalty is already strong in a market, the would-be new entrant is faced with a difficult marketing problem. In such a situation, it may be necessary to identify and target the non brand loyal segment.

Combination segmentation bases

Often individual segmentation bases are used in combination to segment markets and delineate target customers e.g. the marketer may determine that targets are best identified in a particular market by using a combination of gender, income, social class etc. Some approaches to segmentation have been specifically developed to combine certain selected variables as the overall basis for segmenting a market. An example of this approach is **SAGACITY** developed by Research Services Ltd in the UK. This segmentation technique is based on a combination of family life cycle, occupation and income. These combinations are used to identify and describe some 12 consumer segments which the company suggests have differing purchasing needs and purchasing behaviour. Such a combination of individual segmentation bases in ways which are meaningful for a product market application represents a flexible way to delineate market segments.

DEVELOPMENTS IN CONSUMER SEGMENTATION TECHNIQUES: DATABASES, ONE-TO-ONE MARKETING AND THE INTERNET

Given its central importance to the development of marketing plans, segmentation is one of the most widely researched concepts in marketing. Marketers, academics and practitioners are constantly looking for new and more effective ways to segment and target markets. There is no totally right way to segment a market. Over time markets and customers change. We must, therefore, be constantly looking for new and more meaningful ways to segment markets. We now find many creative and thought-provoking segmentation bases that reflect the contemporary environment and market factors ranging through, for example, 'Green' segmentation (Paco and Raposo)[9] 'familiarity expertise and involvement' (Taloe-West *et al.*)[10] and even 'odd or even' price endings (Harris and Bray).[11] As we might expect, some of the most significant developments in market segmentation and targeting stem from developments in information technology and the Internet.

Effective segmentation and targeting, like many areas of marketing, requires information and analysis of consumer data. The development of inexpensive and readily available software programs puts this information increasingly at the disposal of the marketer. Modern data collection, storage and analysis techniques enable marketers to understand customer buying preferences and habits much better. It is now economically viable to profile buying patterns of individual customers and access this information through a database. Interrogation of company databases to search for information on customers, called **data mining**, is now extensively used by marketers with segmentation and targeting being one of the most fruitful of these uses (Liu and Chen).[12] This development is moving to a situation where instead of thinking of marketing to groups or segments of customers, the marketer is able to consider one-to-one marketing. The Internet plays a significant role here as the marketer can build an effective and detailed database on individual customers. Through this mechanism, the marketer can reach individual customers with tailored marketing programmes. Similarly, research has shown that the Internet and databases can be combined with effective segmentation and targeting to provide significant **cross-selling** opportunities (Ansell *et al.*).[13]

Perhaps one of the most significant developments in recent years, affecting potentially every facet of marketing has been the growth of '**mobile marketing'**. As the term implies, mobile marketing uses the technology of the mobile phone to target customers. Many think of mobile marketing as simply using their mobile phones to vote out a contestant on 'Big Brother' but in fact mobile marketing encompasses mobile advertising, mobile sales promotions, 'click and buy' technology, mobile CRM to allow customers to track their orders, and of course mobile applications which allow customers to access entertainment content such as games, ringtones and mobile videos, all using the ubiquitous five number short-code systems.

A recent report by the Internet Advertising Bureau (IAB) and PricewaterhouseCoopers[14] reported that the UK mobile advertising market was worth £28.6 million in 2008, a 99.2 per cent increase on the previous year. Mobile marketing in particular allows marketers to target individual customers and will continue to grow in importance.

BASES FOR SEGMENTING ORGANIZATIONAL/ INDUSTRIAL MARKETS

The basic approach to segmentation, targeting and positioning does not differ greatly between consumer and organizational markets. Segmenting industrial product markets introduces additional bases, whilst precluding others.

The most commonly encountered bases for segmenting organizational markets include:

- type of application/end use: e.g. fabric for curtains and fabric for fashion wear;
- geographical: e.g. north and south; the European Union; the USA;
- customer type: e.g. heavy engineering and light engineering;
- product technology: e.g. glass tubing, metal tubing and plastic tubing;

- purchaser loyalty status;
- customer size and usage rates;
- buying procedures: e.g. tender or non-tender; centralized and non-centralized buying;
- benefits sought.

Similar to consumer markets, organizational market segmentation may be on an indirect (associative) base or a direct (behavioural) base, and can use a variety of combined bases to obtain more precise segmentation.

A more neglected area of industrial segmentation has seen the emergence of powerful industrial segmentation frameworks, based on a step-by-step, hierarchical approach. A classic example is that developed by Wind and Cardozo[15] and illustrated in Figure 3.8. The approach is that customers in organizational markets be segmented in two stages. The first stage involves the formation of macro-segments, based on characteristics of the organization. The second stage involves dividing those macro-segments into micro-segments, based on characteristics of the DMU.

This hierarchical approach enables an initial screening of organizations and selection of macro-segments which, on the basis of organizational characteristics, provide potentially attractive market opportunities. Organizations that may have no use for the given product or service can be eliminated. Starting with the grouping of organizations into homogeneous macro-segments provides a reduction in total research effort and cost. Instead of examining detailed buying patterns and attempting to identify the characteristics of the DMU in each organization individually, such analysis is limited only to macro-segments that pass the initial screening.

Once a set of acceptable macro-segments has been formed, the marketer may divide each of them into micro-segments, or small groups of firms, on the basis of similarities and differences among DMUs within each macro-segment. Information for this second stage comes primarily from the sales force, based on salespeople's analysis of situations in particular firms or from specially designed market segmentation studies.

It is argued that the outcome from this segmentation model should include an important variable on which firms can be assigned to segments, i.e. the bases for segmentation, and a set of independent variables that allow marketers to predict where along the key dependent variable a particular group of customers may lie, as well as providing an insight into the key characteristics of the segment.

This concept of successively combining industrial market segmentation bases giving more and more precise and meaningful segments is taken further in another classic model developed by Shapiro and Bonoma.[16] Their **'nested' approach** is shown in Figure 3.9. This approach identifies five general segmentation bases that are arranged in the nested hierarchy shown. Moving from the outer towards the inner, we now examine each.

Demographics

This outermost nest contains general segmentation criteria that give a broad description of the segments in the market and relate to general customer needs and usage patterns. They can be determined without visiting the customer and include industry and company size and customer location. A good example of how demographics can be used in industrial market segmentation is provided by Powers and Sterling.[17]

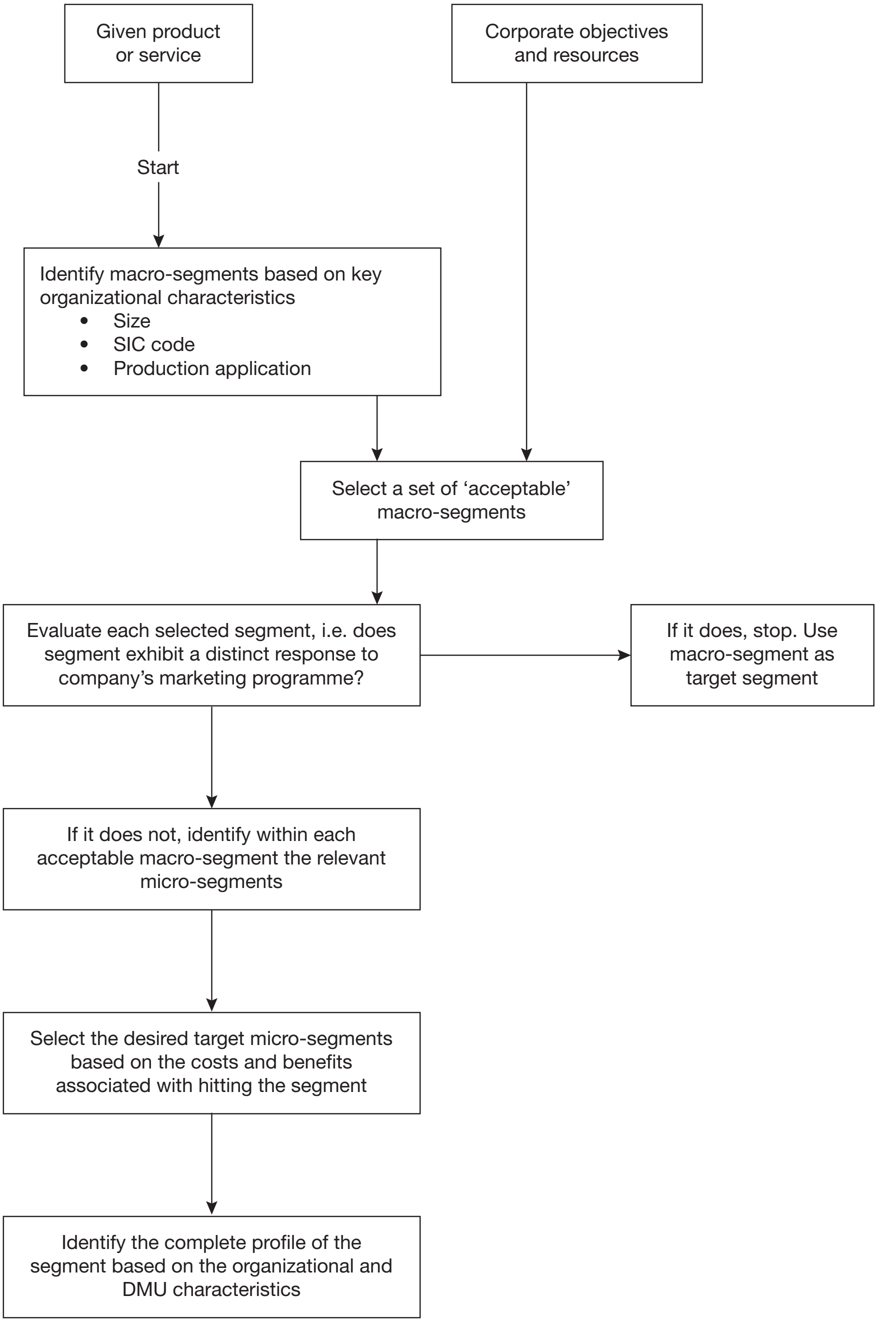


FIGURE 3.8 An approach to segmenting industrial markets

Source: Adapted from Wind, Y. and Cardozo, R. (1974), 'Industrial market segmentation', *Industrial Marketing Management*, 3(March): 156.

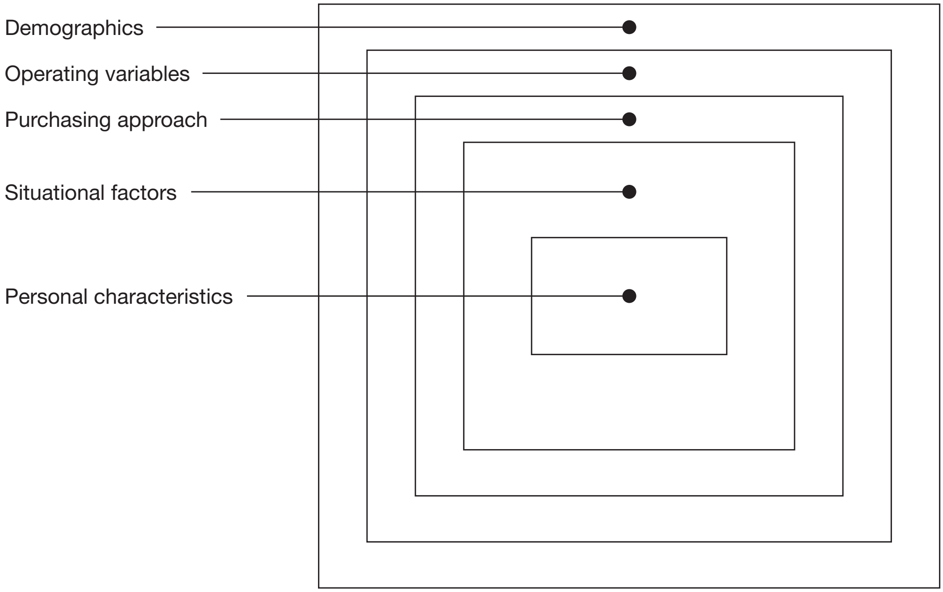


FIGURE 3.9 A 'nested' appraoch to industrial market segmentation

Source: Adapted from Shapiro, B.P. and Bonoma, T.V. (1984), 'How to segment industrial markets', *Harvard Business Review*, May–June: 104–10.

Operating variables

The second nest contains a variety of segmentation criteria called 'operating variables'. These enable more precise identification of existing and potential customers within demographic categories. Operating variables are generally stable and include technology, user/non-user status (by product and brand) and customer capabilities (operating, technical and financial).

Purchasing approaches

A neglected, but valuable, method of segmenting industrial markets involves customer purchasing approaches and company philosophy. Factors here include formal organization of the purchasing function, its power structure, the nature of the buyer/seller relationship, purchasing policies and purchasing criteria.

Situational factors

The model has so far focused on grouping customer firms. It now moves to consider the tactical role of the purchasing situation. Situational factors resemble operating variables, but are temporary and require a more detailed knowledge of the customer. These include the urgency of order fulfilment, product application and the size of order.

Buyers' personal characteristics

People, not companies, make purchase decisions, although the organizational framework in which they work and company policies and needs constrain their choices. Marketers for industrial goods, like those for consumer products, can segment markets according to the individuals involved in a purchase in terms of buyer/seller similarity, buyer motivation, individual perceptions and risk-management strategies.

Having identified market segments, the next step in target marketing is to evaluate the attractiveness of these segments as a prelude to selecting target markets.

SEGMENT EVALUATION: CHOICE OF TARGETING STRATEGIES AND MARKET TARGETS

Determining whether, and on what basis, a market segments is the first step in the process of target marketing. Once market segments have been identified we must select a targeting strategy and if appropriate, select specific market segments to target. During this process we must evaluate the relative attractiveness of different segments.

Evaluating market segments

Whenever a market segments (and most markets do), as part of overall marketing strategy a company must decide on targeting which segments it wishes to serve and on what basis. To do this, the strategic marketer must first evaluate existing market segments. This evaluation process broadly involves assessing the attractiveness of the various segments in the market to determine which are worth serving. We must, therefore, consider the overall attractiveness of the segment, e.g. size and growth, as well as company objectives and resources.

Segment structural attractiveness

A number of factors influence the relative attractiveness of a particular segment. Each should be assessed before making targeting decisions:

1 *Segment size and growth*: Although larger segments are not always the most attractive (especially to the smaller company) an evaluation of market segments should include an assessment of current size, together with existing and potential future growth rates. As with market size, the most attractive segments are not always those that have the highest existing or potential future growth rates. Indeed, even a segment in decline may, because of lower levels of competition, offer attractive sales potential to the company able to supply e.g. spare parts for old model automobiles. After a period of time, the original equipment manufacturers may feel that declining demand for such spares no longer justifies supplying the market, and subject to meeting any statutory or contractual requirements with regard to supply, then withdraw. This leaves

the market open to smaller specialist suppliers who, for a time at least, can make sufficient profits to justify the investment.

This extends beyond the idea of evaluating the attractiveness of a segment from a purely volume perspective, to that of long-term profitable attractiveness. We can use Porter's model of industry/competitive advantage as discussed in Chapter 15, to indicate key areas for assessing segment attractiveness.

2 *Extent of segment competitive rivalry*: Some segments are characterized by intense and frequent rivalry, perhaps because they are high growth, high profit, but often because they are in decline with overcapacity. A more competitive segment will tend to be less attractive, particularly to the new entrant, unless it has some distinct and sustainable advantage it can use to compete.
3 *Barriers to entry or exit*: The most competitive segments, and the ones with the lowest profit margins, are those with low barriers to entry and high barriers to exit. What initially appears to be an attractive new segment can, if entry barriers are low, quickly become over-competitive and ultimately unprofitable.
4 *Threat of substitutes*: Existence of many substitutes reduces the attractiveness of a segment. An appraisal of substitutes should take in not only existing substitutes, but also likely future ones. Predicting these is difficult, although techniques of technological forecasting (TF) discussed in Chapter 11, can be useful.
5 *Bargaining power of buyers*: Some otherwise attractive segments are made less attractive by the bargaining power of buyers. In many retailing segments, the bargaining power of large multiple chain stores like Tesco is such that profit margins for suppliers can be slender. As with substitutes, not only should the current bargaining power of buyers be assessed, but also likely future developments should be anticipated.
6 *Bargaining power of suppliers*: This is the reverse argument of the previous factor. Assessing segment attractiveness should also take into account the extent to which present suppliers of materials, plant, finance, labour, etc. exercise strong bargaining power. Again, an assessment should be made of likely future trends and changes.
7 *Company objectives and resources*: This key area of segment evaluation concerns the extent to which the segment equates with a company's long-term objectives and strategic plans, skills and resources.

TARGETING STRATEGIES

Having evaluated the relative attractiveness of different market segments we can position to select a targeting strategy. A company can select from three broad strategies: **undifferentiated, differentiated** and **concentrated target marketing**.

Undifferentiated marketing

This is based on ignoring any segmentation in the market. Instead, a 'blanket' approach is used with a strategy aimed at the entire market rather than any single segment, or combination of segments.

A company will usually produce one undifferentiated product, relying on mass advertising and distribution to reach as many customers as possible. Undifferentiated marketing is most suitable where demand for a product is relatively homogeneous. It should also have the potential to yield significant economies of scale in both marketing and production. The existence of disaggregated/heterogeneous demand renders this global approach to market segmentation and targeting unsuitable.

Differentiated marketing

This is based not only on the recognition that different segments exist in a market, but upon a decision to target several or all of these. The company designs a separate marketing programme for each market segment it decides to serve. Because each segment is specifically targeted, the company expects to increase overall company sales and market share. Any increase must be compared with the greater costs of having many individual marketing programmes.

Concentrated marketing

This strategy recognizes the existence of different market segments, but instead of serving several of these, a concentrated or **niche marketing** strategy focuses marketing effort on a single market segment. In this way, economies of scale in both production and marketing can be achieved, while at the same time more nearly meeting the needs of target group customers. The disadvantage of this strategy is that it renders a company vulnerable should anything threaten sales in the selected segment.

Many factors affect the choice of an appropriate targeting strategy. Smaller companies with fewer resources often have to compete by specializing in certain market segments and pursue a concentrated marketing strategy. Competition will also affect choice of strategy. Where competitors do not segment and target respective customer groups, a strategy of concentrated or differentiated marketing can produce a significant competitive advantage. The choice of marketing strategy is ultimately a question of comparing costs and benefits of each approach.

The selection of specific target markets only concerns companies that decide to pursue a concentrated or differentiated targeting strategy. With those two strategies, a company must decide which of the segments in the market it is best able and willing to serve. This decision must of course be based on the outcome of an evaluation process.

PRODUCT POSITIONING AND MARKET DEVELOPMENT

The final stages of target marketing involve the development of **positioning strategies** together with a supporting marketing mix.

Effective product positioning takes place in the mind of the customer and relates to psychology and understanding how people perceive products and brands. The concept is relatively simple and applicable in both industrial and consumer markets. The key aspects of this approach are based upon:

1 Products and brands have both objective and subjective attributes. Examples of objective attributes include those in Figure 3.10, and examples of subjective attributes are shown in Figure 3.11.
2 Purchasers use such attributes when choosing between products and brands in a particular segment.
3 The customer has individual ideas about how competitive products or brands rate on each attribute, i.e. 'positioning' takes place in the mind of the customer.

Using these precepts, it is possible to establish:

1 the important attributes in choosing between competing alternatives
2 how the customer perceives the position of competitive products in relation to these attributes, and how to ascertain the most advantageous position for the company within the segment of the market.

Let us assume a company seeks to enter the market for 'instant coffee' in which there are already competitors producing brands A, B, C, D, E, F and G. The company must establish what customers believe to be the appropriate attributes when choosing between brands and the perceived position of existing competitors with respect to these attributes. If we imagine that important attributes have been found to be 'price' and 'flavour', a **positioning map** (called a brand map) might be drawn as shown in Figure 3.12. With this information, the company must decide where to position its product

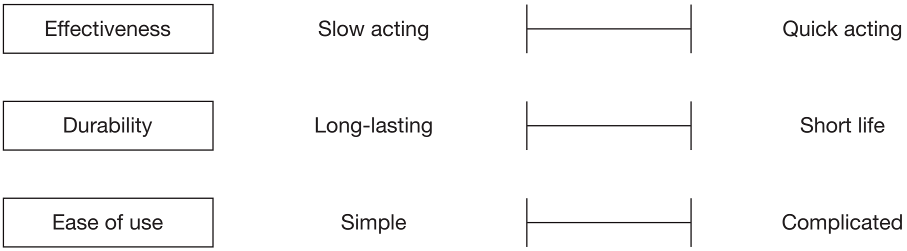


FIGURE 3.10 Examples of objective attributes

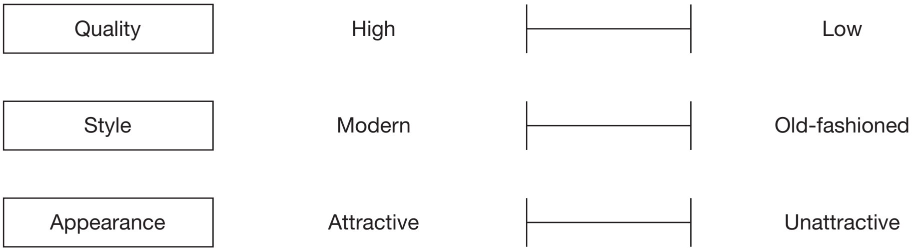


FIGURE 3.11 Examples of subjective attributes

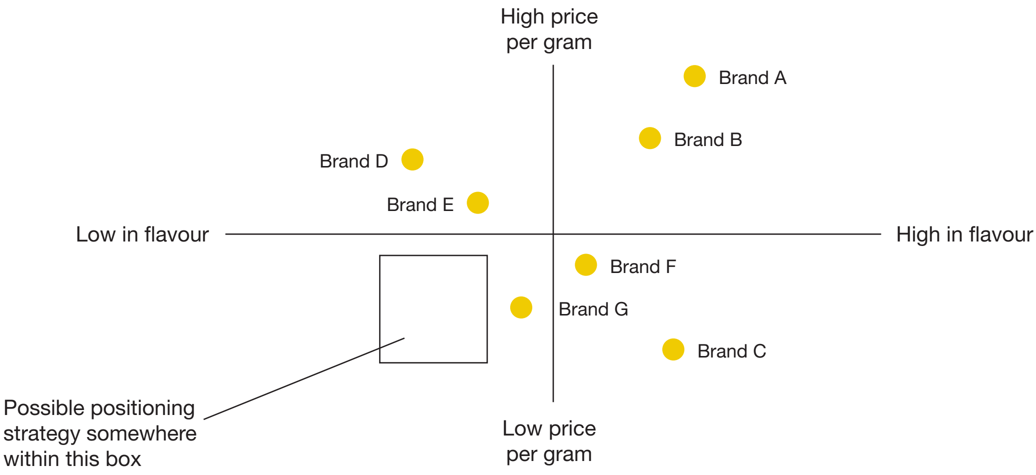


FIGURE 3.12 Hypothetical positioning map: instant coffee market

within this market segment. Possibilities are contained within the box, the parameters of which are low to medium price per gram and low to medium in flavour. Perhaps a 'caffeine free' product could also be considered? Such a product would give the new brand some distinctiveness, as opposed to positioning the brand next to another and competing 'head on' for market share.

What is the most appropriate position for the new coffee brand depends on its relative attractiveness. Similarly, we must assess the relative strengths of existing brands in the market and whether or not we want to tackle this competition head on. We must then consider our objectives for the new product are with regard to brand image. Once we have assessed brand positioning, the final step involves the design of marketing programmes that will support the positional strategy. In the instant coffee example, the company must determine what price, flavour, distribution and promotional strategy will be necessary to achieve the selected position in the market.

In the instant coffee market, 'Carte Noir' is positioned as a distinctly up-market and sophisticated product compared to its competition. All of the elements of the marketing mix for this brand serve to support this positioning strategy. The packaging is designed to convey an image of quality. The brand name itself suggests an air of sophistication. Although not necessarily the most expensive brand in the market, neither is it the cheapest. The promotion of the brand exemplifies the unique selling proposition extolled by the brand's marketers.

The example in Figure 3.12 illustrates positioning a new product based on attributes. There are, however, several alternative ways to position new products and brands. A product may be positioned on the basis of uses/applications e.g. car engine oil might be positioned as primarily for use in winter or a new brand can be positioned by associating it with particular groups of users e.g. being predominantly for 'executives'. Positioning can be achieved deliberately with respect to a competitor. This can be done by positioning with respect to the leading brand/competitor in the market using the attributes (good or bad) of the brand leader to make direct comparisons with the new brand, and so develop pre-determined perceptions with regard to the new product.

Although positioning is crucial when developing and launching a new product, it is also relevant to the management of existing products and brands. Because markets evolve and change over time, including changes in customer tastes, competition etc., the marketer must continuously assess the effectiveness of existing positioning strategies for products and brands. Often existing brands will need to be repositioned to reflect changing market dynamics. Some of the most common repositioning strategies are described below.

REPOSITIONING WITHIN EXISTING SEGMENTS

This approach to **repositioning** is often done to revitalize a brand which is losing sales/market share and/or has approached the end of its product life. This type of repositioning does not target new customers, but seeks rather to update the image and/or features of a brand. A good example of a brand which has been updated consistently over its life is 'OXO' which has changed its image, particularly through advertising, to reflect changing social and family attitudes.

Repositioning to attract new customers

Sometimes a company may deliberately reposition a brand to attract new customers. This may often involve significant changes to one or more of the marketing mix elements. This might be to take account of market dynamics or revitalize flagging sales. An example of repositioning is 'Lucozade' which over time has been repositioned from being for ill people to a brand that is for the fit and healthy, particularly where they participate in physical activities. An important consideration in such repositioning is the effect it has on existing customers and sales.

Innovative repositioning

Sometimes a marketer can create a new position in a market by introducing new criteria for brand choice based on attributes in which the marketer is strong e.g. Volvo has kept ahead of competition by deliberately positioning their products on the basis of the 'safety' attribute. Sometimes **innovative repositioning** can come up with entirely new attributes, e.g. Daewoo successfully introduced the notion of 'no hassle' showroom staff who sell cars.

Competitor depositioning

Here strategy is essentially based on repositioning competitor brands rather than changing the position of one's own brand. This means altering the perceived position of competitive brands from the perspective of customers. **Competitor depositioning** means repositioning competitor brands in a less favourable light, but it should be approached with caution because of legal implications where a competitive brand is denigrated through advertising, so facts must be checked to ensure accuracy. Sometimes it is safer to deposition competitors by more subtle veiled comparisons involving competitor brands.

SUMMARY

The delineation of market boundaries is seen as a prerequisite to strategic market planning and in particular the implementation of target marketing. Some companies still define their markets on the basis of product or industry classifications. Simple though this is, it can lead to a myopic view of markets. At the other extreme we have generic need-based definitions of market boundaries which, although offering advantages over product/industry-based definitions, are usually too broad to be used for strategic planning purposes. Between these relatively narrow and broad-based definitions of market boundaries is the delineation of markets based on a combination of customer functions, technology and customer groups. This approach affords a more useful perspective on market boundaries to planners, enabling the basic building blocks of a market to be assembled and analysed.

Recognizing that markets comprise individual blocks leads to consideration of segmentation, targeting and positioning. The importance of 'target marketing' stems from the fact that demand in most markets is heterogeneous. There are a number of advantages associated with the effective use of target marketing, but in particular a company is able to recognize marketing opportunities and avoid excessive competition. A market may be segmented using any one or a combination of bases, both associative and direct in nature. However, the base(s) used should lead to distinguishable market segments which may be selected as market targets to be reached with a distinct marketing mix. Used effectively, target marketing can lead to improved profitability. This is done by tailoring marketing efforts more specifically to customer needs, while at the same time selecting market segments that can be best defended against competition.

KEY TERMS

Market segments	70
Target marketing	70
Market boundaries	70
Generic definition	71
Item by use analysis	77
Market segmentation	77
(Market) targeting	77
(Market) positioning	77
Homogeneous demand	78
Heterogeneous demand	78
Rifle approach	80
Shotgun approach	80
Reachability	83
Geographic segmentation	84
Demographic segmentation	84
Life cycle segmentation	84
Occupation/social class segmentation	85
Geodemographic segmentation	87
ACORN system	87
MOSAIC system	87
Lifestyle segmentation	89
Psychographics	89
4Cs segmentation	90
AIO measures	90

. . . continued

KEY TERMS ... *continued*

CASE STUDY

Bon Voyage

The holiday market represents a highly segmented and targeted market. For example we have Saga type holidays aimed at the over 50s and designed to fill this group's needs. On the other hand we have had Club Med and Club 18–30, the latter in particular suggesting the age group these two operators were targeting.

You have been appointed as the new marketing manager for a large travel group, Bon Voyage, offering a range of holiday packages aimed at several parts of the market. The group includes package tour operations, a nationwide chain of travel shops and a fleet of aircraft.

One of the fastest growing parts of the travel market in recent years has been the cruise market. Once the domain of the privileged few, cruises are now available to a much wider target market as costs have come down and incomes have risen.

Until now, the company that has just appointed you has not been part of the cruise market. It now realizes it may have made a mistake in this respect and wishes to enter the market as soon as possible. The company has negotiated the provision of two cruise ships for the next season, which will sail round the Mediterranean and the Caribbean respectively. The ships have just been refurbished and offer the most up-to-date facilities. Other companies in this market have been predominantly targeting the middle-income groups. However, there remains a part of the market which is aimed only at the luxury end, with high prices and prestigious ships.

... *continued*

CASE STUDY ... *continued*

The company has asked you to give them some preliminary advice about how to segment this market and which target segments might be most appropriate and why. It also wants to know how its product offerings in this area might be positioned so as to differentiate it from existing competitors.

CASE STUDY QUESTION

Prepare a report on advice and information your company is seeking.

Suggestions as to how to approach and answer this question are contained on the accompanying website. In addition a number of longer strategic case studies, along with suggested solutions, are also contained on the website.

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