CHAPTER 8

Segmentation, targeting, positioning and competitive strategies

LEARNING OBJECTIVES

After studying this chapter you should be able to:

- understand the importance and meaning of market segmentation
- explain the principle of STP
- identify and discuss the various bases for segmenting B2C markets and B2B markets
- outline how firms select target segments
- explain the differences between various strategic approaches to target marketing, undifferentiated, differentiated and concentrated marketing
- comprehend what is involved in positioning a product or service against competitors
- explain the difference between positioning in the B2C market and B2B markets

8.1 INTRODUCTION

Market segmentation has long been considered one of the most fundamental concepts in marketing. Ever since Smith (1956) published his article in the *Journal of Marketing*, market segmentation has become a dominant concept both in marketing theory and in real-world applications. It not only provides one of the major ways of implementing the marketing concept but also directs a firm's marketing strategy and resource allocation among different markets and products.

Market segmentation is the process of dividing a market into distinct groups of buyers with similar requirements. It has become increasingly important in the development of marketing strategies for at least three reasons.

Brand extension
Using a successful brand name to launch a new or modified product in a new category.

Micro-segmentation
Segmentation according to choice criteria, decision-making unit structure, decision-making process, buying class, purchasing structure and organisational innovativeness.

STP-approach
Principle of segmentation, targeting and positioning in order to select a distinct group of consumers who require a special marketing mix.

1. Population growth has slowed, and more product markets are maturing. This, in turn, sparks more intense competition as firms seek growth via gains in market share as well as in an increase of **brand extensions**.
2. There is an important trend toward **micro-segmentation** (one-to-one marketing). This trend has been accelerated in some industries by new technology such as computer-aided design, which has enabled firms to mass customise many products such as designer jeans and cars. For example, many car companies are using a flexible production system that can produce different models on the same production line. This enables the company to make cars to order. More specialised media have also sprung up to appeal to narrow interest groups, e.g. special interest magazines, radio programmes, cable TV, Internet (Schmid *et al.*, 2008).
3. Expanding disposable incomes, higher educational levels, and more awareness of the world have produced customers with more varied and sophisticated needs, tastes and lifestyles than ever before. This has led to an increase in goods and services that compete with one another for the opportunity of satisfying some groups of consumers.

Generally, marketers cannot use averages. Instead, they use the **STP-approach** to define unique customer groups, select those they wish to serve, and then integrate the marketing mix to establish a unified image of the product relative to the competition (Jonk *et al.*, 2008).

Pitfalls with segmentation

Despite all the advantages with market segmentation there are also problems involved (Gibson, 2001).

Segmentation is descriptive not predictive

Segmentation and the research to implement it are designed to describe markets as they exist today. In contrast decisions are based on the expectation of a certain favourable future outcome, and the only information useful to the decision maker is information about the likelihood of that expected outcome. In short, a description of the market as it currently exists, before a decision is made, is irrelevant to making a decision about future events.

Segmentation assumes homogeneity

Segmentation asserts that customers are so different they cannot be averaged and therefore must be classified into segments. However, within defined segments, it assumes customers are not different and can be averaged.

In fact, the fundamental assumption of customer heterogeneity is true, radically true. Customers are different not only at the market level, but at the segment level. This heterogeneity is apparent to anyone looking at the individual respondents in any study. The fact that we seldom look prevents us from seeing and accepting this reality.

Segmentation assumes competition-free segments

Competitors are considered when choosing the target segment, and segments with strong competitors are disqualified. However, once the target segment is selected, competitors are ignored.

The consequences of ignoring competitors can be dangerous. For example, Coca-Cola found that cola drinkers preferred sweeter cola. Repeated paired product comparison tests showed the new sweeter Coca-Cola was preferred over regular Coke. Yet, the new sweeter Coca-Cola failed because the market already had a sweeter cola – Pepsi Cola.

Segmentation may define the wrong segment

The target segments finally selected in traditional segmentation research may exclude significant numbers of real prospects and include significant numbers of non-prospects.

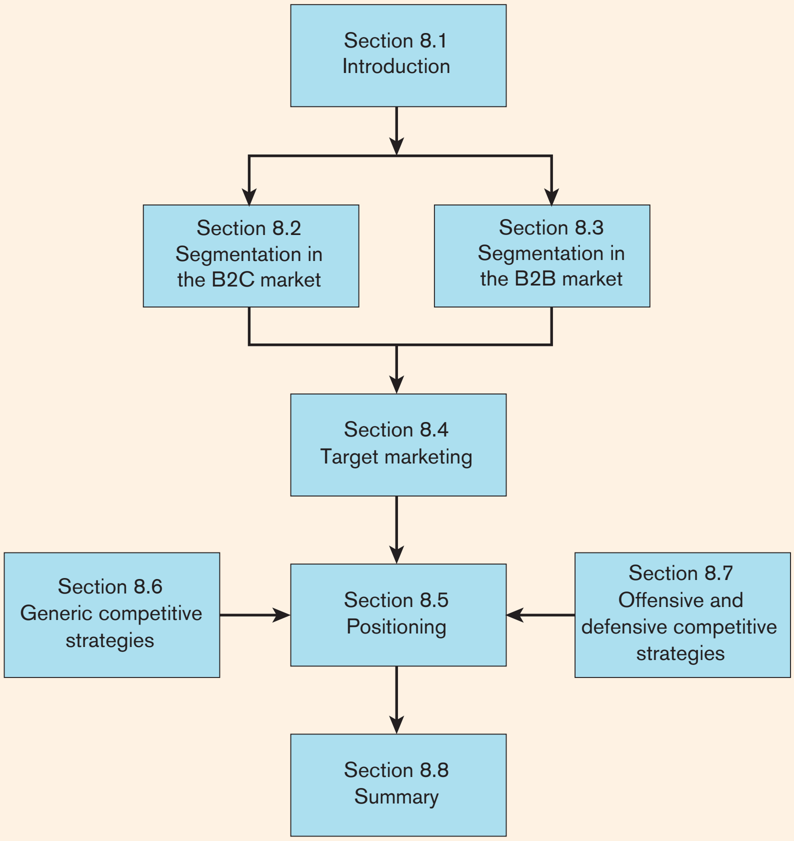


Figure 8.1 Chapter outline

It is a feature of segmentation that when any one segment is selected as a target, prospects in the other segments are excluded (Raynor and Weinberg, 2004).

Because of the segmentation, targeting and positioning are critical. You simply cannot be a leading-edge marketer without these three steps. The activities required to accomplish each stage are described in the following sections. The structure of Chapter 8 is shown in Figure 8.1.

A market segment is a homogeneous group of customers with similar needs, wants, values and buying behaviour. Each segment is an arena for competition.

Market segmentation is the process by which a market is divided into distinct customer subsets of people with similar needs and characteristics that lead them to respond in similar ways to a particular product offering and strategic marketing programme.

Each segment will vary in size and opportunity. Since it may be difficult to appeal successfully to each segment, companies select certain ones for emphasis and will try to satisfy them more than competitors – this is called target marketing.

Positioning means creating an image, reputation or perception in the minds of consumers about the organisation or its products relative to the competition. The company appeals to customers in the target segments by adjusting products, prices, promotional campaigns, service and distribution channels in a way consistent with its positioning strategy.

These three decision processes – market segmentation, market targeting and positioning – are closely linked and have strong interdependence (see Figure 8.2). All must be well considered and implemented if the firm is to be successful in managing a given product–market relationship.

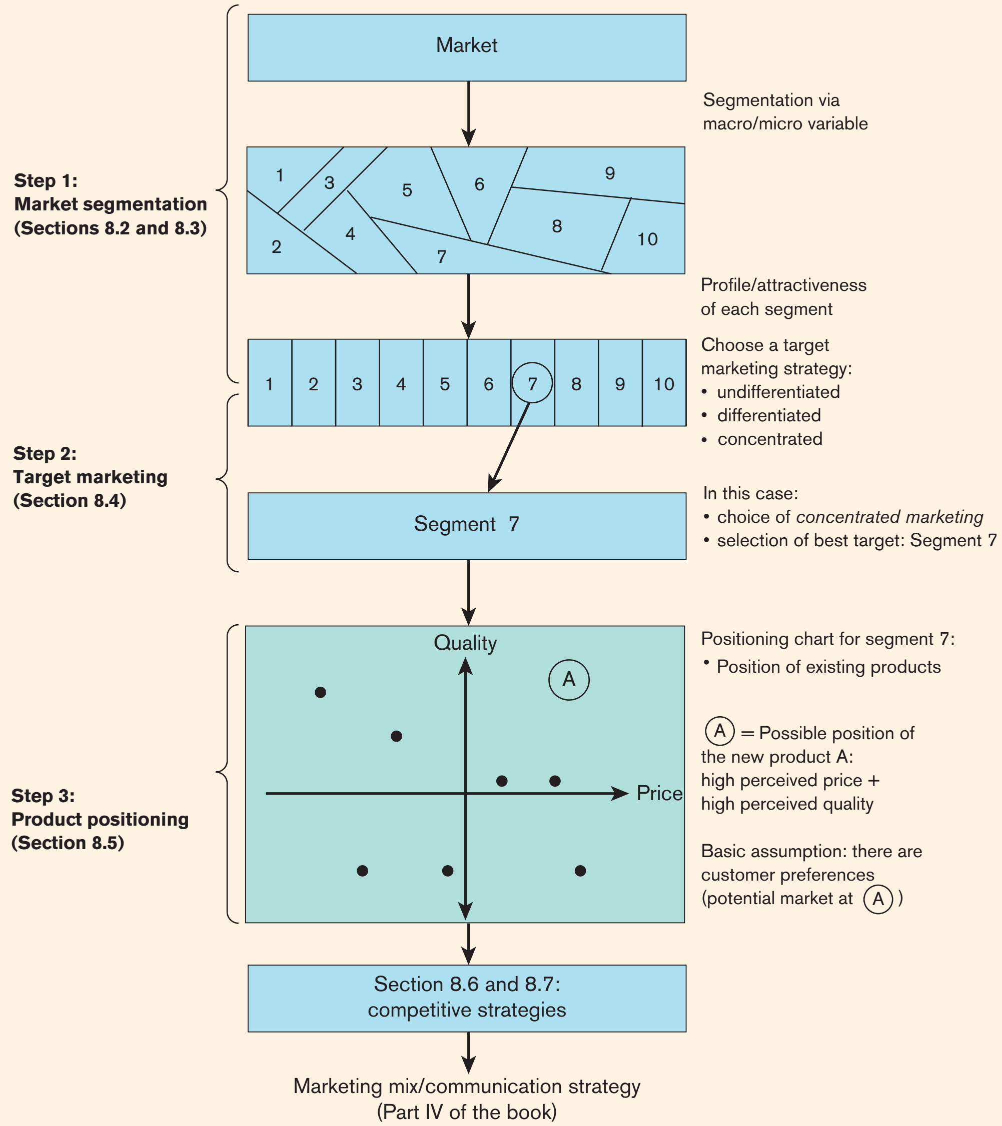


Figure 8.2 The three-step STP

It is important to keep the distinction between product differences and market segments in mind. Market segments should not be defined by product names or characteristics. Markets are made up of customers (people and organisations).

Factors favouring market segmentation

A firm has the option of adopting a market aggregation strategy or a segmentation strategy. Most companies adopt the latter. A market aggregation strategy is appropriate where the total market has few differences in customer needs or desires, especially when the product can be standardised. It is also appropriate where it is operationally difficult to develop distinct products or marketing programmes to reach different customer segments; that is, not all segmentation schemes can be used.

The benefits of segmentation more than offset the difficulties involved in identifying individual market segments. These factors favouring segmentation fall into three main categories.

Better strategic allocation of marketing resources

The strategic benefits of segmentation are sometimes overlooked. Targeted plans and programmes, based on identified needs and habits of specific markets, result in better allocation of company resources and higher profits.

Most successful business strategies are based on market segmentation and a concentration of resources in the more attractive segments. Segmentation should focus on subdividing markets into areas in which investments can gain a long-term competitive advantage.

Creation of more effective marketing programmes

Segmentation helps in the design of marketing programmes that are most effective for reaching homogeneous groups of customers. The seller can create separate marketing programmes aimed at more completely satisfying the needs of different buyers. This creates a competitive advantage (Ashton *et al*., 2003).

Better opportunities for new product or market development

The seller is in a better position to spot and compare new product or market opportunities as well as potential threats. Often, a careful analysis of various segments reveals one or more groups whose specific needs and concerns are not being satisfied by existing competitive offerings. Such open segments may represent attractive opportunities for development of new products or innovative marketing approaches; for example, the laptop computer.

When a firm seeks to expand its volume, effective market segmentation analysis will uncover the degree of customer satisfaction by comparing each segment's needs against the offering of other suppliers. Low current satisfaction indicates a marketing opportunity, assuming the firm can do better than its competitors and produce an acceptable profit.

When a firm merely wants to maintain market share, constant surveillance of individual market segments will usually spot competitive or environmental threats.

Factors discouraging market segmentation

Special organisational and environmental problems may discourage market segmentation. Not every perceived opportunity becomes a profitable venture. Some of the specific instances in which segmentation in business markets is not useful are as follows:

1. Heavy users or buyers make up such a large proportion of the sales volume that they appear to be the only relevant target. Public utilities consume such large quantities of coal for generating electricity that they dwarf other users of coal.
2. The market is so small that marketing to a portion of it is not profitable. Therefore, a brand or product would have to appeal to all segments and level of users.

Requirements for effective market segmentation

An effective and useful segmentation scheme should define market segments according to five criteria.

Adequate size

Marketers evaluate the degree to which the segments are large or profitable enough to be worth considering for separate marketing cultivation. It involves a trade-off between customer homogeneity and scale effects.

Measurability

Marketers evaluate the degree to which information on particular buyer characteristics exists or can be obtained. There is often a need for a combination of specific (e.g. age) and abstract segmentation variables.

Accessibility

Marketers evaluate the degree to which the firm can effectively focus its marketing efforts on chosen segments. Segmentation variables must identify members in ways that facilitate their contact.

Responsiveness

Marketers assess the degree to which segments respond differently to different marketing mix elements, such as pricing or product features. Segmentation variables must maximise behavioural differences between segments.

Compatibility

Marketers evaluate the degree to which the firm's marketing and business strengths match the present and expected competitive and technological state of the market.

Thus, the art of market segmentation involves identifying groups of consumers that are sufficiently large, and sufficiently unique, to justify a separate marketing strategy. The competitive environment of the market segment is also a factor that must be analysed.

Business firms segment their markets primarily to allocate their resources more effectively and to maximise return on investment. Unfortunately, a segmentation strategy involves added costs in obtaining and analysing data, and in developing and implementing separate marketing and manufacturing plans to serve each segment effectively. The strategy must therefore result in additional sales volume and profits to justify its costs. Before implementing a segmentation strategy, the marketer should develop an estimate of the costs versus the benefits.

Two common segmenting methods

Segmentation can be quite complicated because most markets are complex. There are many different types of customers, and, as we have seen, literally thousands of variables can be used to segment them. Marketers typically use one of two approaches in selecting variables and grouping customers. The **top-down method** starts with all consumers and seeks meaningful variables for subdividing the entire market. The **bottom-up method** starts with a single potential customer and adds others with similar characteristics. Anyone without those characteristics is placed in a new segment, and the process continues. In other words, rather than the whole market, the focus is on one segment at a time. The following is based on the top-down method.

Top-down method
A forecasting/planning approach based on objectives and works down to product/market estimates.

Bottom-up method
A sales forecasting method that starts with small-scale estimates (e.g. product estimates) and works up to larger-scale ones.

Identifying segmentation variables

The total market is heterogeneous, meaning it has many types of buyer. Market segmentation divides the total market into homogeneous subgroups, or clusters with similar characteristics. We then can inspect each subgroup in greater detail. Without a well-focused picture of the market, it is virtually impossible to create a powerful marketing strategy.

How is segmentation done? First, the marketer must select a way of categorising potential customers into subgroups. A segmentation variable is any descriptive characteristic that helps separate all potential purchasers into groups. Examples include gender, age and income. Variables are then subdivided into categories. For example, within the gender variable, the two categories are male and female. Categories may be very broadly or very narrowly defined.

There are many ways of dividing a market into segments. These ways of dividing a market (segmentation variables) can vary from the B2C market to the B2B market. The next two sections deal with segmentation in:

- the B2C market
- the B2B market.

Once the segmentation scheme is developed, you need to describe, or profile, each group in more detail. The market segment profile compiles information about a market segment and the amount of opportunity it represents. The profile may include: the number of current and potential buyers; the potential number of products these buyers may purchase; the amount of revenue the segment may provide; and the expected growth rate. In addition to size and growth, other criteria used to select targets include competitive factors, cost and efficiency factors, the segment's leadership qualities, and the segment's compatibility with the company's vision, objectives, and resources.

8.2 SEGMENTATION IN THE B2C MARKET

Secondary data
Data which already exist but were collected in the first instance for another purpose.

Psychographics
The characteristics of individuals that describe them in terms of their psychological and behavioural make-up.

Primary data
Data collected for the first time for the specific purpose of a particular market research study.

Figure 8.3 lists the categories and variables commonly used for segmentation in the B2C market. The left side of Figure 8.3 shows the trade-off problem of using segmentation variables from the different categories of segmentation variables. The use of the sociodemographic variables results in a high degree of measurability (easy and cheap to use, often based on **secondary data** or desk research), but they would perhaps only have low relevance for marketing planning. As we move down the list in Figure 8.3 to **psychographic** and 'benefit sought' variables, the implications for the formulation of marketing strategies and plans become more relevant and meaningful.

But all the various variables are important and would be likely to be used to some extent in the segmentation of a given market. Thus, marketers might try to define segments using a combination of benefit, behavioural and physical factors, even though this requires the combination of **primary data** (field research) – see also the Appendix.

The sociodemographic variables

Variables like gender, age, family life cycle, household type and income are used in demographic segmentation. This type of information is readily available. Demographics are very useful in categorising different tastes and preferences. An added benefit is that it is relatively easy to measure and project the composition and size of demographic segments for the next 5, 10 or 15 years (high degree of measurability in Figure 8.3). Consequently, this kind of segmentation is an excellent tool for long-range strategic planning as well as short-term marketing.

Different locations vary in their sales potential, growth rates, customer needs, cultures, climates, service needs and competitive structures, as well as purchase rates for a variety of goods. Consequently, one of the most common ways to segment a market is by geography.

City

Segmentation by city is often used by global companies. Coca-Cola knows that soft drink consumption relates to population size. With the exception of New York City and Los Angeles, all metropolitan areas of more than 10 million are located outside the USA. So it is no mystery why Coca-Cola markets globally. A city's population size alone does not always provide enough segmentation information, so marketers think about other factors. Some metropolitan areas are known for their industry expertise: in Hollywood it is films; in Silicon Valley, computer software.

High

Degree of measurability

Low

Segmentation variables		Examples
Sociodemograhic variables	Age	Under 2, 2–5, 6–11, 12–17, 18–24, 25–34, 35–49, 50–64, 65 and over
	Gender	Male, female
	Geography	Regions, countries, cities, metropolitan areas, counties and blocks
	Lifecycle family	Young, single; newly married, no children; couples with youngest child under 6; youngest child 6 or over; older couples with dependent children; older couples without dependent children; older retired couples; single
	Income	Under £15,000, £15,000–24,999, £25,000–74,999 etc.
	Occupation	Professional, manager, clerical, sales, supervisor, blue collar, homemaker, student, unemployed
	Education	Some high school, graduated high school, some college, graduated college
	Events	Birthdays, graduations, anniversaries, national holidays, sporting events
	Race and ethnic origin	Anglo-Saxon, African American, Italian, Jewish, Scandinavian, Hispanic, Asian
	Religion	Protestant, Catholic, Jewish, Muslim
	Social class	Lower-lower, upper-lower, lower-middle, middle, upper-middle, lower-upper, upper-upper
Behaviouristic	Readiness	Unaware, aware, interested, knowledgeable, desirous, intend to buy, trial
	Media and shopping habits	Magazine subscriber, cable user, mall, convenience stores, Internet-shopper
	Ability and experience	None, novice, expert, professional, non-user, first-time user, regular user, former user
	Loyalty	Switcher, moderate, high loyalty
	Usage frequency	Heavy (daily), weekly (medium), light (monthly)
	Innovativeness	Innovators, early adopters, **early majority**, late majority, laggards
Psychographic	Lifestyle	Actualiser, fulfiller, achiever, experiencer, believer, striver, maker, struggler
	Personality	Compliant, aggressive, detached, sensory, intuitive, thinking, feeling
Benefits sought	Delivery	Convenience, speed, flexibility
	Product features	Safety, reliability, taste, packaging
	Price/service	Low, medium, high

Figure 8.3 Segmentation criteria for the B2C market

Events

These include a varied set of activities ranging from national holidays, sports and back-to-school week, to personal events such as birthdays, anniversaries and weddings. Each requires a specific marketing programme.

Race and ethnic origin

More and more companies are targeting three segments via specialised marketing programmes. Motorola has run separate advertising campaigns for its papers and mobile phones to African Americans, Asian Americans, and Hispanics. Spiegel and *Ebony* magazine have combined to produce a direct-mail catalogue designed to provide clothing that meets the style, colour and fit of African Americans. Efforts, so far, have been successful.

However, it is important to remember that ethnic segments are not homogeneous. There are demographic differences within ethnic groups. For many people, race has nothing to do with their buying behaviour. Consequently, other forms of segmentation may work much better.

Social class

Every social class has its status groupings based largely on similarities in income, education and occupation. Because researchers have long documented the values of the various classes, it is possible to infer certain behaviour concerning a given product. For example, the middle classes tend to place more value on education, family activities, cleanliness and being up to date than do lower-class families. In the international field, one has to be careful in using social class as a segmentation variable since the differences among classes can become blurred, as they do in the Scandinavian countries. In the USA, many of the criteria used to define class status seem to some to be no longer applicable as the nation becomes increasingly fragmented into dozens of distinct subcultures, each with its own unique tastes and ambitions.

Behaviouristic variables

These variables reflect the behaviour of customers towards a specific product. Behaviouristic segmentation categorises consumers based on people's awareness, product and media uses, and actions. Past behaviour is one of the best predictors of future behaviour, so these variables require an understanding of what consumers have previously done. The variables include purchase volume, purchase readiness, ability and experience, loyalty, media habits and shopping behaviours.

Segmentation by readiness

For many products, potential users go through a series of stages that describe their readiness to purchase. These stretch all the way from being unaware of a product, through trial, leading up to loyalty. Readiness is a useful segmentation variable, particularly for new products. This scheme is often used in adjusting the communications mix.

Segmentation by media and shopping habits

A broad range of media and shopping habits can be used to categorise shoppers. For example, some people subscribe to cable, others do not; some prefer shopping at department stores or on the Internet and so forth. These variables focus on accessibility of target customers. Those who shop only in malls are accessed differently from those who prefer Internet shopping or catalogue shopping at home.

Segmentation by ability and experience

The performance of products is determined by the ability and experience of its user. Consequently, ability is an excellent segmentation variable for almost any skill-based product. For example, the marketing of software games for PCs, skis, tennis rackets and golf equipment is targeted to ability segments. This is due in large part to the performance requirements of these products. As performance requirements increase, new technologies produce products with higher performance capabilities but which generally require more skill.

Segmentation by loyalty

As we have discussed, a key goal of firms is to create brand loyalty. Some consumers are naturally loyal to particular product categories. There are many ways to look at loyalty, but the most popular seems to be the most straightforward. It looks at switchers, moderately loyal and highly loyal categories. Switchers may select a different brand with nearly every purchase. They may actually seek variety or they simply do not care which brand they buy. Moderately loyal customers have a preference for a brand but will switch if it is convenient to do so. Loyal buyers have strong preferences. Not all buyers are loyal to a single brand within a product class. Some people have two or three that are equally acceptable.

Usage frequency

This is important because in many markets a small proportion of potential customers makes a high percentage of all purchases (the '80–20' rule, 20 per cent of buyers purchase 80 per cent of the volume of any product). It is amazing how true this is for many products. Heavy users can be extremely important to companies. Consequently, most marketers divide the market into heavy, moderate and light users, and then they look for characteristics that may explain why some people consume vastly greater amounts. Therefore, the marketing costs are lower per unit of sales.

Still, marketing strategists need to realise that competition for heavy users can be extreme. If medium or light users are being ignored, they may provide a marketing opportunity. For example, giants like Coca-Cola and Pepsi are always targeting students. They spend a great deal of money to be represented on campus in order to 'capture' students.

Innovativeness

This is concerned with how individuals and organisations vary in their capacity and desire to innovate. This is particularly true for the **adoption process** of new products. There are substantial differences between early and late adopters. Thus, each of the various adopter groups can be considered as a segment. All too frequently, current customers are not considered an important segment despite their value over time and their being easy to identify.

Adoption process
The mental and behavioural stages through which a consumer passes before making a purchase or placing an order. The stages are awareness, interest, evaluation, trial and adoption.

Psychographic variables

Segmentation by lifestyle, or personality, groups consumers on the basis of their activities, interests and opinions. From such information it is possible to infer what types of product and service appeal to a particular group, as well as how best to communicate with individuals in the group. Lifestyle has been used to describe, for example, the **benefit segments** for sportswear.

Benefit segments
Dividing the market into groups according to the different benefits that consumers seek from the product.

Psychographic and lifestyle segmentation links geographic and demographic descriptors with a consumer's behavioural and psychological decisions. Psychographic variables used alone are often not very useful to marketers; however, they can be quite useful when joined with demographic, geographic and other data. Lifestyle is a person's distinctive mode of living. It describes how time and money are spent and what aspects of life are important. The choice of products, patterns of usage, and the amount of enjoyment a person gains from being a consumer are all part of a lifestyle. Consider the difference between people who are physically fit from exercise and proper nutrition and those who are out of shape from high-fat diets and sedentary living. Since there are so many lifestyles, the trick is to identify them in the context of your company's marketing strategy.

Benefits sought variables

Customer needs are expressed in benefits sought from a particular product or service. Individual customers do not have identical needs and thus attach different degrees of importance to the benefits offered by different products. In the end, the product that provides the best bundle of benefits – given the customer's particular needs – is most likely to be purchased.

Since purchasing is a problem-solving process, consumers evaluate product or brand alternatives on the basis of desired characteristics and how valuable each characteristic is to the consumer – choice criteria. Marketers therefore can define segments according to these different choice criteria in terms of the presence or absence of certain characteristics and the importance attached to each. Firms typically single out a limited number of benefit segments to target. Thus, for example, different car manufacturers (such as Volvo) have emphasised different benefits over the years, such as reliability, safety and high mileage versus styling, speed and status.

Benefits sought must be linked to usage situations. There is ample evidence that usage often strongly affects product choice and substitutability. Thus, the appropriateness of product attributes varies across different usage environments. Any attempt to define viable segments must recognise this fact; for example, consumer needs vary in different usage situations for many products. For example, toothpaste consumers can be segmented into sensory, sociable, worrier and independent segments. Sociable consumers seek bright teeth; worriers seek healthy teeth. Aqua packaging could indicate fluoride for the worrier segment, and white (for a white smile) for the sociable segment (Kumar and Naspal, 2001).

Mittal and Katrichis (2000) found that the attributes important to newly acquired customers were not the same as the ones that were important to loyal customers.

A survey among credit card holders showed that the format of the statement and the performance of the customer service representative are more important for new rather than loyal customers. Conversely, the promotional benefits associated with the card and adequacy of credit limit were more important to loyal customers than to new ones.

Based on these insights, the credit card company redesigned its communication strategy for customer attraction. It started emphasising its attractive interest rate, the quality of its customer service department, and its statements' easy-to-read and user-friendly format. With regard to loyal customers, the firm undertook an internal campaign to reassess the credit limit of all customers, then made appropriate revisions. The company also launched a series of research studies to identify special benefits that customers desired, and then offered these benefits to customers. Finally, the company revised its customer satisfaction philosophy to a segmented focus on the different needs of the newly acquired and loyal customer (Mittal and Katrichis, 2000).

EXHIBIT 8.1
Segmentation in work ('salty snacks in the workplace')

Some time ago the consulting firm Monitor Group did a segmentation job for a client in the food and beverage sector. The scope of the segmentation was defined around the marketing objective – *selling more of the client's snacks in the setting of the workplace*. A team was established with members from both the client and Monitor Group.

Once the scope was established, the first step was to identify a number of proxy segmentation variables that were both actionable and meaningful. The team brainstormed a long list of segmentation variables, which were scored and then tested. One of the more interesting results here is how powerful relatively simple demographic variables turned out to be. After the brainstorming and quantitative testing it turned out that age, gender

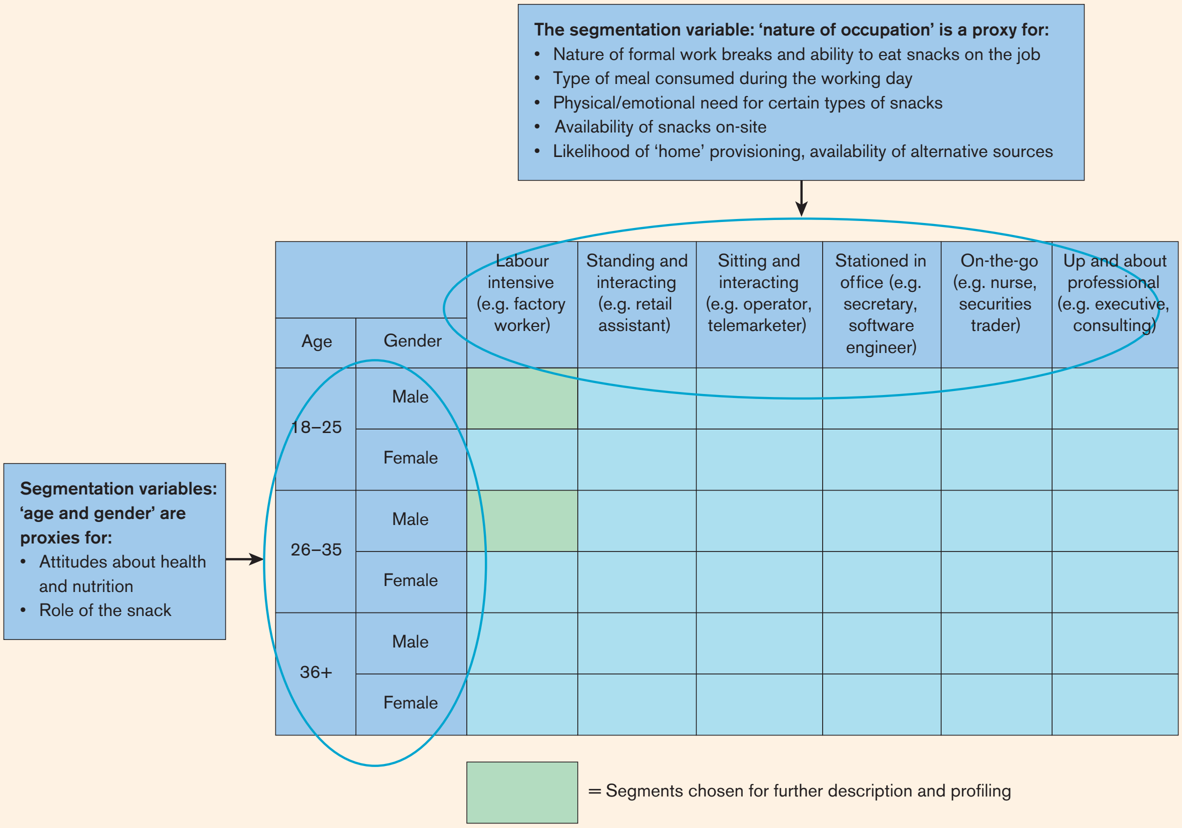


Figure 8.4 Segmentation for selling salty s nacks' in the workplace

Source: Adapted from Barron, J. and Hollingshead, J. (2002) Market segmentation work: successful marketing really does begin with effective segmentation, *Marketing Management*, January–February: 24–8. Reproduced with permission from J. Barron, J. Hollingshead and the Monitor Group.

and 'nature of occupation' were the most powerful segmentation variables. Figure 8.4 illustrates the frame for segmentation of 'salty snacks in the workplace'.

After setting up the segmentation frame the next step was to create profiles of each segment. The data for this came from multiple sources, ranging from existing quantitative and qualitative customer research to the experiences and latent knowledge of the team and the broader organisation.

After evaluating each segment (cell) the following segment turned out to be the most relevant target group: 'labour intensive' male consumers (18–35 years old) in manufacturing jobs. The team then created an in-depth profile (customer portrait) of this target group.

PURCHASE AND USAGE ENVIRONMENT

- predominantly men working in suburban or rural settings;
- find work physically demanding and repetitive – they are usually standing or moving around and constantly on their feet;
- work environment likely to be unpleasant – least likely to work in an environment with heating or air conditioning;
- break room without kitchen is primary facility where they can relax, socialise and consume snacks;
- the most commonly available snacks are chips, pretzels and sweets;

EXHIBIT 8.1
Segmentation in work ('salty snacks in the workplace') cont.

- although they purchase most snacks at work, they are more likely than any other segment to bring snacks from home;
- least likely to consume snacks outside scheduled breaks or mealtimes;
- have to walk the farthest of all segments to get their snack source.

DESIRED EXPERIENCE

- want a snack that tastes good during both meal and non-meal occasions;
- more likely during non-meal occasions to want a snack that provides energy;
- more likely during non-meal occasions to use a snack that helps them cope with their work environment;
- want a snack that is fun.

PRODUCT/SERVICE BELIEFS AND ASSOCIATIONS

- more likely than other segments to believe that snacks satisfy physical needs (taste and refreshment) rather than emotional needs (personal, reward, escape);
- more likely than other segments to enjoy the taste of chips and pretzels;
- more likely than other segments to believe that 'healthy' snacks will improve their work performance;
- only segment to prefer competitor product over client product.

RESULTING PURCHASE AND USAGE BEHAVIOR

- most likely to use vending machines as their source of snacks;
- chips and pretzels are their top choice of snack for both meal and non-meal occasions;
- client brands consumed more often during non-meal occasions, but at the same rate as competitor brands during meal occasions;
- medium bag is the package of choice;
- most likely segment to use a single-serving bag during meal times;
- more likely to consume a snack in social settings than other segments.

This in-depth target group profiling then formed the basis for the creation of targeted marketing plans.

Source: Adapted from Barron and Hollingshead (2002).

Multidimensional segmentation

In segmenting markets, most researchers use a single set of variables, such as demographics, psychographics, product category-related attitudes, product usage-related behaviours, derived importance from joint exercises or latent structures.

The acid test for successful market segmentation is to demonstrate that the derived segments respond differently to variations in the marketing mix. Unfortunately, many segmentation schemes fail this key test.

However, there is no reason to limit the basis for segmentation to only one type of variable when many criteria actually determine buyers' response to offerings in the category. These criteria are multidimensional, encompassing attitudes, needs, values, benefits, means, occasions and prior experience, depending on the product or service category and the buyer.

A segmentation scheme based on only one set of variables may have limited utility to the firm because various users of segmentation schemes have different needs. For example, product development managers may want the market segmented on perceived values and benefits sought; marketing communications managers may want it divided into groups of buyers with similar needs, desires or psychographic profiles; sales managers may prefer segmentation based on sales potential or profitability.

Market segmentation based on multiple dimensions, using separate segmentation schemes for each one, is often more useful and more flexible for planning marketing strategy and executing marketing tactics. Thus, researchers may consider different segmentation variables for buyers using different bases concerning product-user identity (e.g. performance needs, means and desires).

8.3 SEGMENTATION IN THE B2B MARKET

The concept of B2B segmentation has gained increasing attention among academic researchers (Goller *et al.*, 2002; Crittenden *et al.*, 2002; Powers and Sterling, 2008). Since B2B customers, like B2C consumers, differ in their needs, resources and buying attitudes, a practical approach to understanding these differences is to identify variables by which potential buyers can be segmented. Market segmentation attempts to identify groups of firms that are similar in their purchasing needs, product expectations and responses to marketing programmes. These firms do not have to be similar in company structure, size or end markets, although similarity in such factors can provide a basis for more finely tuned segmentation. We will discuss this point further later.

Business marketing managers attempt to find the best product–market match, that is, the most likely customers for each of their products.

Given the considerable difference between business customers, marketers find it difficult to determine which segmentation variables are the most or least likely to provide a desirable fit. Compounding the problem, Bonoma and Shapiro (1983) state that most business marketers use segmentation as a way to explain what has happened rather than as a means to plan and predict what will happen.

There is no magic formula for segmenting the business market. The marketer should try different variables, either alone (which may be sufficient in some cases) or in combination. For segmentation variables to be meaningful, however, they must involve characteristics that are easily identified, understood and discernible. B2C markets are typically segmented on the basis of demographic and psychographic variables. The B2B marketer typically segments organisations on the basis of size and end use, and organisational buyers on the basis of decision style and other criteria. Thus, the business or organisational market can be segmented on several bases, broadly classified into two major categories: macro-segmentation and micro-segmentation.

Macro-segmentation centres on the characteristics of the buying organisation and situation, thus dividing the market by such organisational characteristics as size and geographic location.

In contrast, micro-segmentation requires a higher degree of market knowledge, focusing on the characteristics of decision-making units within each macro-segment – including buying decision criteria, perceived importance of the purchase, and attitudes towards vendors. Wind and Cardozo (1974) recommend a two-stage approach to business market segmentation: identify meaningful macro-segments, and then divide the macro-segments into micro-segments.

Variables forming the macro-segments and micro-segments would include the following:

Macro-variables

- *Industry*: e.g. agriculture, mining, construction, manufacturing, reselling, finance, services.
- *Organisational characteristics*: e.g. size, plant characteristics, location, economic factors, customers' industry, competitive forces, purchasing factors.
- *End use markets*: e.g. manufacturers of end products, commercial contractors, wholesalers and retailers, banks and other financial institutions.
- *Product application*: e.g. components in specific end products, consumer home or recreational usage, resale, production line or office productivity.

Micro-variables

- *Organisational variables*: e.g. purchasing stage, customer experience stage, customer interaction needs, product innovativeness, organisational capabilities.
- *Purchase situation variables*: e.g. inventory requirements, purchase importance, purchasing policies, purchasing criteria, structure of the buying centre.
- *Individual variables*: e.g. personal characteristics, power structure.

One of the most famous and cited segmentation models for the B2B market will now be presented and discussed.

Bonoma and Shapiros (1983) macro/micro-segmentation process

Figure 8.5 shows the five nests advocated by Bonoma and Shapiro in their macro/micro approach to business market segmentation. Working from the outside to the inside, the analyst would start with the first nest, demographics.

Demographics

The variables in the demographic nest are the industry, company size and company location, all relating to the customer's needs and usage patterns. Industry provides a broad understanding of product and service needs. Company size affects the size of a potential order, which forces the seller's attention on to its own ability to produce and manage the delivery of the product. Customer location impacts on the seller's salesforce organisation, its territorial placement, and associated physical distribution factors.

Operating variables

The second nest, operating variables, contains three relatively stable components: company technology, user/non-user status and customer capabilities. Company technology, both product and manufacturing process, can determine buying needs. The technology used indicates the company's needs for tooling, test instruments, components and appropriate support systems. Product and brand-use status would help to isolate common experiences with a brand or product, thus enabling the seller to categorise similar buyers. Customer capabilities include organisational strengths and weaknesses that could help to classify a company's attractiveness and its 'fit' with the seller's abilities to provide satisfaction.

Purchasing approaches

The third nest, purchasing approach, investigates five components: the organisation of the purchasing function (decision-making unit (DMU)), power structures, buyer–seller relations, general purchasing policies and purchasing criteria. The organisation of the purchasing function helps to determine the size, location and levels of authority that exist in a customer's purchasing unit, which affects the size, location and cost of the seller's salesforce.

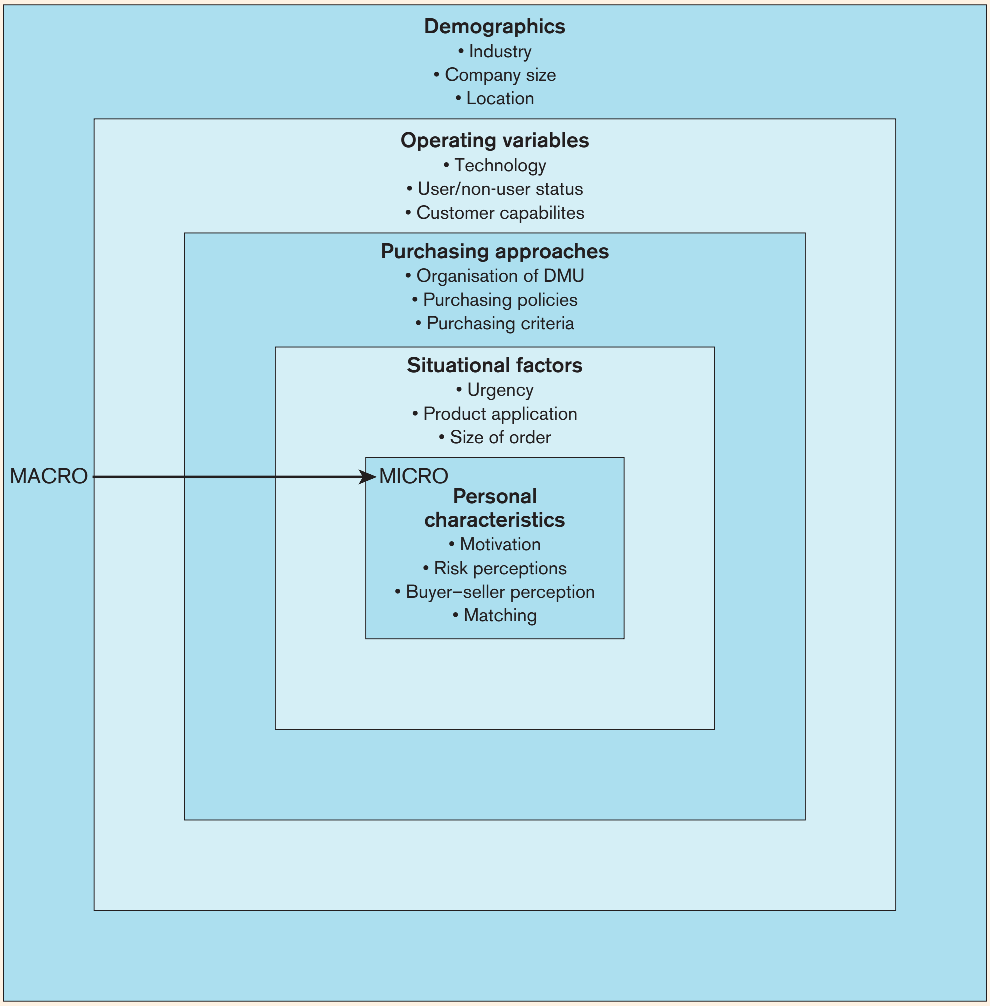


Figure 8.5 The 'nested' approach to segmentation
Source: Bonoma, T. V. and Shapiro, B. P. (1983) *Segmenting the Industrial Market*, D.C. Heath and Co., Lexington. Reproduced with permission from Rowman and Littlefield Publishing Group.

Power structures that exist within specific customers have an impact on the type of suppliers they would choose. As discussed earlier, the seller could pursue a firm with a powerful engineering unit that dominated purchasing, or the potential customer's power base could lie in the manufacturing department and/or the general manager. Either situation would help to determine required salesforce talents, product/service features to emphasise, and the broad outline for a successful selling strategy. These interrelations were discussed at length in Chapter 4. General purchasing policies, such as leasing, bidding and doing business with only well-established vendors, would dictate policy to those suppliers willing to do business within these constraints. Purchasing criteria are those product and organisational benefits deemed necessary for vendors to satisfy before a buyer–seller relationship can be established.

Situational factors

The fourth nest, situational factors, has three components: urgency of order fulfilment, product application and size of order. Urgency of order fulfilment would be a function of the customer's inventory on hand, and the availability of suppliers to meet their needs in the allocated delivery time. The use of just-in-time purchasing practices would carry further implications. Product application challenges the seller's ability to satisfy both technical product needs and product servicing. Size of the order would suggest that a seller concentrate on those customers whose normal orders would mesh with the seller's production economies of scale.

Personal characteristics

The fifth and last nest analyses the potential fit between the buying centre member's personal characteristics and those of the seller. These factors include motivation, individual perceptions, acceptance of risks by the seller, personal attention to buyer demands, and the matching of the buyer's personality traits with similar sales representatives' personality traits.

The nesting approach encourages the integration of all five nests starting at the macro level and moving down to the micro level for successful industrial market segmentation. However, as previously mentioned, market segmentation involves definite costs. The more a market is segmented, the more expensive it is. Thus, the degree of market segmentation depends on how detailed customer knowledge must be for effective use. As the marketer moves from macro-segmentation into micro-segmentation, more intimate knowledge of potential market segments is required, and this will increase the costs of segmentation. While macro-variables can be obtained easily from available secondary data sources, this is not the case with micro-variables.

Operational and personal attributes can also change significantly from one buying situation to another, even within the same company. Therefore, as Bonoma and Shapiro (1983) argue, market segmentation should begin with macro-variables, working inward to the more personal areas only as far as necessary. In other words, once the segmentation scheme seems 'good enough', further efforts should cease.

Criticism of Bonoma and Shapiro's nested approach

The following criticism has been made of the approach:

- There is little attention to customer needs, except the box labelled 'situational factors' (Mitchell and Wilson, 1998).
- There is little insight into which of these variables may be most useful and in what combination or sequence.
- When moving from outside into the nest, when should the marketer stop looking for relevant variables?
- Systematic methods (like Bonoma and Shapiro) have limited relevance when there are few customers and the market is concentrated. Then a single customer can change everything on the market due to its role or its weight. One single event can ruin instantaneously the most serious analysis. Furthermore, in industrial environments, data are rare, uncertain, changing and unreliable, which does not fit with rigorous methods. Consequently, industrial companies often have difficulty in segmenting their markets.

In such a case Millier (2000) suggests a combination of intuition and rationalization in segmentation.

A relationship approach to B2B segmentation

This section thus presents an alternative framework for the segmentation of industrial markets – one based on the nature of the buyer–seller relationship and which seeks to tap into the interests of both parties.

Segmenting in the marketing relationship case needs a deep understanding of the customers' characteristics, needs and future directions, whereas the same information would be too costly and time consuming to collect and too comprehensive to use when segmenting in the simple exchange.

Freytag and Clarke (2001) propose a two-step selection process. The first step is finding attractive future segments for further evaluation. The second step is the selection of the target segment and involves the company and the segments. The aim of this process is to find a perfect match between segment demands and an optimal use of the company's resources and capabilities.

In this way segments are developed in the interaction between the company and potential market segments. The demands that the relationship's development will require from the involved parties need to be identified and considered. The seller in particular will be required to make adaptations and commitments, but they may also be needed from the buyer. In many situations, the wants and needs of the customer will be developed in interaction between the parties.

A result of this two-step segmentation selection process may be that segments that seem attractive are not selected because they do not suit the resources and capabilities of the seller firm.

When evaluating to decide which segments the company should focus on, it is advantageous to find a synergy between the segments. The closer segments are to each other regarding customer needs and technology, the less they require of the company's resources.

The purpose of segmentation is to establish which value the customer wants and which solution the seller should provide. The degree to which the seller is able to fulfil the buyer's needs will depend on the degree to which the seller is able to adapt resources, activities and actors (Håkansson and Snehota, 1995). The seller will only have limited control over activities, resources and actors, which again will limit the firm's possibility to freely select its customers (Freytag and Clarke, 2008).

The proposed typology embraces the central concepts of customer relationships, customer value and customer loyalty and incorporates them into the important process of market segmentation in industrial markets.

The symmetry in the interest of buyers, customers and sellers (suppliers) is also reflected in a negotiable and bilateral 'fit-seeking' process where suppliers frame tentative segments (based on initial research) subject to exploration with well-placed key managers. This would encourage the development of evolutionary segmentation that focuses not only on consumer needs, but also on supplier needs, because these are mutually synergistic. The process would also help to develop the sort of long-term relationships between supplier and customer that help to ensure that supplier offerings are developed in line with customer expectations and needs.

Reverse segmentation

Reverse segmentation
The buyer (and not the seller, as in traditional marketing) takes the initiative for searching out a supplier that is able to fulfil the buyer's needs.

The notion of **reverse segmentation** is a convenient expression to highlight a process that parallels segmentation, a process whereby customers select suppliers that meet particular criteria (e.g. quality, financial stability, investors in relationships approaches, ethical stances, delivery reputation, collaborative product development strategies). By implication, a supplier able to exhibit appropriate 'reverse segmentation' criteria to a customer (and such criteria may well shift from customer to customer) can become significantly more attractive – not least through their evident customer understanding. Similarly, active seeking of particular reverse segmentation criteria could become a significant segmentation variable, especially for those organisations seeking to focus on long-term supplier–customer relationships (e.g. in the car components industry or in corporate sponsorship markets) (Mitchell and Wilson, 1998).

Thus, the reverse segmentation (supplier segmentation) is widespread in the car industry, where the success of Japanese firms has often been attributed to close supplier relationships, or a partner model of supplier management. Various studies suggest that, compared to arm's-length relationships, Japanese-style partnerships result in superior performance because partnering firms (Dyer *et al.*, 1998):

- share more information and are better at coordinating interdependent tasks;
- invest in dedicated or relation-specific assets which lower costs, improve quality and speed development;
- rely on trust to govern the relationship, which is a highly efficient mechanism that minimises transactions costs.

On the other hand, because suppliers only work primarily with one customer, they do not have opportunities to learn from multiple customers. Consequently, this impedes the supplier's abilities to learn and upgrade its technological capabilities.

Dyer *et al.* (1998) found that the Japanese car makers Nissan and Toyota were the most effective at strategically segmenting suppliers to realise the benefits of both the arm's-length and partner models. Independent Japanese suppliers such as Bridgestone (tyres) and Mitsubishi Belting Co. (belts, hoses) realised economies of scale by selling their relatively standardised products to all car makers. Moreover, these suppliers made fewer investments in assets dedicated to a particular car maker. Car makers provided less direct assistance to these suppliers mainly because the benefits of assistance to the supplier would more easily spill over to competitors. In contrast, more affiliated and smaller suppliers such as Nippondenso and Calsonic made substantial investments in relation-specific assets and coordinated activities closely with car makers through frequent face-to-face interactions. Toyota and Nissan provided significantly more assistance to affiliated suppliers to help them lower production costs, improve quality and minimise inventories. Toyota and Nissan had greater incentives to assist these suppliers since their own success (i.e. ability to differentiate their products) is closely tied to the success of these particular suppliers (a 'win–win' situation).

8.4 TARGET MARKETING

Market targeting is not the same as market segmentation. As discussed earlier, market segmentation is the process of dividing a market into groups of potential customers who are similar in needs, expectations and response to marketing stimuli. The seller selects variables that identify this market and develops a marketing mix that best fits the market's expectations and anticipated response.

Target marketing is the process of selecting one or more of these market segments and developing products and programmes that are tailored for each segment.

Once the segments have been identified, management must evaluate the opportunities each segment offers.

Large multinationals can operate in many market segments, but most new entrants into a given market have to select one or a few segments. Limited financial and managerial capacities prevent broader activity as it might spread their resources too thinly and set them up as a takeover target. The number of segments in which a company competes is determined by its shared goals, the flexibility of its manufacturing base, and the heterogeneity of the market's requirements.

In order to select the right segment as a target market, a manager can compare the future potential of different segments using the same set of criteria and then prioritise them to decide which segments to target and how resources and marketing efforts should be allocated. One useful analytical framework managers can use for this purpose is the market attractiveness/business position matrix. At the corporate level, managers use such models to allocate resources across businesses, or at the business-unit level to assign resources across products/markets. In principle, it is the McKinsey/GE model (Chapter 7).

A number of strategies can help guide a manager's choice of target markets. Three of the more common of these are undifferentiated, differentiated and concentrated marketing strategies. They are illustrated in Figure 8.6.

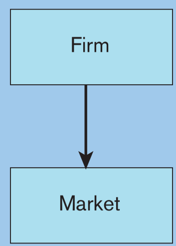
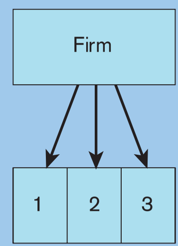
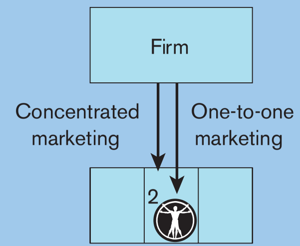
Charateristics	**Undifferentiated marketing**	**Differentiated marketing**	**Concentrated/one-to-one marketing**
			
Definition	All customers are treated the same, regardless of actual differences	Customers grouped into high-level market segments	Customers are treated and act differently based on their unique profiles
Goal	Acquire mass of people viewing, drive traffic	Acquire and begin to develop customer relationships, drive revenue	Development and retention of customers, customer profitability
Needed capabilities	Mass marketing, branding	Value proposition design, customer relationship management	Experience management, profitability management
Research methods	Anticipate customer priorities through information acceleration, lead-user analysis	Segmentation on needs, behaviour, targeting models	Customer profitability in market tests. Customer lifetime value

Figure 8.6 Three strategies in customer targeting

Undifferentiated (mass) marketing

Undifferentiated marketing
A marketing effort not targeted at a specific market segment, but designed to appeal to a broad range of customers. The approach is appropriate in a market that lacks diversity of interest.

Portal
A website that acts as a gateway to the information on the Internet by providing search engines, directories and other services such as personalised news or free e-mail.

Undifferentiated marketing treats all the customers the same. Companies look for desires that are common to most potential customers and then try to design products that appeal to everyone. By focusing internally on a single or a few products, companies can streamline manufacturing, distribution and even promotion in order to improve quality and gain cost efficiencies (economies of scale). But the standardised product may fail to meet individual customer needs.

This strategy requires substantial resources, including production capacity, and good mass marketing capabilities. Consequently, it is favoured by larger business units or by those whose parent corporation provides substantial support.

An example is in the start-up phase of many website businesses, such as **portals** that engage in attracting as many visitors as possible. The value of customers to the firm primarily is measured by their sheer numbers; specifically, by how many people view the advertising at a site. The key value measure is stock-market capitalisation, which is heavily skewed towards the site that attracts the most traffic. The type of customer matters little; in fact, at this stage it is premature to speak of customer relationships.

The key business problems at this stage relate to generating a market presence quickly before other competitors achieve a critical mass of customers.

Establishing brand recognition and identity is critical to creating traffic. Strong brands (e.g. Yahoo, AOL) simplify the decisions customers must make about how to access the market. The expectation is that these brands will eventually convert impression into purchase behaviour.

As long as companies keep the price relatively low and competitive alternatives are unavailable, an undifferentiated marketing strategy can be successful. However, competition is tough. Companies that once thrived are being threatened by rivals who use more targeted approaches, such as differentiated or concentrated marketing.

Differentiated marketing

Differentiated marketing serves each segment with the marketing mix matched specifically to its desires and expectations. The advantage of differentiated marketing is that wants and needs are satisfied better for each targeted segment. The disadvantage is that it may also cost more, because several marketing mix strategies are typically required.

Again, we will try to connect this strategy option to an example from e-business (Wyner, 2000).

A Web business that anticipated making a profit from e-commerce (rather than solely from mass advertising) might want to structure its offerings to accommodate the needs of specific segments, e.g. affinity groups around specific topics such as travel, sports and home improvement.

Many established businesses fit this description; they clearly cannot survive with a mass-market, customer-selection process and a 'one size fits all' value proposition. Examples include conventional retailers, car makers and providers of entertainment such as theme parks.

The key measure of customer value is revenue that comes directly from customers, rather than from other sources such as advertisers. To maximise revenue, it is critical to identify customer needs and requirements and to develop differentiated offerings that have a competitive advantage.

Getting large numbers of customers to visit a website is not sufficient; they must also be buyers. Customer relationship development becomes important, including cross-selling additional products to maximise revenues across the entire product and service portfolio. Increasing the depth of the relationship with customers has significant economic benefits, in some cases exceeding the value of new customer acquisition.

Concentrated (niche) marketing

This strategy involves serving one or more segments that, while not the largest, consist of substantial numbers of customers seeking somewhat specialised benefits from a supplier.

Such a strategy is designed to avoid direct competition with larger firms that are pursuing the bigger segments. For example, overall coffee consumption is down substantially, but the sales of gourmet coffees have boomed in recent years. Companies pursuing this strategy must make sure they have a great deal of knowledge about their major target segment.

Concentrated marketing has worked extremely well for new companies or companies entering new areas of the world. By gaining a foothold in a core market, a company can build the financial strength, experience and credibility needed for expansion to other similar segments.

Niche marketing
The process of targeting a relatively small market segment with a specific, specialized marketing mix.

Niche marketing is another strategy worth mentioning. A niche is a very small market that most companies ignore because they do not perceive adequate opportunity. The smallest possible niche is the individual. Marketing to one customer is called *one-to-one marketing* (also illustrated in Figure 8.6).

Peppers *et al.* (1999) use a questionnaire to identify a firm's readiness for using one-to-one marketing on a daily basis.

A business can achieve superior profitability if it can give each customer the best offer for him or her, provided there is an efficient and effective fulfilment capability. Issues of customer loyalty and retention have become increasingly important because it is often more profitable to keep an existing customer than to find new ones.

This customer selection process is possible in businesses with detailed individual customer level information, such as financial service companies that capture virtually all customer transactions in digital form. Customers can be grouped into categories based on their past use of products and services. There is no need to use higher-level groups (such as a high or low frequency transaction on credit cards) when customers can be identified with particular product features that suit them (such as specific interest rates, annual fees and reward programmes).

An emerging type of business design goes beyond selecting customers based on refined targeting to individuals and enables individual customers to build their own 'offer' (individualised self-selection). Customers select what they want to meet their own needs.

This Web-based technology is used to develop a digital customer interface enabling each individual to choose from potential products that are exactly what the customer wants. These 'choiceboards' are becoming more common, and as commerce becomes increasingly electronic, they promise to capture significant market shares.

In financial services, for example, a customer can select mutual funds from a vast selection of offerings through fund networks. Choiceboards in the PC business allow the customer to design completely a personal computer to incorporate the desired functionality.

Dell is an example of a company that has essentially become a customer-specific Web store, where customers can design their own computer.

8.5 POSITIONING

Once the segmentation process gives a clear picture of the market and the target marketing strategy has been selected, the positioning approach can be developed.

Success requires a sustainable strategy that is differentiated from competitors. A higher probability of success can be achieved if the marketing mix is arranged so that it is unmatched by competitors.

Positioning is the process of creating in the mind of consumers an image, reputation or perception of the company and/or its products relative to competitors. Positioning (or

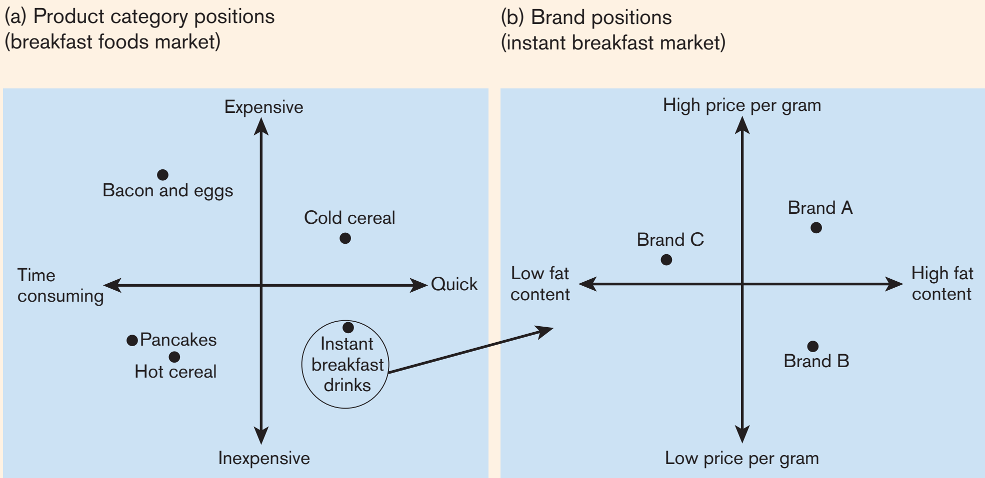


Figure 8.7 Positioning at product and brand level

Source: Adapted from Busch, P. S. and Houston, M. J. (1985), *Marketing Strategic Foundations*, Richard D. Irwin, Burr Ridge, IL, p. 450. Reproduced with permission from the McGraw-Hill Companies.

repositioning), then, is the perceived fit between a particular product and the needs of the target market. The positioning concept must be defined relative to competitive offerings and consumer needs.

Thus, the following critical question needs to be answered: 'How can a business position its offering so that customers in the target market perceive it as providing the desired benefits, thereby giving it an advantage over current and potential competitors?' The choice of market position is a strategic decision with implications not only for how the firm's product or service should be designed but also for detailing the other elements of the strategic marketing programme. Each of the marketing mix elements is capable of making a contribution to the positioning of a product.

A positioning analysis can take place at the company product category and at brand levels. At the product category level, the analysis examines customers' perceptions about types of product they might consider as substitutes to satisfy the same basic need. Suppose, for example, that a company is considering introducing a new instant breakfast drink. The new product would have to compete with other breakfast foods, such as bacon, eggs and breakfast cereals. To understand the new product's position in the market, a marketer could obtain customer perceptions of the new product concept relative to likely substitute products on various critical attributes. Figure 8.7(a) shows a product positioning map constructed from such information. The two attributes defining the product space are price and convenience of preparation. The proposed new drink occupies a distinctive position because customers perceive it as a comparatively low-cost, convenient breakfast food.

Once competitors introduce similar brands into the same product category, a marketer needs to find out how the brand is perceived compared with competitors. Thus, Figure 8.7(b) shows the result of a positioning analysis conducted at the brand level. It summarises customer perceptions concerning three existing brands of instant breakfast drinks. This brand level analysis is very useful for helping marketers understand a brand's competitive strengths and weaknesses and for determining whether the brand should be repositioned to differentiate it from competitive products.

Once the perceptions are plotted, most marketers want to know the consumer's ideal position. The ideal position is the one most preferred by each consumer.

Finally, what is the difference in positioning on the B2C market and B2B market? The principles in the two markets are the same. What matters is that the customer (and prospective customer) sees the merits in your positioning and that you link other strategies to this positioning in order to deliver the 'promise' implied by the positioning decision. If you claim to be a comprehensive supplier, you must be a comprehensive supplier to sustain customer support. And the same goes for other choices.

However, in the B2B market, company image considerations, rather than brand image building factors, are determinants of perceived positioning strategies. The brand-image-led positioning strategies that are prevalent in consumer goods marketing do not transfer well to business marketing (Kalafatis *et al*., 2000).

EXHIBIT 8.2

Björn Borg's brand positioning and business modelling in the international apparel market

Back in the mid to late 1970s, a tennis player from Sweden captivated the crowds at Wimbledon, winning five straight titles and nearly a sixth in 1981. His name was Björn Borg. Today Björn Borg AB, formerly Worldwide Brand Management AB, is a Sweden-based company active within the fashion industry. In December 2006, the Björn Borg Group acquired the Björn Borg trademark and rights to the tennis legend's name from Björn Borg for US$18 million. Today Björn Borg himself has nothing to do with Björn Borg AB or its business activities. Björn Borg AB is headquartered in Stockholm, Sweden.

The Company's operations comprise five product areas: clothes, footwear, bags, eyewear and fragrances.

A majority of the company's sales are currently in the northern part of Europe, i.e. Sweden, the Netherlands and, to a lesser extent, Norway and Denmark. From 2007, the company has been developing new markets in the UK, Germany and Switzerland. In 2008–09 Björn Borg was launched in a number of new markets: Spain, Canada, the USA, Italy and Greece.

In 2008 the net sales of Björn Borg AB's activities was €48 million (80 per cent of this was clothing, primarily underwear), with total profits of €9 million. The Björn Borg turnover corresponds to €221 million turn-over in consumer prices. Björn Borg AB has 88 employees at its HQ in Stockholm.

Björn Borg today is a strong, well-known brand in its established markets thanks to consistent, long-term branding from a clearly defined platform and focused marketing. The brand has an especially strong position

Source: Sergio Dionisio/Getty

EXHIBIT 8.2

Björn Borg's brand positioning and business modelling in the international apparel market (*continued*)

in men's underwear, where Björn Borg is considered a market leader in terms of quality and design in its established markets.

Based on its established position in underwear (especially for men), Björn Borg is working actively to strengthen its position in clothing as well as shoes and accessories. In its main product group, underwear, Björn Borg competes with well-known international brands such as Calvin Klein, Hugo Boss and Hom, in addition to local players. Competition is generally expected to grow as more major fashion brands such as Diesel and Puma introduce their own underwear collections and new companies enter the market.

Björn Borg's business model utilises a network of product companies and distributors which are either part of the Group or independent companies and have been granted licences to one or more product areas or geographical markets. The network also includes Björn Borg stores operated by the Group or as independent franchisees. By utilising its own network as well as independent companies, Björn Borg can be involved in every part of the value chain and develop the brand internationally with a compact organisation and minimal financial investment and risks. The business model requires little capital investment by the company, since the distributors in the network are responsible for marketing, including investments and inventory.

With the exception of production, which is handled outside the Group, Björn Borg is involved with all value chain activities from product development to distribution and consumer sales. This gives Björn Borg the best chances of ensuring the further development and correct future positioning of the brand.

Sources: Adapted from Björn Borg AB (www.bjornborg.com); O'Mahony, P. (2006) Björn Borg brand headed for stock exchange, *The Local: Swedish News in English*, 7 December (www.thelocal.se/5733/20061207/); Kullin, H. (2006) The brand 'Björn Borg' sold for 18 MUSD, *www.kullin.net* (www.kullin.net/2006/12/brand-bjrn-borg-sold-for-18-musd.html).

8.6 GENERIC COMPETITIVE STRATEGIES

Generic
The term generic means that the strategy can be applied to any organisation, regardless of size, industry sector, or product or service.

Porter (1985) states that there are only three potentially successful **generic** strategies to outperforming other firms in an industry: overall cost leadership, differentiation and focus. Figure 8.8 shows Porter's thoughts in a modified way.

Cost leadership

A cost leadership strategy focuses on gaining advantages by reducing economic costs below the costs of competitors. This alternative has come to prominence in recent years, as companies have invested vast sums to achieve economies of scale. Many segments in the industry (broad industry focus) are served and great importance is placed on minimising costs on all fronts (Morehouse *et al*., 2008)

Markets have been expanded to entire continents to support massive new plant as in the European car industry. Here, Hyundai has implemented a cost-leadership strategy with its emphasis on low-priced cars for basic transportation.

There are many reasons why an individual firm may have a cost advantage over its competitors. The two most important sources of cost advantages are **economies of scale** and **economies of scope**.

Economies of scale and economies of scope
Obtained by spreading the costs of distribution over a large quantity of products (scale) or over a wide variety of products (scope).

Economies of scale

Economies of scale reflect the efficiencies that come with size. Fixed costs such as administration, facilities, equipment, staff and R&D can be spread over more units. Cost advantages arise where a producer derives economies of scale by having a large sales volume. Fixed costs

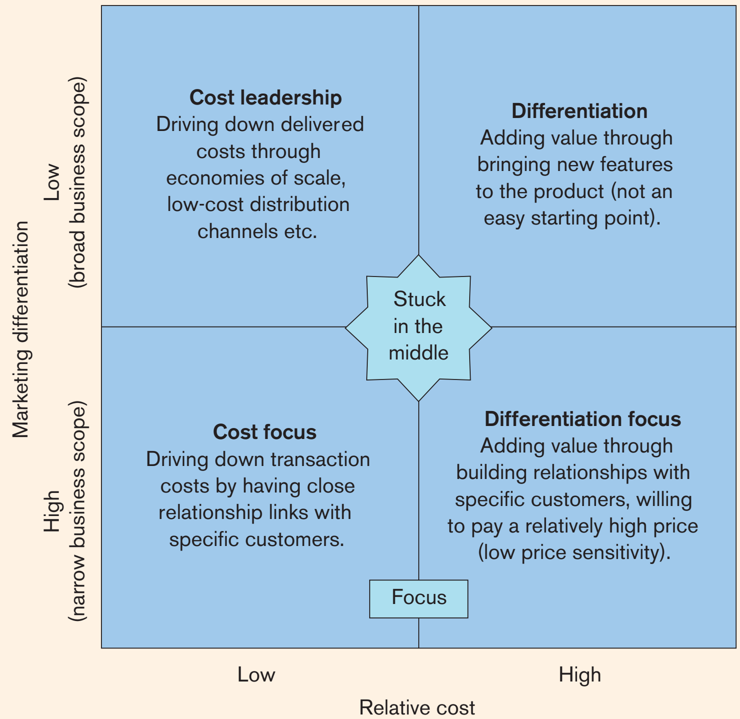


Figure 8.8 Generic strategies

Source: Porter, M. E. (1985) *Competitive Advantage: Creating and Sustaining Superior Performance*, The Free Press, New York.

can then be spread over a greater output. In addition there are the added benefits of what is called the 'experience curve'. The experience curve is similar to the learning curve with which we are familiar as people. As we perform a task or job again and again, we develop our skills. In time we become more efficient at doing the task or job. The experience curve extends this concept to show that efficiency increases and value added costs decline as the volume of production increases. Where a firm has the predominant market share, it should be able to reap the benefits of experience and hence enjoy cost advantages. These same benefits do not apply, however, where a firm has deliberately sought to increase its market share by buying it through price reductions, increased marketing effort and product development at the expense of long-term profitability.

Economies of scope (synergy)

Economies of scope (synergy) is where a business enjoys an advantage because it is linked to another business within the same enterprise. Both enterprises may benefit from shared resources, and in so doing reduce costs or investment. They may also be able jointly to offer a combination of complementary products. Synergy often results from some commonality in two operations, such as:

- R&D
- operating costs
- plant usage
- company or brand image and its impact on the market
- distribution
- sales or advertising.

In addition, it often produces increased revenues, decreased operating costs or reduced investment.

The implications of cost advantages for the marketing strategy is that they can be used to reduce prices or to earn higher margins at the same price. A preferable alternative, however, may be to reinvest in the product rather than run the risk of initiating price wars. Thus cost leaders are often market standard products that are believed to be acceptable to customers. Heinz and United Biscuits are believed to be cost leaders in their industries. They market acceptable products at reasonable prices, which means that their low costs result in above-average profits.

One of the problems with this Porter generic strategy is that there can be only one lowest cost producer in any market and, to achieve this, the organisation tends to focus too much on internal operational matters. This often involves significant capital investment, which relies on a period of relative stability in order to get a full return on the investment. The major risk is that the firm could lose touch in a dynamic marketplace, especially one where technology is changing.

Differentiation

It is not an easy task to create competitive advantage in a situation where the firm has relatively high costs. Differentiation removes the product from the most direct elements of competition by differentiating the marketing mix to the different buyer groups in the industry.

Differentiation strategies are usually associated with a premium price, and higher than average costs for the industry as the extra value to customers (e.g. higher performance) often raises costs. The aim is to differentiate in a way that leads to a price premium which is greater than the cost of differentiating. Differentiation gives customers a reason to prefer one product over another.

An important way in which a firm can attempt to differentiate its products is through linking different functions within the firm. For example, in selling computers and IT solutions, IBM has been very successful in linking the sales and service function. When a customer purchases an IBM mainframe computer it is not just buying a big box with electronic components. Instead, it is buying a relationship with IBM – a relationship that includes high levels of service and technical support. At IBM, the relationship with the company does not end with the purchase of a computer; it begins with this purchase.

Differentiation focus

With this strategy a firm aims to differentiate within one or a small number of target market segments. Focusing on the special needs of the segment means that there is an opportunity to differentiate the product offering from competitors and also charge a higher price. This could still result in a profitable business, in spite of the relatively high costs.

An example of differentiation focus can be seen in Harley-Davidson's decision to stay in the heavyweight motorcycle segment, where it had distinctive styling. Other companies following this strategy are Rolex (watches) and Porsche (sports cars).

Cost focus

With this strategy a firm seeks a cost advantage with one or a small number of market segments or single customers. By dedicating itself to a specific segment or a specific customer the cost focuser can seek economies that may be ignored or missed by broadly targeted competitors. By creating a close relationship with a few important customers, the firm can drive down the transaction costs associated within the buyer–seller relationship.

Porter argues that failure to make the choice between cost leadership, differentiation and focus strategy means that a company is stuck in the middle with no competitive advantage, resulting in poor performance (Porter, 1985).

Some researchers have suggested that the most effective strategy for some situations is systematic oscillation between cost leadership and differentiation (Gilbert and Strebel, 1988).

EXHIBIT 8.3
Good-enough markets in China – the case of Duracell batteries

Historically, China's markets have had a fairly simple structure: at the top, a small premium segment served mainly by foreign companies, with solid margins and sometimes rapid growth. At the bottom, a large, low-end segment served by Chinese companies offering lower-quality, undifferentiated products that carry prices 40 per cent to 90 per cent below the premium products in that segment. These companies often lose money – if there's rigorous accounting. Between the two is the good-enough segment – where reliable-enough products at low-enough prices appeal to China's fast-growing mid-level consumers. Indeed, the good-enough segment is growing faster than either the premium or low-end segments.

In the early 1990s, foreign battery products such as Duracell (Gillette) and Energizer accounted for more than half of the Chinese mainland alkaline-battery market. However, by the end of the 1990s Gillette's Duracell division had been losing market share to lower-priced competitors throughout the decade. Nanfu and other domestic battery brands have grabbed market share from the foreign giants in recent years by offering similar-quality products at lower prices. By 2002, Duracell's share of the Chinese domestic battery market was just 6.5 per cent. By contrast, Nanfu accounted for more than 40 per cent of China's alkaline-battery market in terms of sales volume.

Founded in 1988, Nanfu (Fujian Nanping Nanfu Battery Co. Ltd) became a joint venture in 1999 by acquiring money from overseas investors based in the United States, Singapore and the Netherlands, among other countries.

Gillette's management recognised that its Duracell unit had a fundamental cost disadvantage compared with its rivals, and concluded that broadening the brand's own market penetration would be difficult. Facing such odds, Gillette decided to acquire a majority stake (70 per cent) in Nanfu.

Gillette was extremely careful to protect both Duracell's and Nanfu's brands – a crucial part of the strategy as Gillette continues to sell premium batteries under the Duracell brand and has maintained Nanfu as the leading national brand for the mass market. Dual branding, cost synergies, a broadened product portfolio, economies of scale and distribution to more than 3 million retail outlets in China have paid off for Gillette, which has seen significant increases in its operating margins in China.

Today, Gillette is the leading player in the Chinese battery market, and both Duracell and Nanfu have gained market share since 2003.

Sources: Adapted from Gadiesh *et al.* (2007); Bain & Company (www.bain.com); China Internet Information Center (2003) Battery giant Gillette obtains rival Nanfu, *www.china.org.cn*, 22 August (http://mdjnkj.china.com.cn/english/BAT/73007.htm).

Indeed, the strongest situation could be where a firm enjoys the benefits of both a cost advantage and a value advantage. Streamlined, automated production facilities coupled with active and effective product differentiation strategies have enabled many Japanese consumer goods manufacturers to achieve very strong competitive positions which are very difficult to dislodge.

Honda motorcycles have maintained their initial success in the USA by consistent action to sustain a competitive advantage based on distribution and brand image in addition to low cost realised through high-volume production.

8.7 OFFENSIVE AND DEFENSIVE COMPETITIVE STRATEGIES

If a market cannot be expanded through new users, new uses and increased frequency of purchase, a 'build market share' strategy may be a relevant alternative. This implies gaining marketing success at the expense of the competition.

A successful strategy amounts to combining attacking and defensive moves to build a stronger position in the chosen marketplace. In recent years several authors, most notably Kotler and Singh (1981) and Ries and Trout (1986), have drawn an analogy between military warfare and competitive battles in the marketplace. Their basic contention is that lessons for the conduct of business strategy can be learned by a study of warfare and the principles developed by military strategies.

Offensive strategies

As indicated, when a build objective is pursued in a market that cannot, for one reason or another, be expanded, success must, by definition, be at the expense of competitors.

In the battle with competitors, organisations must decide on what dimensions to attack or defend. This decision is based, in part, on the size of the firm relative to its competitors. It will also depend on the strategies that are viable in a particular industry.

Kotler and Singh have identified five competitor confrontation strategies (see Figure 8.9) designed to win sales and market share.

Frontal attack

A frontal attack means taking on a competitor head-on. This is one of the most difficult and dangerous of all marketing strategies. To be successful, the firm must have a substantial

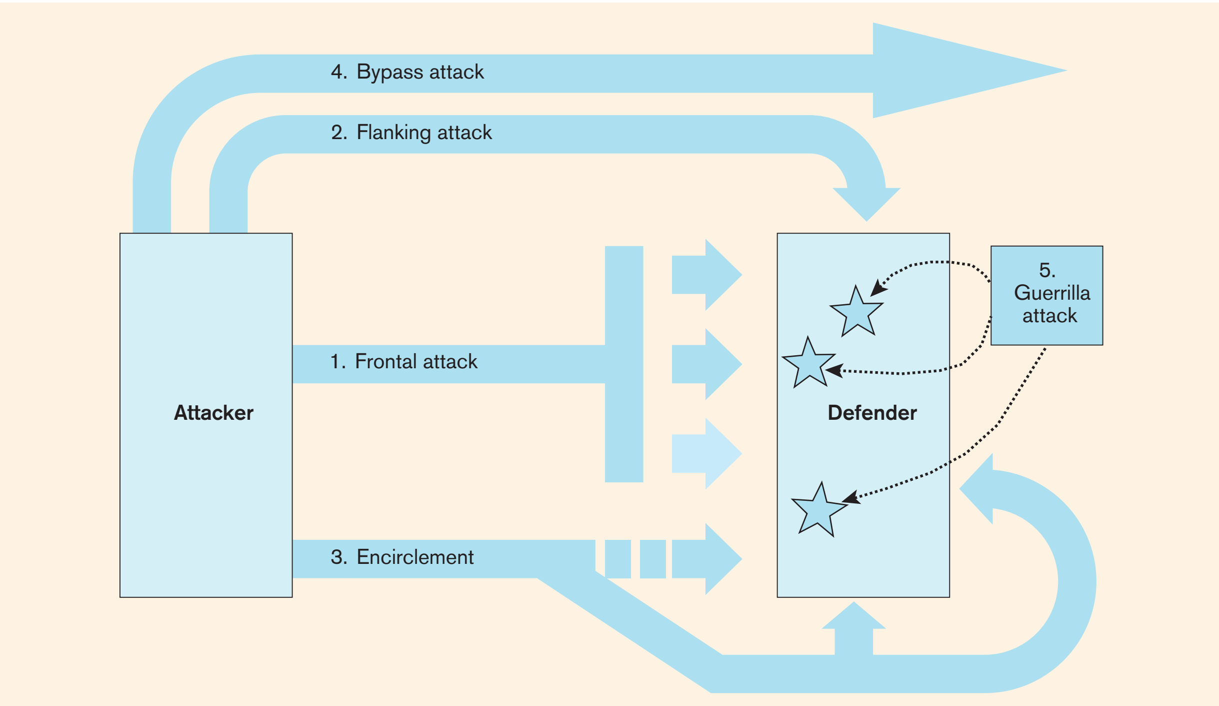


Figure 8.9 Attack strategies

Source: Adapted from Kotler, P. (2000) *Marketing Management*: *The Millennium Edition*, 10th ed., Prentice Hall, Upper Saddle River, NJ, p. 241. Copyright © 2000. Reproduced with permission of Pearson Education, Inc.

marketing advantage or considerable resources. For instance, the firm might have a similar product, but be able to sell it at a lower price.

The requirement of a similar 3:1 advantage to ensure success in a commercial frontal attack has been suggested (Kotler and Singh, 1981). Some question this 3:1 force, but all agree, however, that to defeat a well-entrenched competitor, who has built a solid market position, requires substantial superiority in at least one key area of the marketing programme.

IBM's attack on the PC market in the early 1980s is a classic example of the frontal attack. The market pioneer (Apple) was attacked partly as a defensive move by IBM as the company saw the likelihood that Apple's desktop machines would become executive workstations and hence threaten IBM's traditional dominance of the mainframe business market. There were several aspects to IBM's attack on the market. It was spearheaded by a technological improvement (16-bit processors gave increased power and speed over the competing 8-bit machines.)

At the same time IBM made the technical specification of its machines widely available to software houses and other peripheral equipment manufacturers so that software became readily available and soon established an industry standard ('IBM-compatible'). The creation of this standard was made possible by the use of that prime marketing asset – the IBM name and reputation. Finally, a massive promotional campaign was launched in the small business market. The results were not only a dominant share of the markets for IBM, but they also managed to encourage the further growth of the market as a whole.

Flanking attack

In contrast to the frontal attack the flanking attack seeks to concentrate the aggressor's strengths against the competitor's weaknesses. In warfare, a flanking attack would seek to shift the battleground away from the enemy's strength to the unguarded or less well-defended flanks. A flanking attack is appropriate for segments of the market where customer needs are not being fully met. This may simply mean fighting in geographical regions, where the competition is weak. More likely, it means bringing out new products for emerging segments of the market. Flanking addresses gaps in existing market coverage of the competition. This strategy has been used very effectively by Japanese corporations.

The entry of Japanese cars into Western car markets is a classic example of a flanking strategy. In cars especially, the Japanese took advantage of the OPEC-induced oil crisis of the early 1970s to cater to customer needs in the small car segment. The Japanese cars were cheap, reliable and offered good fuel consumption to the hard-hit motorist. Having established a toehold in the market, the Japanese car manufacturers have subsequently moved into other segments. Timing can be crucial to a successful flanking strategy. The Japanese entry into the US small car market was timed to take advantage of the recession and its power. The strategy requires the identification of competitor weaknesses, inability or unwillingness to serve particular sectors of the market. Another example of a flanking attack is Mercedes-Benz's introduction of the Smart car in 1997. With less space and lower gas mileage than many of its competitors, the primary marketing message of the Smart car is its ability to offer consumers an alternative fashion statement. By 2009, the Smart was available in 25 countries all over the world and has notched up over 800,000 sales.

Encirclement

This involves attacking the defender from all sides to spread its resources thinly by probing on many fronts at once. Again, superior resources are required. For this strategy to succeed, the attacker must possess not only a 3:1 power advantage, as with the in-your-face portion of the attack, but additional resources to achieve victory in the multiple change-the-field strategies. The encirclement strategy, therefore, is a viable alternative only for companies possessing resources vastly superior to those of the individual being attacked.

In business there are two approaches to the encirclement attack. The first is to attempt to isolate the competitor from the supply of raw materials on which it depends and/or the customers it seeks to sell to. The second approach is to seek to offer an all-round better product or service than the competitor. After their original flanking attack on the small car market, the Japanese used an encirclement attack aimed at many segments simultaneously with many different brands.

Bypass attack

Bypass attack
Circumventing the defender's position, usually through technological leap-frogging or diversification.

A **bypass attack** (or 'leapfrogging') is one of non-confrontation and instead focuses on another weaker competitor (Burns and Warren, 2008). When one's primary competitor possesses a significant resource base to defend against the frontal attack and possesses few weak points which can be used as a focus of a change-the-field attack, a leapfrogging strategy may be appropriate. The leapfrogging strategy involves changing the company's targets to other, weaker companies where the chance of success may be higher.

With this strategy the firm may also diversify into unrelated products or it diversifies into new markets for existing products, as Marks & Spencer has done with its move into financial services.

Bypass attacks are most prevalent in high-technology markets, where a challenger puts its efforts into bypassing existing technology and winning the battle for the next generation of technology to be brought to the market. Such a move needs significant funding, but it can put the winner in an almost impregnable position. Such a technological leapfrogging happened when Casio bypassed the Swiss analogue watches with digital technology.

Guerrilla attack

Guerrilla warfare entails small, intermittent attacks on a competitor. One goal might be to gain small amounts of market share while provoking minimal competitive reaction.

Guerrilla tactics may be the only feasible option for a small company facing a larger competitor. Such tactics allow the small company to make its presence felt without the dangers of a full frontal attack. By being unpredictable, guerrilla activity is difficult to defend.

One of the most long lasting guerrilla actions is Virgin Atlantic's campaign against British Airways (BA). Despite being in an alliance that carries more people across the Atlantic than BA, Virgin Atlantic still successfully positions itself as the little victim of BA's alliance with American Airlines.

Guerilla attacks can be a lucrative, though fickle market strategy. Businesses can appeal to this market by depicting their products as decidedly different from popular products. Newly introduced products and those that are relatively unknown are best suited for this appeal. Although it is unlikely that products targeted toward this market will have the potential to become top sellers, it can be a great market for 'niche' products which differ materially from top-selling products. Examples of products that have successfully employed this strategy include Dr Pepper and Apple.

Defensive strategies

Defensive strategies exist to counter each offensive strategy. In defending market share, the firm also has several alternatives: Kotler and Singh (1981) suggest six basic holding strategies.

Position defence

This involves erecting barriers around the company and its markets to shut out competition. The military analogy is the opposite side of the wall from the siege. The defender creates the largest walls and moats possible and sits tight until the aggressor gets weary, or finds other more pressing priorities, and withdraws. The main risk in this strategy is marketing myopia. Redesigning or reformulating your product can keep you one step ahead of the competition.

Flanking defence

This is the defending parallel to flanking attack. The aggressor seeks to concentrate strength against the weaknesses of the defender, often (especially in military warfare) using the element of surprise to gain the upper hand.

A flanking defence requires the company to strengthen the flanks, without providing a weaker and more vulnerable target elsewhere.

Pre-emptive defence

This follows the philosophy that the best form of defence is to attack first. The objective is to strike a physical or demoralising blow which will prevent the aggressor attacking in the first place.

Counter-offensive

Where deterrence of a potential attack before it occurs may be the ideal defence, a rapid counter-attack to 'stifle' the aggression can be equally effective. The essence of a counter-offensive is to identify the aggressor's vulnerable spots and to strike hard. The counter-offensive defence is most effective where the aggressor has become vulnerable through overstretching resources.

One example is where the defender attacks the competitor's home territory so that it has to divert its efforts into protecting its existing products. For example, some US firms have entered the Japanese market mainly to force Japanese firms that had entered the US market to reconcentrate their efforts back in their home market.

Mobile defence

This involves creating a flexible response capability to enable the defender to shift the ground which is being defended in response to environmental or competitive threats and opportunities. When a company's major market is under threat a mobile defence may make strategic sense. The two options are diversification and market broadening. A classic example of a company using diversification as a form of mobile defence was Philip Morris diversifying into the confectionery and food business when its cigarette market was threatened.

The mobile defence is an essential strategic weapon in markets where technology and/or customer wants and needs are changing rapidly. Failure to move with these changes can result in making the company vulnerable to a flanking or bypass attack.

Strategic withdrawal

A strategic withdrawal requires giving up untenable ground to reduce overstretching and allow concentration on the core business that can be defended against attack. The company has to define its strengths and weaknesses, and then to hold on to its strengths while divesting (or outsourcing) its weaknesses. This results in the company concentrating on its core business.

By the end of January 2001 the Swedish mobile telephone manufacturer Ericsson outsourced production of mobile telephones to a US partner, while keeping the value-adding R&D function within the Ericsson company.

Strategic withdrawal is usually necessary where the company has diversified too far away from its core skills and distinctive competences that gave it a competitive edge.

8.8 SUMMARY

This chapter has focused on two interrelated decisions that are involved in the formulation of a strategic marketing programme for a product–market entry – market segmentation, market targeting and positioning.

Market segmentation separates potential customers into several groups or segments with distinctive characteristics. Customers within a segment should have similar wants, needs and preferences; they should have similar media habits and buying patterns. The group should be large enough to justify attention, and data about individuals in each segment should be available.

Two common segmenting methods are the top-down method and the bottom-up method. The top-down method begins by selecting segmentation variables and assigning customers to the category they fit. The bottom-up method starts with the unique characteristics of one potential customer. Each time someone with unique characteristics is discovered, a new segment is added.

For the B2C market, typical segmentation variables are geographic and demographic factors, ethnic factors, psychographic and behaviouristic factors, and desired benefits.

In the B2B market two segmentation stages may be required. The first, macro-segmentation, divides the market according to the organisational characteristics of the customer, while micro-segmentation groups the customers by the characteristics of the individuals who influence the purchasing decision. Product usage and geographical locations are examples of macro-segmentation variables, while purchase influence, loyalty and area of expertise are micro-segmentation variables.

Micro-segmentation centres on key characteristics of the decision-making unit and requires a higher level of market knowledge.

Target marketing focuses on selecting groups of customers so marketers can more clearly understand their specific wants and needs and adjust accordingly.

Market targeting may use a market-attractiveness matrix as an analytical framework to help managers decide which market segments to target and how to allocate resources and marketing efforts.

The three basic target marketing strategies are undifferentiated, differentiated and concentrated marketing.

Undifferentiated marketing treats all customers alike and is similar to mass marketing. For this strategy to work, companies generally must have significant cost advantages. Differentiated marketing involves serving several segments but adjusting the marketing mix for each. It usually requires decentralised decision making. Concentrated marketing focuses on one segment or only a few. Because differentiated and concentrated strategies consider customer needs and wants within a certain group of customers, they are far superior to an undifferentiated strategy.

Positioning creates in the mind of consumers an image, reputation or perception of the company and/or its products relative to competitors. It helps customers understand what is unique about a company and its products.

Positioning seeks to maximise a product's performance relative to competitive offerings and to the needs (benefits sought) of one or more targeted market segments.

Marketers can use a positioning map to depict how customers perceive products according to certain characteristics. For business products, a commodity, differentiated or speciality positioning strategy can be used. Products are often positioned by benefit, by price and quality, by the time of use or application.

Positioning analysis can take place on different levels: company, product category and brand levels. The main difference between positioning in the B2C and B2B markets is that in business markets company image considerations rather than brand image building are determinants of positioning strategies.

Successful marketing strategies are often based on differentiation, market focus and lower costs. Firms must identify windows of opportunity and select appropriate attack and defence strategies to reach organisational goals.

Military analogies have been drawn upon to identify strategic options under the conditions of conflict and competition. The strategies of frontal, flank, encirclement, bypass and guerrilla attacks provide five options for companies wishing to build sales and/or market share. Position, flank, pre-emptive, counter-offensive and mobile defences and strategic withdrawal are options for companies defending sales and/or market share against aggressive competitors.

CASE STUDY 8.1

Ryanair

Competitive strategy in a warfare environment

Sources: © Charles Polidano/Touch the Skies/Alamy

As those who fly with Ryanair (www.ryanair.com) know, the great thing about the discount airline is: you get what you pay for and no more. There is no class structure, no snobbery, none of the pretence that you are a valued member of a club. They get you there, on a modern aircraft and usually on time, and that is it. But there is something else.

Ryanair has been a huge force for the opening up of Europe. The budget airline phenomenon is profoundly democratic for two reasons. People who could not afford to fly can now do so, and, more than this, regions and even countries that suffer disadvantages because of their location are now better able to compete with luckier places. That is why small little-known airports are so eager for airlines to open services.

Over the years Ryanair has been reporting strong revenue growth (see Table 8.1).

Table 8.1 Key financial figures for Ryanair Holding Plc (2005–2007) (€ m)

	2008	2007	2006	2005
Revenue	2,714	2,237	1,692	1,319
Profits before tax	439	451	339	309

Source: Ryanair (www.ryanair.com).

One of the main reasons for the decline in profits (before tax) from 2007 to 2008 was the increase in the fuel and oil costs of nearly €100 million.

Ryanair has continued to develop its business by improving turnaround time for its aircraft and also generating cost efficiencies, which are at the heart of its business model. The airline has started to discourage passengers from checking in luggage by charging a fee for baggage that needs to go into the hold. The move is likely to create savings for Ryanair of around £170 million. The business model of Ryanair is:

> **Ryanair** = **Low costs** (e.g. marketing budget is cost-effective) + **Low fares** (with an average of €44, compared to easyJet €66, Air Berlin €82 and AER Lingus €94) + **No Frills** (any additional service is paid for by passengers).

Ryanair aims to offer low basic ticket prices (in order to maximise the number of paid seats on each flight), and then charges extra for items such as checking in at the airport or for additional luggage. By the end of February 2009, Ryanair's chief executive, Michael O'Leary, received a lot of protests when he suggested that the airline may charge passengers £1 to use its toilets. He said that the carrier had been investigating fitting coin slots to the doors of aircraft toilets, similar to those installed at train stations.

History

Tony Ryan and his sons Declan and Cathal founded Ryanair in 1985. Ryan had made his fortune from airline leasing when he founded Guiness Peat Aviation in 1975 with the help of his former employer of 20 years, Aer Lingus. Despite his experience in the industry, however, his new enterprise got off to a slow start, with only one route running between Ireland's Waterford Airport and London Gatwick. Ryanair's fleet consisted of a single 15-seat Bandeirante turboprop, which could not make its scheduled flights if the clouds over Waterford were too low; passengers were often forced to get off in Cork or Dublin.

In 1986 the airline was approved for a Dublin–Luton route, and within six months it began offering unrestricted return tickets on its new route for less than half the price of the two state carriers, British Airways and Aer Lingus. The move effectively undercut their dominance, making air travel over the Irish Sea, which had been limited to more affluent travellers, accessible to the general public.

With an expanded fleet, Ryanair began offering low-fare services to 12 destinations in the British Isles in 1989. Despite the public's embrace of its low fares, the airline met with turbulence. The company's rapid growth, combined with heavy competition from the state carriers, caused its losses to grow. It was spared bankruptcy with a £20 million infusion from the Ryan family.

It received another boost in 1989 from the Irish government when the state forced its own carrier, Aer Lingus, to give up three routes to the fledgling carrier for a three-year period. In return, Ryanair had to relinquish its Dublin–Paris route. The deal also made Ryanair the sole carrier from Ireland to Luton, Liverpool and Stansted, essentially eliminating competition between the two Irish carriers.

The real groundwork for the company's recovery, however, was laid in 1990 when Tony Ryan and personal adviser Michael O'Leary (a former tax consultant) went to Texas to meet Southwest Airlines founder and CEO Herb Kelleher. Upon his return, O'Leary began modelling Ryanair on Southwest's no-frills, low-fares model. The company reduced the airline's regular routes from 30 to 6 and made flight attendants and pilots take salary cuts. The changes worked, and by 1991 the airline had turned its first profit. O'Leary was appointed CEO (the airline's fifth) in 1993 and given a 25 per cent stake in the company.

By 1994 Ryanair had added low-fare service on four more UK routes and was carrying 1.5 million passengers a year. That year the airline boosted its fleet by ordering six Boeing 737s. Also in 1994 it began offering its first domestic UK service between Stansted and Prestwick, and in 1996 it was offering a service from Dublin to Leeds Bradford, Cardiff, and Bournemouth.

European airline deregulation in 1997 gave Ryanair a chance to move into continental Europe with flights from London to Stockholm and Oslo, and from Dublin to Paris and Brussels. That year it acquired six more Boeing 737s and went public, trading shares on both the Dublin Stock Exchange and Nasdaq.

In 1999 Ryanair added 11 new destinations in continental Europe, including Venice and Pisa, Frankfurt and St Etienne. The airline also received five new Boeing 737s. By 2000 Ryanair was serving 45 destinations throughout Europe and the British Isles and transporting nearly 6 million passengers.

The airline acquired buzz, the low-fare arm of KLM, for about $21 million in 2003. KLM was trying to take on low-fare carriers that had been sprouting up around Europe, including Ryanair, but it had struggled to make Buzz profitable.

In 2005 and 2006 Ryanair expanded its network to include destinations in Croatia, Latvia, Morocco, Poland and Slovakia.

Founder Tony Ryan died in 2007, aged 71, after a long illness.

International expansion of Ryanair

Just as Southwest expanded beyond its home region in the US, Ryanair has moved well beyond Ireland and the UK. Ryanair generated around 61 per cent of its revenues from the UK in 2001. However, in 2005 over 51 per cent of revenues came from outside the UK. This marks a distinct shift in focus for both Ryanair and easyJet as the wider aviation sector in Europe opens up opportunities.

However, future expansion eastward into Europe will provide the low-cost carriers such as Ryanair with challenges as well as opportunities. In Eastern Europe, low-cost airlines that wish to compete in this region will have to maintain even tighter cost controls, as margins will come under pressure. Ryanair has been adding destinations and increasing the frequency of routes within its network, and it has ordered more 737-800s to keep pace. The carrier flies to about 125 destinations, including some two dozen in Ireland and the UK; overall, it serves more than 20 countries throughout Europe, plus Morocco. Ryanair specialises in short-haul routes between secondary and regional airports. It operates from more than 20 bases, including airports in Belgium, France, Germany, Italy, Spain and Sweden, as well as Ireland and the UK. The carrier maintains a fleet of some 140 Boeing 737-800s.

In October 2006 Ryanair announced plans to buy rival Irish airline Aer Lingus, but the effort has been unsuccessful. Ryanair had gained a 16 per cent stake in Aer Lingus when it said it would try to buy the formerly state-owned carrier, which had begun trading publicly just a few days before. By October 2007, Ryanair had increased its stake in Aer Lingus to about 30 per cent. Buying Aer Lingus would give Ryanair long-haul routes and create a company that would approach the size of Europe's leading airlines. The proposed acquisition, news of which surprised many observers, would represent a departure from strategy for Ryanair.

The company has grown organically and has in many ways modelled itself on low-fare pioneer Southwest Airlines. Like Southwest, the carrier flies point-to-point rather than routing traffic through major hub airports, and it uses a single type of aircraft to reduce training and maintenance costs.

Ryanair augments its airline ticket revenue by enabling customers to arrange ground transportation and hotel accommodation through the company's website and by selling food and beverages in flight. It also collects commissions on travel-related products sold on sites linked to the Ryanair website.

Dark clouds coming up

The rise in fuel prices, coupled with wider environmental concerns, has inevitably cast a long shadow over the aviation industry.

That leads to the biggest issue facing air transport. Despite the work of Ryanair and the other budget airlines in Europe, and despite the growth of Southwest Airlines (the US pioneer of the genre), the main growth of global air travel in the world is not in Europe or North America, but Asia. India has benefited hugely from deregulation. A string of private sector carriers with pretty low fares and excellent service has opened up the country. In China they are building 97 new regional airports in the next 12 years. Air travel is rising by about 25 per cent a year compound. At some stage that growth will tail off; it has to. But meanwhile it may be seen as an engine of economic development, opening up parts of the country that have lagged in economic terms.

Most obviously, demand for aviation fuel will remain high, as will demand for all oil products. The world is close to a tipping point, where overall demand for oil from the emerging countries will exceed that from the developed world.

The world will probably go through that point in this downswing of the economic cycle. That in turn will make the world reserve oil for the applications where there are no obvious substitutes, one of which is air travel. It will be too valuable to burn in power stations; it would be needed for planes. Many people in Europe may find this an uncomfortable thought.

In June 2008 (*Daily Mail*, 9 June 2008), Mr O'Leary conceded the economic picture had changed dramatically in the past few months and that, if petrol prices increased, profits would vanish. He said that a no-profit situation could easily happen if the oil price reached $150 a barrel. O'Leary spoke about the possibility of the industry being hit by oil prices, a weak pound and falling demand. But then he added: 'There can only be one competitive response to any consumer uncertainty, and that is for Ryanair to slash fares and yields, stimulate traffic, encourage price-sensitive consumers, and promote new routes.'

Despite the turmoil surrounding the aviation industry, Mr O'Leary said he had no intention of getting out of the business. He had previously suggested he may go in 2009 but he said things were too interesting.

In June 2008 German carrier Air Berlin also abandoned its full-year profit goal and said it would scrap unprofitable routes as it tries to weather soaring fuel costs. British Airways said in May 2008 that it was braced for a turbulent year, with fuel costs set to rise to £1 billion.

The takeover attempts of Aer Lingus

The competition (and also relationship) between the two Irish airlines has always been intense. Ryanair CEO Michael O'Leary always thought that buying Aer Lingus would give Ryanair long-haul routes and create a company that would approach the size of Europe's leading airlines. On two occasions Ryanair announced specific plans to buy the rival Irish airline, but the efforts have been unsuccessful until now.

First attempt

On 5 October 2006, Ryanair launched a bid to buy Aer Lingus. Ryanair CEO Michael O'Leary said the move was a 'unique opportunity' to form an Irish airline. The 'new' airline would carry over 50 million passengers a year. Ryanair said it had bought a 16 per cent stake in Aer Lingus and was offering €2.80 for remaining shares. On the same day, Aer Lingus rejected Ryanair's takeover bid. Ryanair then confirmed it had raised its stake to 19 per cent, and said it had no problem with the Irish government keeping its 28 per cent. There were also reports in the *Irish Times* that the government would possibly seek judgement from the courts, and referral to competition authorities in Dublin – although this would be automatic under European regulation, as the combined group would control 78 per cent of the Dublin– London passenger air traffic.

On 29 November 2006, Ryanair confirmed it had taken its stake to 26 per cent of the airline.

On 21 December 2006, Ryanair announced it was withdrawing its current bid for Aer Lingus, with the intent of pursuing another bid in the near future after the European Commission finished investigating the current bid. The Commission had been concerned that the takeover would reduce consumer choice and increase fares.

On 27 June 2007, the European Commission announced their decision to block the bid on competition grounds, saying the two airlines controlled more than 80 per cent of all European flights to and from Dublin airport.

Second attempt

On 1 December 2008, Ryanair launched a second takeover bid of Aer Lingus, making an all-cash offer of €748 million (corresponding to €1.4 per share). Ryanair already owned 30 per cent of the former state carrier. Since Ryanair's previous bid, Aer Lingus's share price had fallen from a high of $3.80 in December 2006 to a low of $1.27 in November 2008. The offer of €1.4 per share was a 28 per cent premium on the value of Aer Lingus stock during the preceding 30 days.

Ryanair CEO Michael O'Leary thought that the proposed merger of Ryanair and Aer Lingus would form one Irish airline group with the financial strength to compete with Europe's three major airline groups – Air France, British Airways and Lufthansa.

The Irish government held about 25 per cent of Aer Lingus shares; the airline's management and representatives of Aer Lingus employees controlled another 14 per cent of the shares.

The Aer Lingus board rejected the offer and advised its shareholders to take no action. The offer was rejected by all shareholders. It was the second failed attempt by Michael O'Leary to take over the national flag carrier. Ryanair left the offer open to Aer Lingus until they withdrew their bid on 30 January 2009. The Irish government slammed O'Leary's offer as 'undervaluing the airline' and stated that a Ryanair takeover would have a 'significant negative impact' on competition in the industry and on the Irish consumer.

On 11 March 2009 Aer Lingus announced a loss of €108 million. Furthermore, Aer Lingus announced that it would experience a larger operating loss in 2009 than in 2008.

Michael O'Leary's comment was:

> Irish taxpayers are entitled to ask the Department of Transport why they rejected Ryanair's €1.40 offer and claimed that 'The €1.40 offer for Ryanair greatly undervalues Aer Lingus', when just ten weeks later the taxpayer investment in Aer Lingus has collapsed by more than 50%. What does this say about the Department of Transport's financial judgement?

Also on 11 March 2008, *Ryanair News* reported thus:

> Consumers can celebrate Aer Lingus's continuing losses and failure as Ryanair this morning released 108,000 free seats – 1,000 seats for every €1m after tax losses announced by Aer Lingus this morning – for travel in March and returning in the first week of April. These will be the last free flights on Ryanair from Ireland before the Government introduces its crazy €10 tourist tax in Ireland.

International competition

The concept of LCCs (low-cost carriers), also known as budget or 'no frills' airlines was first developed in the US, with the creation of Southwest Airlines as early as 1971 and remaining by far the leading airline in terms of passengers and revenue passenger kilometres (RPKs). The company took a no-frills approach to flying, eliminating meal service, in-flight entertainment and assigned seats, thus targeting travellers who might otherwise choose to drive. Thus prices were low, flights direct and departures frequent, echoing the economy, directness and flexibility of travel by private car. Distances flown were also short, with the average flight covering just 425 miles.

Over the years, however, the LCC concept has evolved because of an increasingly competitive environment and the need to constantly adapt corporate strategies to avoid losing market share. Not surprisingly, LCCs have diversified their product portfolios and ventured into new regions, e.g. Western Europe.

Globally, Ryanair (like easyJet) is a small player in air travel with a ranking of 41 and a world market share of 0.5% in 2005. However, the company is one of the longest established low-cost airlines in the world, with its geographical focus being Western Europe.

As a result of the company's limited geographical range and low-cost niche market, it does not compete with the global giants, such as Air France or British Airways, in the full-service aviation sector. However, Ryanair is one of the most profitable companies in air transportation despite this.

The low-cost aviation sector in Europe has been dominated by airlines, such as Ryanair and easyJet for a number of years. However, the future is set to change, as a number of new brands will expand during the forecast period, creating greater competition and heralding a period of gradual consolidation.

British Airways launched its own low-cost carrier called BA Connect in 2006 and will enter the sector at a very interesting time. If successful, the new service provided by British Airways will create an extra challenge to the existing players.

The European region offers other competition with the likes of Wizz Air and SkyEurope, both based in Eastern Europe, which also have growing ambitions.

The main competitors

British Airways

British Airways ranked sixth in air transportation in 2006. The airline has an extensive international scheduled route network comprising some 147 destinations in 75 countries. Including code-sharing and franchise arrangements, flights with British Airways serve some 345 destinations in 109 countries. Its main location is London Heathrow, which serves a large geographic area with a relatively high proportion of point-to-point business. Eastern Europe offers significant growth opportunities in the short term, with developing travel infrastructures, an expanding middle class and a rise in foreign tourism and international business boosting air travel sales. British Airways is in the process of expanding its presence in the region, launching new services to Tirana in Albania, Varna in Bulgaria and Sarajevo in Bosnia-Herzegovina.

British Airways is notably focused on developing the upper end of its operations. The company has refreshed its First Class offer. The new Club World offer, launched in November 2006, highlights the way in which the company is seeking to enhance the customer experience. Indeed, British Airways states that it provides 'a whole experience from the moment a customer decides to fly with British Airways to the moment they arrive at their destination'. This includes the provision to book tickets online, as well as choosing hotels, car hire and insurance; the opportunity to use a spa or business centre at the airport or pre-flight dining on the aircraft; an enhanced cabin, a new privacy screen in the seat; and the opportunity to use the arrivals lounge to take a shower, have a meal, have a spa treatment or catch up on work.

Table 8.2 Market share of airlines, 2007

Rank	Airline	Market share (retail value) %
1	Air France-KLM Group SA	5.5
2	AMR Corp (American)	5.4
3	Deutsche Lufthansa AG	3.9
4	Delta Airlines Inc.	3.6
5	United Airlines Corp.	3.5
6	British Airways Plc	3.1
–		
40	easyGroup Ltd (easyJet)	0.5
41	Ryanair Holdings Plc	0.5

Sources: Different public sources; adapted from Euromonitor International (www.euromonitor.com).

easyJet

easyJet (owned by easyGroup Ltd.), based in the UK, also enhanced its services in order to attract a larger number of business travellers. The company has focused on key areas such as check-in, luggage allowances, booking hours, travel flexibility, flight frequency and security. The '10 reasons to fly easyJet for business' clearly states all benefits offered by the airline to business travellers, such as fast check-in for those carrying hand luggage only, no weight limit on hand baggage, 24-hour booking, changing and viewing of flights, sale of one-way fares, the ability to catch an earlier or a later flight depending on the time a customer arrives at the airport, ticketless boarding and free seating.

easyJet has been expanding its interests into Europe during the review period at an incredible pace, although Ryanair has also extended its operations but in a more gradual fashion.

Marketing strategy of Ryanair

The marketing angle that Ryanair has adopted is one of remaining very distinct from its rivals. Poster campaigns, which are characterised by colourful and sometimes humorous twists and are designed to capture the consumer's eye, feature highly in its brand support strategy. However, perhaps the most important avenue of advertising for the airline is through its website, which is the main booking platform for the company. Its main website, Ryanair.com, has 20 language-specific extensions that can be accessed.

Ryanair's website is the only means by which to book flights and associated travel products, such as hotel accommodation and car rental. It was one of the first airlines to push for all of its bookings to be made via the Internet.

By the nature of its business, Ryanair remains focused on ensuring its marketing budget is cost-effective and kept under tight control. The airline realises the importance of advertising its services but also recognises the need to maintain a strong focus on costs. Ryanair rarely spends more than 2 per cent of its total annual revenues on marketing activities and is heavily dependent on its exposure via the Internet.

Ryanair did cause some media controversy in early 2006, when a Channel 4 programme entitled *Ryanair Caught Napping* was broadcast in the UK. The report revealed various allegations, such as inadequate safety and security checks, dirty planes, exhausted cabin crew and pilots complaining about the number of hours they fly. However, the negative coverage, which Ryanair later dismissed as being untrue, did not tarnish the company brand and the airline remained relatively unscathed by the publicity.

Communication

After announcing a 27 per cent drop in profits for the last quarter of 2007, Ryanair decided to cut its marketing budget and focus primarily on using controversial one-off press ads (frequently banned by the Advertising Standards Authority) to promote its airfares. It was an attempt to get 'more bang for the buck' (*Marketing Week*, 7 February 2008).

Irish discount airline Ryanair has caused a stir in Europe with the publication of its Girls of Ryanair calendar, with feminist groups accusing the carrier of sexism.

The calendar, which features photographs of scantily clad flight attendants posing in front of jet engines, fuel pumps and tool kits, drew heated criticism from a number of groups, including the Women's Institute and a government-run rights organisation in Spain, where this year's calendar was shot, according to a report on Spiegel Online. 'It is significant that only women are used, in a sector in which there is a considerable percentage of men,' the group said in a statement quoted by Britain's *Daily Mail*. Spokesman María Jesús Ortiz told the *Daily Mail* that the images presented the women as 'sexual objects'.

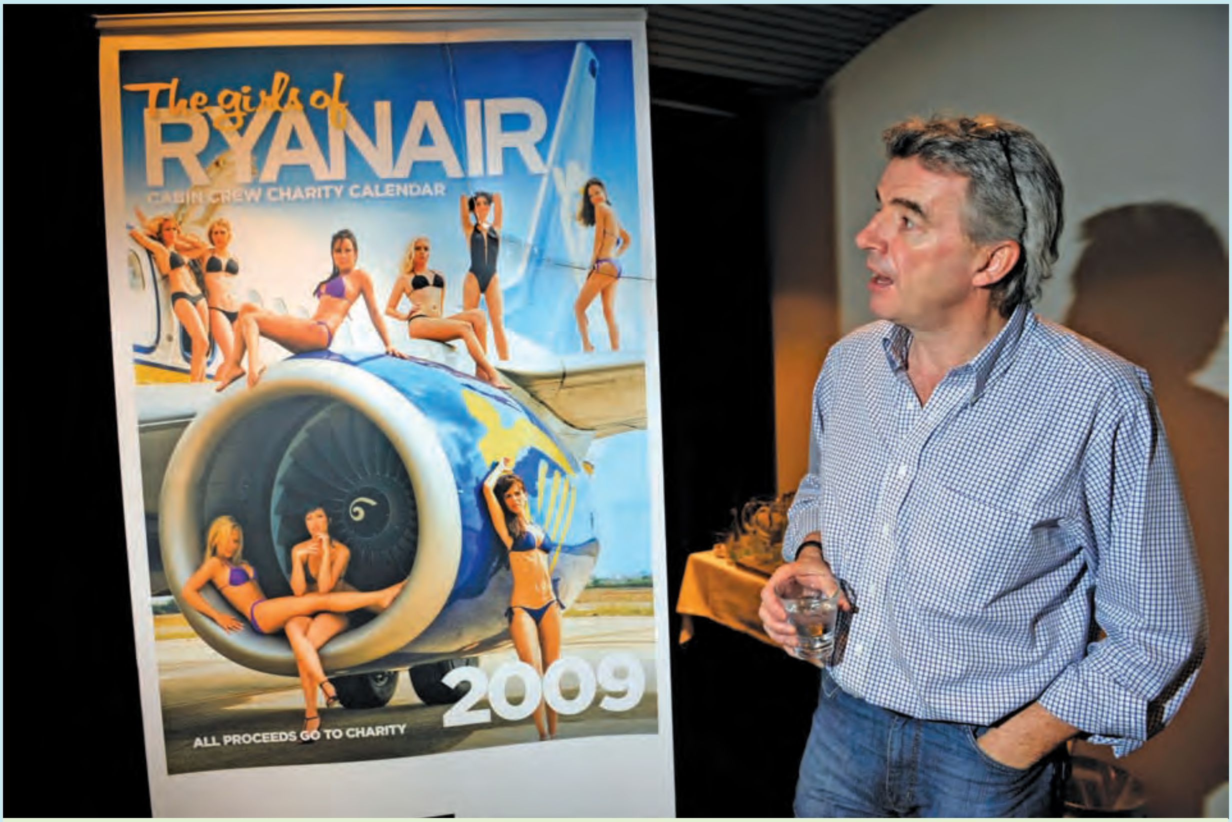
According to the German news organisation, the Spanish group has complained to Irish and European authorities and is considering legal action against the airline. Ryanair apparently continues to differ. Stephen McNamara, a Ryanair spokesman, said that Ryanair will continue to defend the right of girls to take their clothes off, particularly when it is for charity. The carrier has also sent a copy to Swedish politician Birgitta Ohlsson, who recently launched an attack against a Ryanair ad, which used a model in a short top and mini skirt, and accused Ryanair of exploiting women.

More than 700 female workers reportedly applied to take part in the 2009 calendar.

On 20 January 2009 Ryanair presented Dublin Simon Community with a cheque for €100,000 after all 10,000 copies of its 2009 Ryanair Cabin Crew Charity Calendar sold out in just four weeks. Dublin Simon Community (which provides vital services for the homeless in Dublin) was chosen from over 100 charities throughout Europe to receive the entire sale proceeds from the 2009 calendar.

Future trends

The demand for LCCs is growing. Ticket price is the number one criterion for most passengers when selecting a flight, well ahead of the availability of a non-stop service.



Ryanair's Michael O'Leary with the girls of Ryanair calendar
Source: Janerik Henriksson/Press Association Images

In view of this growing trend, Ryanair is planning to expand its global fleet size and could be in a position to benefit from the growing airline industry.

Ryanair is charging its passengers for food, drink, blankets and pillows. Such a strategy may be too bold for most carriers, but some may move in this direction. This may result in a new business model for scheduled airlines, with careful cost models and fewer perks and benefits, and help prevent further revenue losses, although it is doubtful that consumers will wholly welcome this trend, particularly when accompanied by rising prices. According to a survey by Amadeus, consumers are ready to pay more for greater choice, amenities and options, if they deem these to be in line with their travel needs.

QUESTIONS

1. What is the customer value created by Ryanair?
2. Prepare a SWOT analysis for Ryanair.
3. What are the competitive advantages of Ryanair?
4. How would you characterise Ryanair's competitive strategy?
5. What are the motives behind Michael O'Leary's wish to take over Aer Lingus?
6. How do you consider Michael O'Leary's communication capabilities when he commented on the rejection by the Irish government?
7. What do you think about the communication effectiveness and the ethics of the 2009 Ryanair calender and its 'contents'?

SOURCES

Ryanair (www.ryanair.com); Euromonitor International (www.euromonitor.com); and various public media.

QUESTIONS FOR DISCUSSION

1 What benefits are to be gained from market segmentation, as opposed to treating the market as a single entity?
2 What stages are involved in identifying market segments?
3 Is market segmentation always a good idea? Under which conditions, if any, might segmentation be unnecessary or unwise?
4 Can market segmentation be taken too far? What are the potential disadvantages of over-segmenting a market? What strategy might a firm pursue when it believes that the market has been broken into too many small segments?
5 Which variables or descriptors might be most appropriate for segmenting the market for the following products and services? Explain your reasoning.
   (a) Breakfast cereals.
   (b) Personal computers (PCs).
   (c) Software, games for PCs.
   (d) Lawnmowers.
   (e) Photocopiers.
   (f) Wind turbines.
6 Explain the idea of positioning and why products are repositioned periodically.

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