part three

Identifying Current and Future Competitive Positions

The third part of the book addresses in more detail the issues and techniques behind segmentation and positioning research.

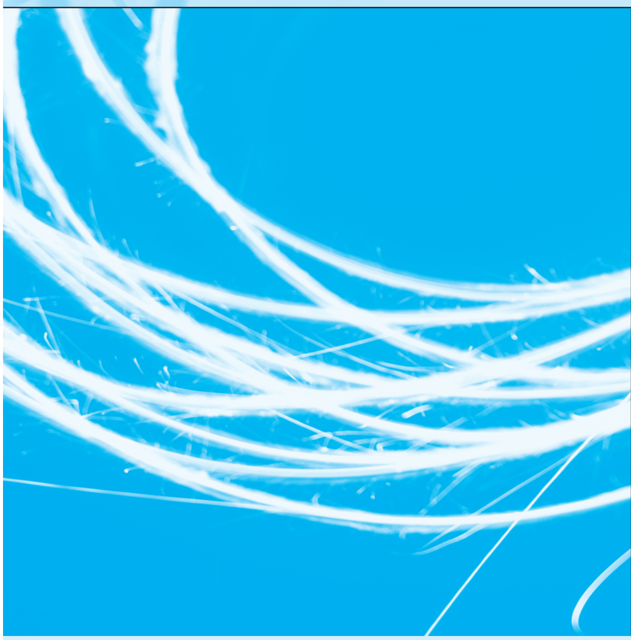
Chapter 8 discusses the underlying principles of competitive positioning and market segmentation, and their impact on the choice of target markets. The chapter continues by discussing in detail the logic of segmentation as an approach to identifying target markets, and by comparing the alternative bases for segmenting both consumer and business markets. The chapter closes by considering the benefits of identifying and describing market segments, but also the importance of integrating market segment-based strategies with corporate characteristics and competencies, as well as external factors.

Chapter 9 examines the techniques of segmentation and positioning research in detail. Two fundamentally different approaches are discussed. Under the first, termed a priori, the bases for segmenting are decided in advance and typically follow product/brand usage patterns or customer demographic characteristics. The second approach, *post hoc* or cluster based, searches for segments on the basis of a set of criteria, but without preconceived ideas as to what structure in the market will emerge. The chapter then discusses methods for collecting segmentation data (relating back to the marketing research methods discussed in Chapter 4), ways of analysing those data to identify and describe market segments, and addresses the issue of validating empirically the segmentation structure uncovered. The chapter next discusses both qualitative and quantitative approaches to positioning research. In the former the use of focus groups and depth interviews to identify images and positions is examined. The chapter concludes with a discussion of quantitative approaches to creating perceptual maps.

Chapter 10 discusses choice of target market following the analysis of options above. Two key dimensions are suggested for making the selection of target markets. First, the relative attractiveness of each potential segment. This will be dependent on many factors, including size, growth prospects, margins attainable, competitive intensity, and so on. The second key dimension is the strength of the organisation in serving that potential target market. This is determined by the resources of the organisation, its current and potential marketing assets and the capabilities and competencies it can call on and deploy relative to competitors.

chapter eight

8 Segmentation and positioning principles



Focussed competitors dominate their target segments – by fending off broad-coverage competitors who have to compromise to serve the segment, and outperforming rivals with the same focus . . . Focussed strategies also gain meaning from the differences between the segments covered and the rest of the market.

Day (1994)

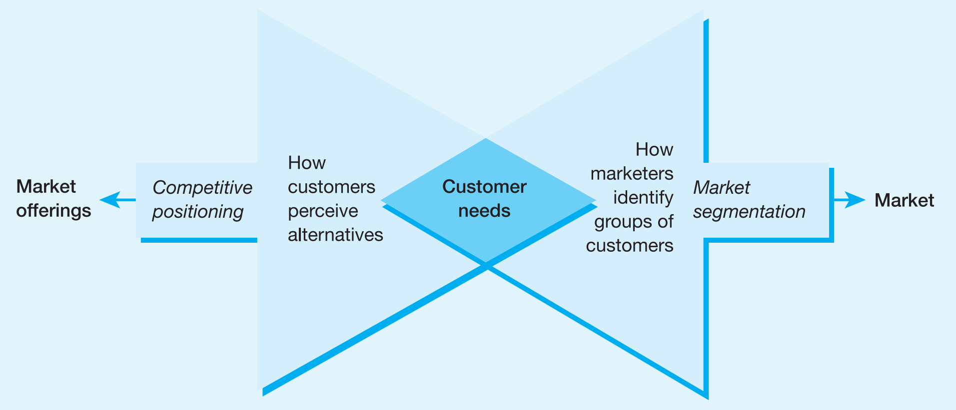
Introduction

Our approach to marketing analysis so far has rested largely on the identification and exploitation of key differences – in marketing capabilities and competitive strengths, for example. Our attention now focuses on two particularly important areas of differentiation: the differences between alternative market offerings as far as customers are concerned, i.e. the **competitive positioning** of suppliers, products, services and brands; and the differences between customers – in terms of their characteristics, behaviour and needs – that are important to marketing decision-makers in developing strong marketing strategies, i.e. **market segmentation**.

The distinction between competitive positioning and market segmentation is illustrated in Figure 8.1, which suggests that the key issues are as follows:

- **Competitive positioning**: concerned with how customers perceive the alternative offerings on the market, compared with each other, e.g. how do Audi, BMW

Figure 8.1 Competitive positioning and market segmentation



and Mercedes medium-price saloon cars compare in value, quality and 'meaning' or image?

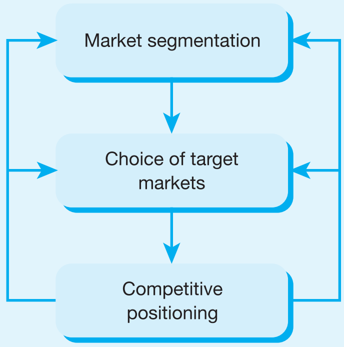
- **Market segmentation**: described as how we as marketers can divide the market into groups of similar customers, where there are important differences between those groups, e.g. what are the characteristics of medium-price saloon car buyers that relate to their product preferences and buying behaviour?
- **Customer needs**: while positioning and segmentation are different concepts, ultimately they are linked by customer needs, in the sense that the most robust form of segmentation focuses on the customer benefits that matter most to different types of customer, while the strongest competitive positions to take are those where customers recognise that a supplier or product is the one they choose because it best meets their needs.

In this sense positioning and segmentation are distinct parts of the strategy process and provide us with some extremely powerful tools; but ultimately they are linked by the central issue of focusing on satisfying the customer's needs in ways that are superior to competitors'.

Operationally, positioning and segmentation may be linked in the way shown in Figure 8.2. This suggests that the sequence in planning can be of the following type:

- **market segmentation** – identifying the most productive bases for dividing a market, identifying the customers in different segments and developing segment descriptions.
- **choice of target markets**: evaluating the attractiveness of different market segments, parts of segments (niches) or groups of segments, and choosing which should be targets for our marketing;

Figure 8.2 Stages in segmentation and positioning



- **competitive positioning**: identifying the positioning of competitors (in the market and in target segments or niches), to develop our own positioning strategy;
- **iteration**: understanding competitors' positioning and the possible positioning strategies open to us should influence our thinking about the attractiveness of different market segments and the choice of market targets, and may change the way we segment our market, leading to revised target choices and positioning approaches.

While they are distinct strategy concepts there are important similarities between positioning and segmentation: both start as issues of perception – how customers compare and understand alternative market offerings and how marketers understand the customer benefits different buyers seek from products and services. But both are also susceptible to quantitative research-based analysis.

We approach these issues in the following way. The role of this chapter is to distinguish between positioning and segmentation, and to clarify the underlying concepts and principles. From this foundation we move to an evaluation in Chapter 9 of the technical aspects of developing positioning and segmentation models. The implications for developing marketing strategies are found in Chapter 11 (on creating sustainable competitive advantage in target markets) and Chapter 19 (on the integration of positioning and segmentation to build robust marketing strategies for the future).

8.1 Principles of competitive positioning

Competitive positioning as an issue in developing marketing strategy has been defined in the following terms:

> *Positioning is the act of designing the company's offering and image so that they occupy a meaningful and distinct competitive position in the target customers' minds.*
>
> (Kotler, 1997)

The essential principle of competitive positioning is that it is concerned with how customers in different parts of the market perceive the competing companies, products/services or brands. It is important to bear in mind that positioning may apply to any of these levels:

- **companies**: for example, in grocery retailing in the United Kingdom the major competitors include Tesco, Sainsbury's and Asda, and positioning is based on these identities;
- **products and services**: positioning also applies at the level of the product, as shown in the example of the Dyson vacuum cleaner compared with similarly priced products from Hoover and Electrolux;
- **brands**: competitive positioning is perhaps most frequently discussed in terms of brand identities: Coca-Cola versus Pepsi, and so on.

Indeed, some cases show the importance of these levels as they relate to each other – Virgin, for example, is a company that stands for certain values in customers' minds, which translates to the company's simplified financial services products, and provides the brand identity for diverse products and services.

Competitive positioning may be seen in some ways as the outcome of companies' attempts to create effective competitive differentiation for their products and services. However, Kotler (1997) suggests that not all competitive differences will create a strong competitive position; attempts to create differentiation should meet the following criteria:

- **importance** – a difference should create a highly valued benefit for significant numbers of customers;
- **distinctive and pre-emptive** – the difference cannot be imitated or performed better by others;
- **superior** – the difference should provide a superior way for customers to obtain the benefit in question;
- **communicable** – the difference should be capable of being communicated to customers and understood by them;
- **affordable** – the target customers can afford to pay for the difference;
- **profitable** – the difference will command a price adequate to make it profitable for the company.

One way of describing the outcome of the search for differences that matter to target customers, and how we perform them in a distinctive way, is the concept of the value proposition – the promise made to customers that encapsulates the position we wish to take compared with competitors. For example, in the mid-1990s the Korean car company Daewoo gained 1 per cent of the UK car market from a standing start in the fastest time ever achieved by any car manufacturer. There was nothing distinctive about the cars it sold – they were old General Motors designs produced under licence. What was distinctive was an explicit and clear value proposition to its target market segment. The four pillars of this company's distinctive value proposition were:

1 **direct**: treating customers differently by dealing direct instead of through traditional distributors, and staying in touch throughout the purchase and use of the product;
2 **hassle free**: clear communications with customers, and no sales pressure or price haggling;
3 **peace of mind**: all customers pay the same price, and many features traditionally sold as extras are included in the deal;
4 **courtesy**: demonstrating respect for customer needs and preferences throughout the process.

Daewoo quickly established a strong competitive positioning in a specific segment of the car market on the basis of this proposition.

A competitive position may be built on any dimensions of product or service that produce customer benefits in the market, but an important emphasis in positioning is that what matters is customer perception.

In fact the term 'positioning' was brought to prominence by Ries and Trout (1982) to describe the creative process whereby:

> *Positioning starts with a product. A piece of merchandise, a service, a company, or even a person . . . But positioning is not what you do to a product. Positioning is what you do to the mind of the prospect. That is, you position the product in the mind of the prospect.*

The Ries and Trout approach to the 'battle for your mind' is highly oriented towards marketing communications and brand image while, as we have seen, competitive positioning is somewhat broader in recognising the impact of every aspect of the market offering that is perceived by customers as important in creating distinctive value. One way of summarising the underlying thinking is to focus on customer benefits and positioning in the customer's mind:

> *You don't buy coal, you buy heat; you don't buy circus tickets, you buy thrills; you don't buy a paper, you buy news; you don't buy spectacles, you buy vision; you don't sell products, you create positions.*

The importance of clear and strong competitive positioning is underlined by Kotler's (1997) warning of the major positioning errors (Figure 8.3) that can undermine a company's marketing strategy:

Figure 8.3 Positioning risks and errors

		Uniqueness claimed: Narrow	Uniqueness claimed: Broad
Credibility	Believable	**Over-positioning** Too exclusive or narrow	**Under-positioning** Nothing special
	Less believable	**Doubtful positioning** Improbable claims	**Confused positioning** Unclear what the position is

- **under-positioning**: when customers have only vague ideas about a company or its products, and do not perceive anything special about it, the product becomes an 'also-ran';
- **over-positioning**: when customers have too narrow an understanding of the company, product or brand: Mont Blanc sells pens that cost several thousand pounds, but it is important to that company for the consumer to be aware that a Mont Blanc pen can also be purchased for under £100;
- **confused positioning**: frequent changes and contradictory messages may simply confuse customers about a company's positioning: the indecisiveness of the retailer Sainsbury's about whether or not to have a loyalty card to rival Tesco's launch of its card, and about its price level compared with others, contributed to its loss of market leadership in the 1990s;
- **doubtful positioning**: the claims made for the company, product or brand may simply not be accepted, whether or not they are true: the goal at British Home Stores to position that retail business as 'the first-choice store for dressing the modern woman and family' failed in a market that remains dominated by Marks & Spencer, despite the latter's recent problems.

In essence, positioning is concerned with understanding how customers compare alternative offerings on the market and building strategies that describe to the customer how the company's offering differs in important ways from those of existing or potential competitors. Together with market segmentation, competitive positioning is central to the development of effective marketing strategies (see Chapter 11).

These characteristics of competitive positioning can be compared with the principles of market segmentation.

8.2 Principles of market segmentation

Two major features of modern markets are the extent to which they are capable of being segmented (because of growing differences between customers and their demands to be treated as individuals) and the existence of the vastly superior technologies of communication, distribution and production, which allow the pursuit of segmentation strategies. In some cases this leads to 'micro-segmentation' or 'one-to-one marketing', in which each customer is treated as a different segment.

Where there are differences in customer needs or wants, or in their attitudes and predispositions towards the offerings on the market, between groups or individuals in the market, then there are opportunities to segment the market, i.e. to subdivide the larger market into smaller groups (segments) that provide market targets.

The history of thinking about market segmentation can be traced back to Smith (1956), who distinguished between strategies of product differentiation (applying promotional techniques to influence demand in favour of the product) and market segmentation (adjusting market offerings in various ways to more closely meet the requirements of different customers). Baker (1992) acknowledges this as the first coherent statement of a distinctive marketing view of market structure, representing a compromise between the economist's view of markets as single entities and the behavioural scientist's focus on individual buyer differences. Seen in this light, segmentation is a logical extension of the marketing concept and market orientation (see Chapter 1).

8.3 The underlying premises of market segmentation

Let us first consider the underlying requirements for market segmentation and get an overview of segmentation issues.

8.3.1 Underlying requirements for market segmentation

It is possible to describe three basic propositions that underpin market segmentation as a component of marketing strategy.

1 For segmentation to be useful customers must **differ from one another** in some important respect, which can be used to divide the total market. If they were not different in some significant way, if they were totally homogeneous, then there would be no need or basis on which to segment the market. However, in reality all customers differ in some respect. The key to whether a particular difference is useful for segmentation purposes lies in the extent to which the differences are related to different behaviour patterns (e.g. different levels of demand for the product or service, or different use/benefit requirements) or susceptibility to different marketing mix combinations (e.g. different product/service offerings, different media, messages, prices or distribution channels), i.e. whether the differences are important to how we develop a marketing strategy.

2 The operational use of segmentation usually requires that segment targets can be **identified by measurable characteristics** to enable their potential value as a market target to be estimated and for the segment to be identified. Crucial to utilising a segmentation scheme to make better marketing decisions is the ability of the marketing strategist to evaluate segment attractiveness and the current or potential strengths the company has in serving a particular segment. Depending on the level of segmentation analysis, this may require internal company analysis or external market appraisal. The external market evaluation of segments and selection of market targets are discussed in Chapter 10.

3 The effective application of segmentation strategy also requires that selected segments be **isolated** from the remainder of the market, enabling them to be targeted with a distinct market offering. Where segments are not distinct they do not form a clear target for the company's marketing efforts.

For any segmentation scheme to be useful it must possess the above three characteristics.

8.3.2 Major issues in market segmentation

By way of overview, our general understanding of the issues to be addressed in studying and applying market segmentation falls into the following four areas suggested by Piercy and Morgan (1993):

1 the methodology of market segmentation;
2 the criteria for testing segments as robust market targets;
3 the strategic segmentation decision itself;
4 the implementation of segmentation strategy in the company.

The methodology of market segmentation

The methodological tools available for use in developing segmentation schemes are concerned with two issues. First, there is the question of the choice of the variables or customer characteristics with which to segment the market – the 'bases' of market segmentation. Second, there is the related question of the procedures or techniques to apply to identify and evaluate the segments of the market. The bases for segmentation are considered in the next section of this chapter, and the techniques of market segmentation analysis are discussed in Chapter 9.

Testing the robustness of segments

If segments can be identified using the bases and techniques chosen, then there is the question of how they should be evaluated as prospective targets. In a classic paper Frank *et al*. (1972) suggested that to provide a reasonable market target a segment should be: measurable, accessible, substantial and unique in its response to marketing stimuli. These criteria remain the basis for most approaches (e.g. see Kotler, 1997). In fact, evaluating market segments may be more complex than this suggests.

Strategic segmentation decision

If the market is susceptible to segmental analysis and modelling, and attractive segments can be identified, then the decision faced is whether to use this as the basis for developing marketing strategies and programmes, and whether to target the entire market or concentrate on part of it. These issues of strategy are discussed in Chapter 10.

Implementation of segmentation strategies

Finally, there is the question of the capabilities of the organisation for putting a segmentation approach into effect and, indeed, the extent to which corporate characteristics should guide the segmentation approach in the first place. These questions are considered at the end of this chapter.

8.4 Bases for segmenting markets

Some of the major issues in market segmentation centre on the bases on which the segmentation should be conducted and the number of segments identifiable as targets in a particular market. The selection of the base for segmentation is crucial to gaining a clear picture of the nature of the market – the use of different bases can result in very different outcomes. In fact, the process of segmentation and the creative selection of different segmentation bases can often help to gain new insights into old market structures that in turn may offer new opportunities – this is not merely a mechanical piece of statistical analysis.

In addition to choosing the relevant bases for segmentation, to make the segments more accessible to marketing strategy, the segments are typically described further on common characteristics. Segments formed, for example, on the basis of brand preference may be further described in terms of customer demographic and attitudinal characteristics to enable relevant media to be selected for promotional purposes and a fuller picture of the chosen segments to be built.

In the next section we examine the major bases used in consumer markets, and in the following section we turn to industrial and business-to-business markets.

8.5 Segmenting consumer markets

The variables used in segmenting consumer markets can be broadly grouped into three main classes:

1 background customer characteristics;
2 customer attitudes;
3 customer behaviour.

The first two sets of characteristics concern the individual's predisposition to action, whereas the final set concerns actual behaviour in the marketplace.

8.5.1 Background customer characteristics for segmenting markets

Often referred to as classificatory information, background characteristics do not change from one purchase situation to another. They are customer specific but not specifically related to his or her behaviour in the particular market of interest. Background characteristics can be classified along two main dimensions (see Figure 8.4).

The first dimension is the origin of the measures. The measures may have been taken from other disciplines and are hence not marketing specific but believed to be related to marketing activity. Non-marketing-specific factors include demographic and socio-economic characteristics developed in the fields of sociology and demography. Alternatively they may have been developed specifically by marketing researchers and academics to solve marketing problems. Typically they have been developed out of dissatisfaction with traditional (sociological) classifications. Dissatisfaction with social class, as a predictor of marketing behaviour, for example, has led to the development of lifestyle segmentation and geodemographic segmentation such as the ACORN (A Classification Of Residential Neighbourhoods) and related classification schemes.

The second dimension to these characteristics is the way in which they are measured. Factors such as age or sex can be measured objectively, whereas personality and lifestyle (collectively termed 'psychographics') are inferred from often subjective responses to a range of diverse questions.

The commonest variables used are as follows.

Figure 8.4 Background customer characteristics

	Objective measures		Subjective measures
Non-marketing specific	**Demographics** Sex, age, geography, subculture, etc. **Socio-economics** Occupation, income, education	Psychographics	**Personality inventories**
Marketing specific	**Consumer life cycle** **ACORN** **Media usage**		**Lifestyle**

Demographic characteristics

Measures such as age and gender of both purchasers and consumers have been one of the most popular methods for segmenting markets:

- **Gender**: a basic approach to segmentation of the market for household consumables and for food purchases is to identify 'housewives' as a specific market segment. For marketing purposes 'housewives' can include both females and males who have primary responsibility for grocery purchase and household chores. This segmentation of the total potential market of, say, all adults will result in a smaller (around half the size) identified target. Many segmentation schemes use gender as a first step in the segmentation process, but then further refine their targets within the chosen gender category, e.g. by social class. In some markets the most relevant variable is gender preference, e.g. the 'gay' market for certain products and services.
- **Age**: age has been used as a basic segmentation variable in many markets. The market for holidays is a classic example, with holiday companies tailoring their products to specific age groups such as 'under 30s' or 'senior citizens'. In these segmentation schemes it is reasoned that there are significant differences in behaviour and product/service requirements between the demographic segments identified.

  Cadbury Schweppes, for example, has developed new products aimed at young drinkers in pubs. One such product, Viking, is a chocolate-based energy snack that is marketed in Australia as 'the bar with horns'.

  The main reasons for the popularity of age and gender as segmentation variables have been the ease of measurement of these characteristics (they can be objectively measured) and their usefulness for media selection purposes. Widely available syndicated media research studies present data on viewing and reading habits broken down by these characteristics. Matching media selected to segments described in these terms is, therefore, quite straightforward.

Age may also combine with other characteristics such as social class. For example, Taylor Nelson AGB analysed the alcoholic drinks market into age/social class groups and linked this to drinks consumption (Grant, 1996):

(a) *Downmarket/young* – favouring alcopops and premium canned lagers.

(b) *Upmarket/young* – preferences were for premium bottled lagers and cider.

(c) *Downmarket/older* – favouring stout, and spirits such as rum, brandy and whisky.

(d) *Upmarket/older* – characteristic preferences for super premium lager and gin.

- **Geographic location**: geographic segmentation may be a useful variable, particularly for small or medium-sized marketing operations that cannot hope to attack a widely dispersed market. Many companies, for example, choose to market their products in their home country only, implicitly excluding worldwide markets from their targets. Within countries it may also be possible to select regional markets where the company's offerings and the market requirements are most closely matched. Haggis, for example, sells best in Scotland, while sales of jellied eels are most successful in the East End of London.
- **Subculture**: each individual is a member of a variety of subcultures. These subcultures are groups within the overall society that have peculiarities of attitude or behaviour. For a subculture to be of importance for segmentation purposes it is likely that membership of the subculture has to be relatively enduring and not transient, and that membership of the subculture is of central importance in affecting the individual's attitudes and/or ultimate behaviour.

  The major subcultures used for segmentation purposes are typically based on racial, ethnic, religious or geographic similarities. In addition, subcultures existing within specific age groupings may be treated as distinct market segments. For example, targeting 'micro-communities' has become important in relationship marketing – one Canadian bank has focused to great effect on the tightly knit but affluent Filipino community in Canada (Svendsen, 1997).

The major drawback of all demographic characteristics discussed above as bases for segmenting markets is that they cannot be guaranteed to produce segments that are internally homogeneous but externally heterogeneous in ways that are directly relevant to the marketer. Within the same demographic classes there can be individuals who exhibit very different behavioural patterns and are motivated by quite different wants and needs. Similarly there may be significant and exploitable similarities in behaviour and motivations between individuals in different demographic segments. As a consequence a generally low level of correspondence between demographics and behaviour has been found in the academic marketing research literature. Despite these drawbacks their relative ease of measurement makes them popular among marketing practitioners.

Socio-economic characteristics

Factors such as income, occupation, terminal education age and social class have been popular with researchers for similar reasons to demographics: they are easy to measure and can be directly related back to media research for media selection purposes. More importantly, the underlying belief in segmenting markets by social class is that the different classes are expected to have different levels of affluence and

Table 8.1 UK socio-economic classification scheme

		Occupation groups
NON-MANUAL	**A**	Approximately 3% of the total population. These are professional people, very senior managers in business or commerce or top-level civil servants. Retired people, previously grade A, and their widows.
	B	Approximately 20% of the total population. Middle management executives in large organisations, with appropriate qualifications. Principal officers in local government and civil service. Top management or owners of small business concerns, educational and service establishments. Retired people, previously grade B, and their widows.
	C1	Approximately 28% of the total population. Junior management, owners of small establishments, and all others in non-manual positions. Jobs in this group have very varied responsibilities and educational requirements. Retired people, previously grade C1, and their widows.
MANUAL	**C2**	Approximately 21% of the total population. All skilled manual workers, and those manual workers with responsibility for other people. Retired people, previously grade C2, with pensions from their job. Widows, if receiving pensions from their late husband's job.
	D	Approximately 18% of the total population. All semi-skilled and un-skilled manual workers, apprentices and trainees to skilled workers. Retired people, previously grade D, with pensions from their job. Widows, if receiving a pension from their late husband's job.
	E	Approximately 10% of the total population. All those entirely dependent on the state long-term, through sickness, unemployment, old age or other reasons. Those unemployed for a period exceeding six months (otherwise classify on previous occupation). Casual workers and those without a regular income. Only households without a Chief Income Earner will be coded in this group.

Source: The Market Research Society.

adopt different lifestyles. These lifestyles are, in turn, relevant to marketing-related activity, such as propensity to buy certain goods and services. Socio-economic measures are best seen in the use of social class groups.

Marketing researchers use several social class stratification schemes. The scheme used in the United Kingdom by the Market Research Society is presented in Table 8.1.

For many marketing purposes the top two and bottom two classes are combined to give a four-group standard classification by social class: AB, C1, C2, DE. In the United States several alternative social class schemes have been used for segmentation purposes (see Frank *et al.*, 1972). The most widely adopted, however, is that proposed by Warner (see Table 8.2).

Social class has been used as a surrogate for identifying the style of life that individuals are likely to lead. The underlying proposition is that consumers higher up the social scale tend to spend a higher proportion of their disposable income on future satisfactions (such as insurance and investments) while those lower down the scale spend proportionately more on immediate satisfactions. As such, socio-economic class can be particularly useful in identifying segments in markets such as home purchase, investments, beer and newspapers.

The financial services industry makes extensive use of socio-economic groups for marketing, such as developing pensions and life assurance products aimed at particular social groups. One company is launching an occupational annuity to pay a higher pension to those in stressful or unhealthy jobs. Premiums and terms for private health insurance are partly determined by social class groupings (Gardner, 1997).

Table 8.2 The Warner index of status characteristics

Class name	*Description*	*Consumption characteristics*
Upper-upper	Elite social class with inherited social position	Expensive, irrelevant, but purchase decisions not meant to impress; conservative
Lower-upper	*Nouveau riche*; highly successful business and professional; position acquired through wealth	Conspicuous consumption to demonstrate wealth, luxury cars, large estates, etc.
Upper-middle	Successful business and professional	Purchases directed at projecting successful image
Lower-middle	White-collar workers, small businesspeople	Concerned with social approval; purchase decisions conservative; home and family oriented
Upper-lower	Blue-collar workers, technicians, skilled workers	Satisfaction of family roles
Lower-lower	Unskilled labour, poorly educated, poorly off	Attraction to cheap, 'flashy', low-quality items; heavy exposure to TV

However, as with the demographic characteristics discussed above, it is quite possible that members of the same social class have quite different purchase patterns and reasons for purchase. Consider, for a moment, your peers – people you work with or know socially. The chances are they will be classified in the same social class as you. The chances are also that they will be attracted to different sorts of products motivated by different factors and make quite different brand choices.

Concern has been expressed among both marketing practitioners and academics that social class is becoming increasingly less useful as a segmentation variable. Lack of satisfaction with social class in particular and other non-marketing-specific characteristics such as segmentation variables has led to the development of marketing-specific measures such as stage of customer life cycle, geodemographics such as the ACORN classification system and the development of lifestyle research.

Consumer life cycle

Stage of the family life cycle, essentially a composite demographic variable incorporating factors such as age, marital status and family size, has been particularly useful in identifying the types of people most likely to be attracted to a product field (especially consumer durables) and when they will be attracted. The producers of baby products, for example, build mailing lists of households with newborn babies on the basis of free gifts given to mothers in maternity hospitals. These lists are dated and used to direct advertising messages for further baby, toddler and child products to the family at the appropriate time as the child grows.

Stage of family life cycle was first developed as a market segmentation tool by Wells and Gubar (1966) and has since been updated and modified by Murphy and Staples (1979) to take account of changing family patterns. The basic life cycle stages are presented in Table 8.3.

Table 8.3 Stages of the family life cycle

Stage	*Financial circumstances and purchasing characteristics*
Bachelor Young, single, not living at parental home	Few financial burdens, recreation oriented; holidays, entertainments outside home
Newly wed Young couples, no children	Better off financially, two incomes; purchase home, some consumer durables
Full nest I Youngest child under 6	Home purchasing peak; increasing financial pressures, may have only one income earner; purchase of household 'necessities'
Full nest II Youngest child over 6	Financial position improving; some working spouses
Full nest III Older married couples with dependent children	Financial position better still; update household products and furnishings
Empty nest I Older married couples, no children at home	Home ownership peak; renewed interest in travel and leisure activities; buy luxuries
Empty nest II Older couples, no children at home, retired	Drastic cut in income; medical services bought
Solitary survivor Still in labour force	Income good, but likely to sell home
Solitary survivor Retired	Special needs for medical care, affection and security

In some instances segmentation by life cycle can help directly with product design, as is the case with package holidays. In addition to using age as a segmentation variable, holiday firms target very specifically on different stages of the life cycle, from the Club Med emphasis on young singles, to Center Parcs family holidays, to coach operators' holidays for senior citizens.

Centre Parcs

Courtesy of Centre Parcs

In the United Kingdom the Research Services Ltd marketing research company has developed a segmentation scheme based on a combination of consumer life cycle, occupation and income. The scheme, termed SAGACITY, defines four main life cycle stages (dependent, pre-family, family and late), two income levels (better off and worse off) and two occupational groupings (white collar and blue collar – ABC1 and C2DE). On the basis of these three variables, 12 distinct SAGACITY groupings are identified with different aspirations and behaviour patterns (see Crouch and Housden, 1996).

Some analysts have pointed out that the Baby Boomer generation is set to make a significant impact on marketing to the over 50s (Paul Fifield in *Marketing Business*, January 2002). Thirty years ago the 'Boomers' changed the way marketers dealt with the youth market, as they demanded more individualised and tailored products and services. Having now raised families and paid off mortgages they are approaching the 'empty nester' stage of the life cycle but are likely to have very different expectations from previous generations of 50+ consumers. Generally fitter, well educated and more affluent, they pose very significant marketing opportunities for the future.

ACORN and related classificatory systems

As a direct challenge to the socio-economic classification system the geodemogarphic ACORN system was developed by the CACI Market Analysis Group. The system is based on population census data and classifies residential neighbourhoods into 36 types within 12 main groups (see Table 8.4). The groupings were derived from a clustering of responses to census data required by law on a ten-yearly basis. The groupings reflect neighbourhoods with similar characteristics.

Early uses of ACORN were by local authorities to isolate areas of inner-city deprivation (the idea came from a sociologist working for local authorities), but was soon seen to have direct marketing relevance, particularly because the database enabled postcodes to be ascribed to each ACORN type. Hence its use particularly in direct mail marketing.

Other 'geodemographic' data sources are provided by such firms as Marketing Information Consultancy, Equifax Europe and The Data Consultancy (Cramp, 1996).

Table 8.4 ACORN – a classification of residential neighbourhoods

ACORN group	*Description*
A	Agricultural areas
B	Modern family housing, higher incomes
C	Older housing of intermediate status
D	Poor quality older terraced housing
E	Better-off council estates
F	Less well-off council estates
G	Poorest council estates
H	Multiracial areas
I	High-status, non-family areas
J	Affluent suburban housing
K	Better-off retirement areas

Personality characteristics

Personality characteristics are more difficult to measure than demographics or socio-economics. They are generally inferred from large sets of questions often involving detailed computational (multivariate) analysis techniques.

Several personality inventories have been used by segmentation researchers. Most notable are the Gordon Personal Profile (see Sparks and Tucker, 1971), the Edwards Personal Preference Schedule (see Alpert, 1972), the Cattell 16-Personality Factor Inventory (see, for example, Oxx, 1972) and the Jackson Personality Inventory (see Kinnear *et al*., 1974). All were developed by psychologists for reasons far divorced from market segmentation studies and have, understandably, achieved only varied levels of success when applied to segmentation problems.

Perhaps the main value of personality measures lies in creating the background atmosphere for advertisements and, in some instances, package design and branding. Research to date, however, primarily conducted in the United States, has identified few clear relationships between personality and behaviour. In most instances personality measures are most likely to be of use for describing segments once they have been defined on some other basis. As with the characteristics discussed above, behaviour, and reasons for behaviour, in personality-homogeneous segments may be diverse.

Lifestyle characteristics

In an attempt to make personality measures developed in the field of psychology more relevant to marketing decisions, lifestyle research was pioneered by advertising agencies in the United States and the United Kingdom in the early 1970s. This research attempts to isolate market segments on the basis of the style of life adopted by their members. At one stage these approaches were seen as alternatives to the social class categories discussed above.

Lifestyle segmentation is concerned with three main elements: activities (such as leisure activities, sports, hobbies, entertainment, home activities, work activities, professional work, shopping behaviour, housework and repairs, travel and miscellaneous activities, daily travel, holidays, education, charitable work); interaction with others (such as self-perception, personality and self-ideal, role perceptions, as mother, wife, husband, father, son, daughter, etc., and social interaction, communication with others, opinion leadership); and opinions (on topics such as politics, social and moral issues, economic and business–industry issues and technological and environmental issues).

A typical study would develop a series of statements (in some instances over 200 have been used) and respondents would be asked to agree or disagree with them on a 5- or 7-point agree/disagree scale. Using factor analysis and cluster analysis groups of respondents are identified with similar activities, interests and opinions. Examples include the following:

- In early lifestyle studies Segnit and Broadbent (1973) found six male and seven female lifestyle segments on the basis of responses to 230 statements. These have been used to segment markets by publishers of newspapers (such as the *Financial Times* and *Radio Times*) and manufacturers (Beechams used the technique successfully to segment the shampoo market in the mid-1970s).

- Martini advertising has been directed at individuals on the basis of what lifestyle they would like to have. It appeals to 'aspirational lifestyle' segments.
- Ford Motor Company identified four basic lifestyle segments for their cars: Traditionalists (who go for wood, leather and chrome); Liberals (keen on environmental and safety features); Life Survivors (who seek minimum financial risk by going for the cheapest options); and Adventurers (who actually like cars and want models to suit their own self-images) (*The Economist*, 30 September 1995).
- Marketing strategy at the House of Fraser department stores group relied on attracting three types of women clothes shoppers to the stores: the 'Follower of Fashion', the 'Smart Career Mover' and the 'Quality Classic – The Woman of Elegance'. The company deliberately decided not to target the 'Young Mum' and other buyers. In the mid-1990s there was some concern that House of Fraser products and merchandising did not attract the target segments (it was found that they tended to shop at House of Fraser only for the concession areas such as Oasis, Alexon and Morgan) (Rankine, 1996).
- B&Q, the UK DIY store, is targeting style-conscious consumers with its portfolio of bedroom and office furniture branded 'it'. The range, created by interior designer Tara Bernerd, is modular, allowing customers to choose according to their taste and the dimensions of their home (*Marketing*, 24 January 2002).

The most significant advantages of lifestyle research are again for guiding the creative content of advertising. Because of the major tasks involved in gathering the data, however, it is unlikely that lifestyle research will supplant demographics as a major segmentation variable.

Summary of background customer characteristics

The background customer characteristics discussed above all examine the individual in isolation from the specific market of interest. While in some markets they may be able to discriminate between probable users and non-users of the product class they can rarely explain brand choice behaviour. Members of the same segments based on background characteristics may behave differently in the marketplace for a variety of reasons. Similarly, members of different segments may be seeking essentially the same things from competing brands and could be usefully grouped together. While traditionally useful for the purposes of media selection and advertising atmosphere design, these characteristics are often too general in nature to be of specific value to marketers. They are essentially descriptive in nature. They describe who the consumer is, but they do not uncover the basic reasons why the consumer behaves as he or she does.

8.5.2 Customer attitudinal characteristics for segmenting markets

Attitudinal characteristics attempt to draw a causal link between customer characteristics and marketing behaviour. Attitudes to the product class under investigation and attitudes towards brands on the market have both been used as fruitful bases for market segmentation.

Benefit segmentation

Classic approaches (e.g. Haley, 1968, 1984) examine the benefits customers are seeking in consuming the product. Segmenting on the basis of benefits sought has been applied to a wide variety of markets such as banking, fast moving consumer products and consumer durables. The building society investment market, for example, can be initially segmented on the basis of the benefits being sought by the customers. Typical benefits sought include high rates of interest (for the serious investor), convenient access (for the occasional investor) and security (for the 'rainy day' investor).

Nokia, the largest maker of mobile phone handsets, has recognised that phones are now seen by many customers as fashion accessories. The Nokia 5510, for example, was aimed at fashion-conscious young people who used their phones for text messaging and music. While the market in the late 1990s was dominated by first-time purchasers of phones, replacement purchases in Western Europe accounted for 60 per cent of sales in 2001 and were predicted to rise to nearer 99 per cent by 2006. The Samsung A400 phone had a flip-up lid in a red 'feminine' version, called the 'Ladyphone', with special features such as biorhythm calculator, a fatness function that calculates height-to-weight ratio, and a calorie count function which estimates calories burned for everyday activities such as shopping, cleaning and cooking. Nokia has even launched a subsidiary named 'Vertu', which is marketing platinum-cased handsets with sapphire crystal screens for the very rich (they retail at $21,000) (*Economist*, 26 January 2002).

Benefit segmentation takes the basis of segmentation right back to the underlying reasons why customers are attracted to various product offerings. As such, it is perhaps the closest means yet to identifying segments on bases directly relevant to marketing decisions. Developments in techniques such as conjoint analysis make them particularly suitable for identifying benefit segments (Hooley, 1982).

Perceptions and preferences

A second approach to the study of attitudes is through the study of perceptions and preferences. Much of the work in the multidimensional scaling area (Green *et al.*, 1989) is primarily concerned with identifying segments of respondents who view the products on offer in a similar way (perceptual space segmentation) and require from the market similar features or benefits (preference segmentation). This approach to market segmentation is discussed further in Chapter 9, where we are concerned with segmentation research.

Summary of attitudinal bases for segmentation

Segmentation on the basis of attitudes, both to the product class and the various brands on offer, can create a more useful basis for marketing strategy development than merely background characteristics. It gets closer to the underlying reasons for behaviour and uses them as the basis for segmenting the market. The major drawback of such techniques is that they require often costly primary research and sophisticated data analysis techniques.

8.5.3 Customer behavioural characteristics for segmenting markets

The most direct method of segmenting markets is on the basis of the behaviour of the consumers in those markets. Behavioural segmentation covers purchases, consumption, communication and response to elements of the marketing mix.

Purchase behaviour

Study of purchasing behaviour has centred on such issues as the time of purchase (early or late in the product's overall life cycle) and patterns of purchase (the identification of brand-loyal customers).

- **Innovators**: because of their importance when new products are launched, innovators (those who purchase a product when it is still new) have received much attention from marketers. Clearly during the launch of new products isolation of innovators as the initial target segment could significantly improve the product's or service's chances of acceptance on the market. Innovative behaviour, however, is not necessarily generalisable to many different product fields. Attempts to seek out generalised innovators have been less successful than looking separately for innovators in a specific field. Generalisations seem most relevant when the fields of study are of similar interest.
- **Brand loyalty**: variously defined, brand loyalty has also been used as a basis for segmentation. While innovators are concerned with initial purchase, loyalty patterns are concerned with repeat purchase. As such, they are more applicable to repeat purchase goods than to consumer durables, though they have been used in durables markets (see the example below). As with innovative behaviour, research has been unable to identify consumers who exhibit loyal behaviour over a wide variety of products. Loyalty, as with innovativeness, is specific to a particular product field.

  Volkswagen, the German automobile manufacturer, has used loyalty as a major method for segmenting its customer markets. It divided its customers into the following categories: First Time Buyers; Replacement Buyers – (a) Model-loyal replacers, (b) Company-loyal replacers, and (c) Switch replacers. These segments were used to analyse performance and market trends and for forecasting purposes.

In the context of e-marketing, companies such as Site Intelligence have devised methods of segmenting website visitors and purchasers using combinations of behavioural (visits) and demographic characteristics.

Consumption behaviour

Purchasers of products and services are not necessarily the consumers, or users, of those products or services. Examination of usage patterns and volumes consumed (as in the heavy user approach) can pinpoint where to focus marketing activity. There are dangers, however, in focusing merely on the heavy users. They are, for example, already using the product in quantity and therefore may not offer much scope for market expansion. Similarly they will either be current company customers or customers of competitors.

Cook and Mindak (1984) have shown that the heavy user concept is more useful in some markets than in others. In the soap market they note that heavy users of soap account for 75 per cent of purchases. However, heavy users account for nearly half the population and constitute a very diverse group. By contrast bourbon whiskey is consumed by around 20 per cent of adults only, and the heavy users account for 95 per cent of consumption, making this a much tighter target market.

In the latter case brand loyalty patterns may be set and competition could be fierce. Companies may be better advised to research further the light or non-users of the product to find out why they do not consume more of the product. In the growth stage of the product life cycle the heavy user segment may well be attractive, but when the market reaches maturity it may make more sense to try to extend the market by mopping up extra potential demand in markets that are not adequately served by existing products.

Product and brand usage has a major advantage over many other situation-specific segmentation variables in that it can be elicited, in the case of many consumer products, from secondary sources. The 'heavy users' of beer, for example, can be identified through the Target Group Index (see Chapter 4) and their demographic and media habits profiled. For this main reason consumption is one of the most popular bases for segmenting consumer markets in the United Kingdom.

Communication behaviour

A further behavioural variable used in consumer segmentation studies has been the degree of communication with others about the product of interest.

Opinion leaders can be particularly influential in the early stages of the product life cycle. Recording companies, for example, recognise the influence that disc jockeys have on the record-buying public and attempt to influence them with free records and other inducements to play their records. In many fields, however, identifying opinion leaders is not so easy. As with innovators, opinion leaders tend to lead opinion only in their own interest areas. A further problem with satisfying opinion leaders is that they tend to have fairly strong opinions themselves and can often be a very heterogeneous group (the 'pop' disc jockeys providing a good example).

In addition to information-giving behaviour (as displayed by opinion leaders) markets could be segmented on the basis of information-seeking behaviour. The information seekers may be a particularly attractive segment for companies basing their strategy on promotional material with a heavy information content.

Response to elements of the marketing mix

The use of elasticities of response to changes in marketing-mix variables as a basis for segmentation is particularly attractive as it can lead to more actionable findings, indicating where marketing funds can best be allocated. Identifying, for example, the deal-prone consumer or the advertising-responsive segment has immediate appeal. There are, however, methodological problems in research in identifying factors such as responsiveness to changes in price.

Relationship-seeking characteristics

A related characteristic for segmentation that is attracting some attention in the light of the move towards relationship marketing (see Chapter 4) is the relationship requirements of customers (Piercy, 1997). One initial model suggests that the relationship-seeking characteristics of customers differ in the type of relationship customers want with suppliers (for example, long term versus short term and transactional) and the intimacy customers want in the relationship (for example, close or distant). This suggests the potential for segmenting markets into such groups as the following, and linking this to other variables:

- **relationship seekers**, who want a close long-term relationship with the supplier or retailer;
- **relationship exploiters**, who want only a short-term relationship with the supplier, but are happy with a close relationship, which they will exploit for any advantages on offer;
- **loyal buyers** – those who want a long-term relationship, but at a distance;
- **arm's-length transaction customers**, who do not want close relationships with suppliers and will shop around for the best deal because they see no value in a long-term relationship.

An example of an integrated study of consumer characteristics on a global scale is work done by the US agency Roper Starch (Shermach, 1995). International business has much interest in whether consumer segments cut across national boundaries and may be more useful than traditional geographical approaches to planning marketing. The study identified the following segments from 40,000 respondents in 40 countries:

- **deal-makers**: well-educated, aged in the early 30s, with average affluence and employment (29 per cent of the sample);
- **price-seekers**: a high proportion of retirees and lowest education level with an average level of affluence and more females than males (23 per cent of the sample);
- **brand loyalists**: mostly male, aged in the mid-30s, with average education and employment, and the least affluent group (23 per cent of the sample);
- **luxury innovators**: the most educated and affluent shoppers, mostly male in professional and executive employment; they seek new, prestigious brands (21 per cent of the sample).

The proportions of consumers in these groups varied in interesting ways across the geographic areas: deal-makers predominate in the United States, Asia, Latin America and the Middle East; price-seekers exist mainly in competitive developed markets such as Europe and Japan. Although producing only stereotypes, the study suggests that consumer behavioural and purchase characteristics may be stronger predictors of purchase behaviour than the traditional country-market definitions used in export and international marketing.

Summary of behavioural bases for segmentation

Many variables have been tested as bases for consumer segmentation, ranging from behaviour, to attitudes, to background characteristics. The most often used characteristics are product and brand usage and demographics/socio-economics, primarily because of the ease of obtaining this sort of data from secondary sources. Ultimately, however, for a segmentation scheme to be useful to marketing management it should seek not only to describe differences in consumers but also to explain them. In this respect attitudinal segmentation can offer better prospects.

8.6 Segmenting business markets

As with consumer markets, a wide variety of factors has been suggested for segmenting business markets, but in fact business segmentation variables can be considered under the same headings as those for consumer markets:

- background company characteristics;
- attitudinal characteristics;
- behavioural characteristics.

It should be noted, however, that market segmentation is substantially less well developed in business marketing than consumer marketing, which may affect both the acceptability of different approaches to companies and the availability of information and support to use a particular approach. It should also be noted that in business-to-business marketing it is far more common to find a one-to-one relationship between supplier and customer. In this situation the segmentation approach may best be applied inside the customer organisation. The segmentation structure below follows the model developed in Shapiro and Bonoma (1990).

8.6.1 Background company characteristics

Demographic characteristics of companies can be a useful starting point for business segmentation; indeed, they characterise the approaches most commonly used by business marketing companies. Factors that can be considered here include demographics such as industry type, customer size and location, but also operating variables such as customer technology and capabilities, different purchasing policies and situational factors including product application.

Industry type

Factors such as the Standard Industry Classification (SIC) provide a first stage of analysis, both for identifying target industries and subdividing them into groups of companies with different needs or different approaches to buying. This may be the basis for vertical marketing to industry sectors. Retailers and hospitals, for example, both buy computers, but they have different applications and different buying strategies.

Company size

Size may also be highly significant if, for instance, small companies have needs or buying preferences that are distinctly different from those of larger companies. Typical measures would be variables such as number of employees and sales turnover.

Size may be very significant because it impacts on issues such as volume requirements, average order size, sales and distribution coverage costs and customer bargaining power, which may alter the attractiveness of different segments as targets. Company size may be analysed alongside other demographics. Companies, for example, selling ingredients for paint manufacture in the United Kingdom could initially segment the market by SIC to identify paint manufacturers, then by size of company as indicated by number of employees (there are only seven companies employing more than 750 employees and together they account for over 60 per cent of the paint market).

Customer location

The geographic location of customers may be a powerful way of segmenting the market for a business product for several reasons. Domestically, location will impact on sales and distribution costs and competitive intensity may vary if there are strong local competitors in some regions. Product demand may vary also – the demand for chemicals for water softening in operating cooling equipment in factories will vary according to local water hardness conditions. Internationally, product preferences may also be different by location – medical diagnostic products sell to the National Health Service in the United Kingdom, but to private testing agencies and medical practices in the United States, and to hospital laboratories in the developing world, all of whom display very different product and price requirements.

Company technology

The customer's stage of technology development will impact directly on its manufacturing and product technology, and hence on its demand for different types of product. Traditional factories operating mixed technologies and assembly methods require different product and sub-assembly inputs (e.g. test equipment, tooling, components) compared with the automated production unit. High-technology businesses may require very different distribution methods – Tesco requires suppliers to have the capability to cooperate in electronic stock control and cross-docking to avoid retail stockholding. Increasingly, high-technology firms require that their suppliers are integrated to their computer systems for all stages of the purchase process.

Customer capabilities

Business customers may differ significantly in their internal strengths and weaknesses, and hence their demand for different types of product and service. For example, in the chemicals industry customers are likely to differ in their technical competencies – some will depend on their suppliers for formulation assistance and technical support far more than others. For many years in the computer business Digital Equipment specialised in selling minicomputers to customers who were able to develop their own software and systems, and did not need the full-service offering of IBM and others: it targeted a segment on the basis of the customers' technical strength in computing.

Purchasing organisation

How customers organise purchasing may also identify important differences between customers. For example, centralised purchasing may require suppliers to have the capability to operate national or international account management, while decentralised purchasing may require more extensive field sales operations. Depending on a supplier's own strengths and weaknesses, the purchasing organisation type may be a significant way of segmenting the market. IBM, for example, has always maintained a strong position in companies with a centralised Information Technology department, while other suppliers have focused on companies where IT is less centralised.

Power structures

The impact of which organisational units have the greatest influence may also be effective in segmenting a market to identify targets matching a supplier's strengths. Digital Equipment traditionally targeted engineering-led customers, where its strengths in engineering applications gave it a competitive edge.

Purchasing policies

The way different customers approach purchasing may also be a source of targeting information. Customers might divide, for example, into: those who want a lease-based deal versus those who want to purchase; those with affirmative action policies versus those dominated by price issues; those who want single supply sources versus those who want to dual source important supplies; public sector and similar organisations where bidding is obligatory versus those preferring to negotiate price; those actively pursuing reductions in their supplier base compared with others. Indeed, the model proposed above of the customer's relationship requirements as a basis for segmenting may be even more useful in the business market, where the demand for partnership between suppliers and customers characterises many large companies' approaches to purchasing.

Product application

The product application can have a major influence on the purchase process and criteria and hence supplier choices. The requirements for a small motor used in intermittent service for a minor application in an oil refinery will differ from the requirements for a small motor in continuous use for a critical process.

8.6.2 Attitudinal characteristics

It is possible also to segment business markets on the basis of the benefits being sought by the purchasers. As we saw, benefit segmentation in the consumer market is the process of segmenting the market in terms of the underlying reasons why customers buy, focusing particularly on differences in why customers buy. Its strength is that it is segmentation based on customer needs. In the business market, the same logic applies to the purchasing criteria of different customers and product applications (see above).

This may be reflected, for example, in urgency of order fulfilment – the urgency of a customer's need to keep a plant in operation or to solve a problem for its own customers may change both the purchase process and the criteria used. Urgent replacements may be bought on the basis of availability, not price. A chemical plant needing to replace broken pipe fittings will pay a premium price for a supplier's applications engineering, flexible manufacturing capacity, speed of delivery and installation skills, while a plant buying pipe fittings to be held in reserve would behave quite differently.

One corporate bank struggled to find a way of segmenting the UK market for corporate financial services; they concluded that the most insightful approach was to examine their customers' own strategies as a predictor of financial service product need and purchasing priorities.

An added complication in business markets, however, is the decision-making unit (see Chapter 4). For many business purchases decisions are made or influenced by a group of individuals rather than a single purchaser. Different members of the DMU will often have different perceptions of what the benefits are, both to their organisation and to themselves.

In the purchase of hoists, for example, the important benefit to a user may be lightness and ease of use, whereas the purchasing manager may be looking for a cheaper product to make his purchasing budget go further. Architects specifying installations for new plant may perceive greater benefit in aesthetically designed hoists and maintenance personnel may look for easy maintenance as a prime benefit.

Benefit segmentation is at the centre, however, of conventional wisdom on selling in business markets. Here the emphasis is on selling benefits rather than features of the product or service. In communicating with the different members of the DMU different benefits may be emphasised for each.

8.6.3 Behavioural characteristics

Behavioural issues relevant to segmenting business markets may include buyers' personal characteristics and product/brand status and volume.

Buyers' personal characteristics

Although constrained by company policies and needs, business products are bought by people in just the same way that consumer products are. Business goods markets can be segmented by issues such as the following:

- **buyer–seller similarity**: compatibility in technology, corporate culture or even company size may be a useful way of distinguishing between customers;
- **buyer motivation**: purchasing officers may differ in the degree to which they shop around and look at numerous alternative suppliers, and dual source important products and services, as opposed to relying on informal contacts for information and remaining loyal to existing personal contacts;
- **buyer risk perceptions**: the personal style of the individual, intolerance of ambiguity, self-confidence and status within the company may also provide significant leverage.

For example, for many years in the computer industry IBM focused on IT buyers in major corporates, providing training information and career development support, to build the 'IBM closed shop' where other suppliers were largely excluded.

Product/brand status and volume

The users of a particular product, brand or supplier may have important things in common that can make them a target. For example, customers may differ in the rate and extent of the adoption of new safety equipment in plants. Companies loyal to a specific competitor may be targeted – for instance to attack that competitor's weaknesses in service or product. Current customers may be a different segment from prospective customers or lost customers.

High-volume product users may be different from medium and low users in how they purchase. Even more than in consumer markets the 80/20 rule (80 per cent of sales typically being accounted for by only 20 per cent of customers) can dominate a business market. Identifying the major purchasers for products and services through volume purchased can be particularly useful. Also of interest may be the final use to which the product or service is put. Where, for example, the final consumer can be identified, working backwards can suggest a sensible segmentation strategy.

The paint market, for example, can be segmented at various levels. At the first level it can be divided into 'decorative paints', mainly used on buildings, and 'industrial paints', used in manufactured products. General industrial paints by volume represented 24 per cent of the UK market, the automobile industry 14 per cent, professional decorative 42 per cent and DIY decorative 22 per cent. Demand for vehicle paints relates to automobile sales (derived demand) and relates closely to demand in this market. In the general industrial paints sector there are various specialist segments such as marine coatings. Here ultimate product use dictates the type of paint and its properties and is the basic method for segmentation.

8.6.4 Summary of bases for segmenting business markets

The segmentation bases available for business marketing follow business buying behaviour as those in consumer marketing follow consumer buying behaviour. Because of the presence, however, of particularly large individual customers in many business markets usage-based segmentation is often employed. For smaller companies geographic segmentation may be attractive, limiting their markets to those that are more easily served. Ultimately, however, in business and consumer markets the basic rationale for segmentation is that groups of buyers exist with different needs or wants (benefits sought) and it is segmentation on the basis of needs and wants that offers the closest approach to implementing the marketing concept.

8.7 Identifying and describing market segments

It will be clear from the above that the first task the manager faces is to decide on what bases to segment the market. If product usage or background characteristics are selected in many markets the segmentation can be accomplished from secondary sources (e.g. from TGI or AGB/TCA in UK consumer markets, or from SIC or Kompass in business markets). Where segmentation is based on attitudes, however, there will often be insufficient data available from secondary sources. In these cases primary research will be necessary.

A typical primary research segmentation study could include initial qualitative research to identify major benefits to users and purchasers of the product or service under consideration. This would be followed by quantitative research to estimate the size of the potential segments and to describe them further in terms of other background characteristics. This methodological approach is described in the seminal work by Haley (1968).

8.7.1 First-order and second-order segmentation

There is a frequent misconception among marketing managers as to what constitutes a market segment.

In consumer marketing, in particular, many managers will describe the segmentation of their market and their selected market targets in terms of customer background characteristics. Thus, for example, a marketer of quality wines might describe the segmentation of the market in terms of social class, the prime target being the ABC1 social classes. From our discussion above, however, it can be seen that this way of segmenting the market is adequate only if all members of the ABC1 group purchase quality wine for the same reasons and in the same way. Where use/benefits of wine purchase differ substantially within a given social class there is the opportunity to segment the market in a more fundamental way.

In reality the most fundamental way of segmenting markets is the market-oriented approach of grouping together customers who are looking for the same benefits in using the product or service. All other bases for segmenting markets are really an approximation of this. The wine marketer assumes that all ABC1s have similar benefit needs from the wines they purchase. Hence use/benefit segmentation can be referred to as **first-order segmentation**. Any attempt to segment a market should commence by looking for different use/benefit segments.

Within identified use/benefit segments, however, there could be large numbers of customers with very different backgrounds, media habits, levels of consumption, and so on. Particularly where there are many offerings attempting to serve the same use/benefit segment concentration on sub-segments within the segment can make sense. Sub-segments, for example, who share common media habits, can form more specific targets for the company's offerings. Further segmentation within use/benefit segments can be termed **second-order segmentation**. Second-order segmentation is used to improve the ability of the company to tailor the marketing mix within a first-order segment.

In the wine example the marketing manager may have identified a first-order segmentation in terms of the uses to which the wine was being put (e.g. as a meal accompaniment, as a home drink, as a social drink, as a cooking ingredient). The quality level of the wine might suggest use in the first segment as a meal accompaniment. Further research would then reveal within this segment further benefit requirements (e.g. price bands individual customers are prepared to consider, character of the wine preferred, etc.).

Having further refined the target through matching the company's offerings to specific customer group requirements the marketer may still find a wide variety of potential customers for his or her wines. Within the identified first-order segment sub-segments based on demographic characteristics could be identified (e.g. AB social class, aged 35–55, male purchaser), enabling a clearer refinement of the marketing strategy.

8.8 The benefits of segmenting markets

There are a number of important benefits that can be derived from segmenting a market, which can be summarised in the following terms:

- Segmentation is a particularly useful approach to marketing for the smaller company. It allows target markets to be matched to company competencies (see Chapter 6), and makes it more likely that the smaller company can create a defensible niche in the market.
- It helps to identify gaps in the market, i.e. unserved or underserved segments. These can serve as targets for new product development or extension of the existing product or service range.
- In mature or declining markets it may be possible to identify specific segments that are still in growth. Concentrating on growth segments when the overall market is declining is a major strategy in the later stages of the product life cycle.
- Segmentation enables the marketer to match the product or service more closely to the needs of the target market. In this way a stronger competitive position can be built (see Jackson, 2007, for the importance for companies of determining their strategic market position). This is particularly important in the Internet age where companies compete in a large and heterogeneous community (see Barnes *et al.*, 2007).
- The dangers of not segmenting the market when competitors do so should also be emphasised. The competitive advantages noted above can be lost to competitors if the company fails to take advantage of them. A company practising a mass marketing strategy in a clearly segmented market against competitors operating a focused strategy can find itself falling between many stools.

8.9 Implementing market segmentation

It should also be noted that there is evidence that companies often struggle with the implementation of segmentation-based strategies, and fail to achieve the potential benefits outlined above (see, e.g., Piercy and Morgan, 1993; Dibb and Simkin, 1994) – this is the difference between segmentation as a normative model and as a business reality (Danneels, 1996).

8.9.1 The scope and purpose of market segmentation

There is growing recognition that conventional approaches may pay insufficient attention to identifying the scope of market segmentation (Plank, 1985). Indeed, a seminal paper by Wind (1978) proposed that in selecting segmentation approaches it is necessary to distinguish between segmentation that has the goal of gaining a general understanding of the market and use for positioning studies, and segmentation concerned with marketing programme decisions in new product launches, pricing, advertising and distribution. These are all valid and useful applications in segmentation analysis, but they are fundamentally different.

8.9.2 Strategic, managerial and operational levels of segmentation

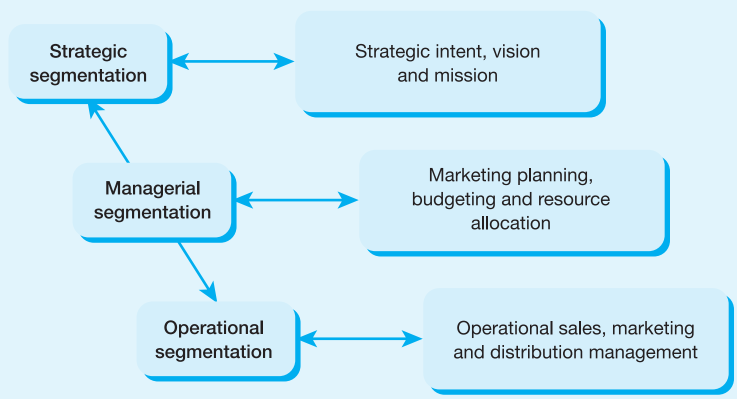
One approach to making the scope of market segmentation clearer is to distinguish between different levels of segmentation, in the way shown in Figure 8.5 (Piercy and Morgan, 1993).

This approach is similar to the first-order and second-order segmentation distinction made above, but goes further in relating the levels of segmentation to organisational issues as well as customer issues. The nature of the different levels of segmentation can be described as follows:

- **Strategic segmentation** is related to management concerns for strategic intent and corporate mission, based on product/service uses and customer benefits.
- **Managerial segmentation** is concerned primarily with planning and allocating resources such as budgets and personnel to market targets.
- **Operational segmentation** focuses on the issue of aiming marketing communications and selling efforts into the distribution channels that reach and influence market targets (and their subdivisions).

These differences are important to gaining insight into what segmentation can contribute to building marketing strategy and competitive positioning, but also to understanding the sources of implementation problems with segmentation-based strategies. For example, when the manager responsible for marketing replacement car exhausts to car owners groups his or her customers in terms of their fears, ignorance and transport dependence, rather than their requirements for different product specifications and engineering, he or she is concerned with creating a new understanding

Figure 8.5 Levels of segmentation



of the market (strategic segmentation), not a model for the detailed application of marketing resources (operational segmentation).

When the corporate banker looks at the corporate banking market in terms of the strategic financial services needs of customers, based on their own corporate strategies (Carey, 1989), the goal is to create a framework for strategy, not a mechanism for advertising and salesforce allocation.

On the other hand, when advertisers and sales managers describe buyers in terms of socio-economic groups, geographic location or industrial sector, they are concerned with the effective targeting of advertising, sales promotion, selling and distribution resources, rather than describing customer benefit-based market segments. Market segmentation studies describing consumer groups in terms of their media behaviour – for example as 'mainstream media rejecters', 'genteel media grazers', '30-somethings', and so on (Laing, 1991) – are concerned with operational effectiveness, not strategic positioning.

Confusing these very different roles for segmentation may be why segmentation is sometimes seen as a failure in organisations:

> *Failed segmentation efforts tend to fall into one of two categories: the marketer-dominated kind, with little data to support its recommendations, or the purely statistical type that identifies many consumer differences that aren't germane to the company's objectives.*
>
> (Young, 1996)

The implication is that clarifying the role and purpose of an approach to segmentation may be important to avoid unrealistic expectations. However, it is clear that segmentation-based strategies do sometimes fail at the implementation stage.

8.9.3 Sources of implementation problems

The recognition of implementation problems with segmentation-based strategies may be traced back over the years: Wind (1978) noted that little was known about translating segment research into marketing strategies; Young *et al.* (1978) accused marketers of being preoccupied with segmentation technique rather than actionability; Hooley (1980) blamed segmentation failures on the use of analytical techniques for their own sake and poor communication between managers and marketing researchers. Shapiro and Bonoma (1990) wrote: 'Much has been written about the strategy of segmentation, little about its implementation, management and control', and this would still seem a valid conclusion.

Piercy and Morgan (1993) attempted to catalogue the sources of implementation failure with segmentation-based strategies, and these issues provide a further screening device for evaluating the suitability of a segmentation model generated through market research. Issues to assess include the following:

- **Organisation structure**: Companies tend to organise into functional departments and sub-units of one kind or another, depending on their task allocation and how they deal with the outside world. A customer benefits approach to establishing market targets may cut across these internal divisions – they may not 'fit' with the jurisdiction of departments or regional organisations for sales and marketing. Segment targets that fall between departments and regions may be neglected and lack 'ownership', and the strategies built around them will fail. We need to map carefully how segment targets will match the internal organisation structure.

- **Internal politics**: Young (1996) argues that strategic segmentation is essentially a cross-functional activity, requiring expertise and involvement by many functional specialists. If functions cannot collaborate or work together because people are vying for power and withholding their knowledge and expertise, the segmentation strategy is likely to fail. If our segmentation-based strategy relies on internal collaboration and cooperation, we need to be sure this can be achieved or the strategy will fail.
- **Corporate culture**: In some circumstances customer benefit segmentation is unacceptable to people inside an organisation, because it is not how they understand the world. Organisations dominated by strong professional groups frequently have struggles with customer benefit segments – examples are traditional financial service companies and professional service firms such as law and accountancy. The problem may be in overcoming bankers' preferences for 'prudent banking' to develop customer focus.
- **Information and reporting**: Novel segmentation schemes may not fit with existing information systems and reporting systems. This may mean it is difficult to evaluate the worth of segment targets, or to allocate responsibilities and monitor performance in doing business with them.
- **Decision-making processes**: If segmentation schemes identify new market targets that are not recognised in plans (they are not currently part of the served market, they are spread across existing segment targets for which responsibility has been allocated, or they are subsumed within an existing segment), then they may be ignored in the planning process and when plans are implemented. Similarly, segment targets that are not recognised by existing resource allocation processes may face difficulty in getting a marketing budget. We should examine carefully how a new segmentation approach can be integrated with planning and budgeting and in evaluation systems.
- **Corporate capabilities**: It is all too easy for marketing researchers and analysts to develop attractive market targets, but a company may have little basis for achieving a competitive advantage simply because it lacks the capabilities for dealing with this type of customer (see Chapter 6).
- **Operational systems**: Segmentation strategy may fail because it underestimates the problems faced at the operational level in translating segmentation strategy into effective reality: Can salespeople deal with this target customer? Do we have access to the distribution channels we need? Do we have the expertise to develop and operate segment-based advertising and promotion? Do we have market research organised around the segment targets so we can identify them, measure opportunities and evaluate progress? Do we have the technical facilities to price differently to different customer types if this is required? We should look very carefully at the operational capabilities we have in sales, advertising, promotion and distribution, and question their ability to adapt to a new segmentation-based strategy.

Figure 8.6 Market segment attractiveness and organisational resource strength

Many of these issues are covert and hidden inside the organisation, yet to ignore them is to place the strategy at risk. One proposal is that in addition to the conventional evaluation of market targets each potential target should be tested for internal compatibility, as suggested in Figure 8.6.

This analysis may suggest that some market targets are unattractive because they have a poor ‘fit’ with the company’s structures and processes, or even that the company is not capable of implementing a segmentation-based strategy at the present time, or it may identify the areas that need to be changed if the segment target is to be reached effectively.

Summary

In increasingly fragmented markets, marketers in both consumer and business markets are turning more and more to segmentation methods to identify prime market targets. In approaching market segmentation, companies must confront the sometimes quite sophisticated methodology of segmentation, test the market targets identified and make the strategic segmentation decision of how to use a segmentation model in developing its market strategy.

This suggests that one of the major decisions faced is: ‘What bases to segment on?’ We have seen that there are a great many potential bases for segmentation in consumer and business markets, and for product and service (and non-profit) marketing.

Arguably the segmentation approach closest to extending the marketing concept is use/benefit segmentation originally suggested some 40 years ago by Haley (1968). While it does require considerable primary investigation, understanding the benefits customers derive in buying and/or consuming products and services is central to designing an integrated marketing strategy.

There are substantial potential benefits to be gained from basing marketing strategy on rigorous market segmentation. However, the organisational issues impacting on the implementation of segmentation-based strategies should also be evaluated to test for the internal compatibility of segment targets and the costs of organisational change that may be involved in segmentation-based marketing strategies.

The next chapter, on segmentation research, concentrates on the methodology for developing bases for segmentation.

Internet Exchange

FT

Case study

Alamy/Fredik Renander

Internet advertisers, wake up and smell the coffee! No, really. The fumes might lead marketers to one of the few places where the in-vogue theory for mixing on- and offline media can be tested.

Internet cafés have what standard Internet service providers or portals too often lack – ‘captive’ visitors, a proven charging model and physical assets with which to reinforce the messages of on-screen branding.

Many cafés, particularly independents, have struggled to gain scale and customer footfall to justify relatively fixed start-up and running costs. The spread of Internet access, at home or work, together with the advent of unmetered-access pricing, was supposed to sound their death-knell.

In fact, large café chains appear to be thriving. Internet Exchange, the international network of 171 franchised and wholly owned cafés, says it will go into operating profit ‘within the next few weeks’.

easyEverything, the chain of giant cafés started by Stelios Haji-Ioannou, the low-cost airline entrepreneur, now provides 9,500 seats in 21 stores across eight countries. It recently signed a deal to open its first franchised operation, in Athens, probably to be followed by Budapest.

The two chains claim to deliver, respectively, an average 1m and 2.2m Internet sessions across their outlets every month, although a user might buy several sessions during one visit. (The numbers are not audited by ABC Electronic, though easyEverything has plans to do so.) According to a report from Allegra Strategies, the consultancy, just under 60 per cent of people named web cafés as the best place to surf outside work or home. Allegra forecasts 54 per cent compound annual growth in the number of UK chain outlets opened between June 2000 and December 2002. And with claims to marry the captive audience of cinema or in-flight advertising with high-street shop frontage, the chains are going after media spend.

Both chains argue that even in a tight advertising climate they are delivering better results than online-only properties. Internet Exchange says in-store promotions have driven click-throughs on some screen campaigns for Mars and Virgin to between 5 and 50 per cent. easyEverything gives a typical rate for an online campaign as £1 a click, higher than market rates. Homepage channel sponsors pay from £2,000 to £10,000 for a three-month tenancy across the easyEverything network.

The reasons for these high rates, according to Maurice Kelly, chief executive of easyEverything, are distinctly low-tech. ‘The most valuable space in the UK for McVities will be the one on a wall at the supermarket because the branding opportunity is as close as possible to the point of sale,’ Kelly says. ‘I have a million websites to choose from. A dotcom that buys ambient media in an easyEverything outlet can direct a customer to its website.'

Slots for sale range from stickers on mouse mats, screens and phones (used for international calls made via the Internet), to window and wall posters. BT and Consignia (formerly the Post Office) are among future poster clients.

Mike Roberts, general manager at ee-media sales, the joint venture set up with Spafax, the WPP-owned specialist in in-flight content and marketing, is responsible for selling easyEverything media space. To him, the entire 540-seat branch at Tottenham Court Road, central London, is a series of branding opportunities.

'We can replace selected keys on the keyboards with branded ones. Our staff could be wearing branded T-shirts. We can have stickers on the floor, on the coffee cups . . .' he says.

Before this vision goes into overdrive, it should be stated that easyEverything's core business has not changed. It still sells seats in front of Internet screens in much the same way as easyJet sells seats on planes. To cover costs, it needs to ensure a minimum average occupancy rate. This was first set at 40 per cent of all seats on the assumption that cafés stayed open 24 hours a day and charged an average of £1 per hour.

Adapting the 'yield' model applied by airlines for flight tickets, stores continually alter basic access prices to manage the trade-off between volume and margin. The model has been changed: price parameters are now fixed at between £1 and £3 an hour and the 580-seat High Street Kensington store, some of its most expensive real estate, now closes at night because of lack of demand. But the emphasis is still on volume. And in an online medium that is supposed to deliver personalised communications, is that what advertisers want? Kelly says: 'If we ran this business entirely for its advertising income, then I guess we would be data mining.

'We are only interested in the business as an advertising vehicle because of the numbers and because of the age group of our customers. That is what makes us an appropriate medium for some brands.' According to easyEverything, its users are aged 16–24 and predominantly local, if temporary, residents.

An average visit lasts 50 minutes, and about 40 per cent walk through the doors three times a week. Online, they exhibit the same 'tunnel' vision as everyone else, with a strong propensity to use e-mail and chat forums rather than surf multiple sites, where they might be exposed to advertising.

Mary Keane-Dawson, managing director of Spafax UK, describes the audience as 'notoriously difficult to reach, but valuable'. One thing they clearly want, she says, is cheap and fast access to the Web.

Kelly adds: 'If you advertise on a portal, you are mostly getting access to their customers for the minute or so before they get to the sites they want to visit. For the entire time a person is sitting in easyEverything, we can deliver inventory to them.'

The contrast with online portals is made even more directly by Simon Henderson, chief executive of Internet Exchange, which is less price-focused, more mass market and whose cafés are usually less centrally situated than easyEverything's. Henderson cites a Merrill Lynch report comparing the cost of customer acquisition and media sales at Internet Exchange and a variety of online portals.

Merrill Lynch estimates that Internet Exchange spends £4.20 in marketing to acquire each customer, compared to Liberty Surf, which spends £98.61. The chain's annual media sales per customer were £25.57, compared to £5.28 at Freeserve and £4.20 at Yahoo! Such figures clearly exclude the huge costs a café chain needs to sink before it can create the infrastructure to acquire customers in the first place. Cafés could not possibly compete on reach or scalability with online properties. The New York easyEverything branch alone cost around $3m to open and market, and although it has run campaigns for Nokia, Warner Bros and Virgin, many international youth brands have yet to make the leap. Jeffrey Young, of Allegra Strategies, questions whether café chains will ever have a big enough audience to deliver mainstream campaigns.

Both easyEverything and Internet Exchange also admit that it is still rare for British buyers and agencies, used to separate budgets, to buy on- and offline media in one go.

Henderson argues that what matters to advertisers is a comparison of effectiveness of marketing spend across media.

'I don't know anyone in this market who isn't looking at what they are getting for their marketing pounds and judging spending by results,' he says.

Source: Carlos Grande, 'Internet Advertisers, Wake Up and Smell the Coffee!' *Financial Times*, Creative Business, 10 July 2001, p. 8.

Discussion questions

1 Since users of Internet cafés are such a small portion of the population, what is the point in using them for advertising? Have other media similarly narrow user bases?

2 Using a range of criteria, describe the segments who are likely to be heavy users of Internet cafés. How can users be further segmented based on their use of the Internet?

3 Given the Internet café user segments and the nature of Internet advertising, what products are appropriate for advertising using the medium and what are suitable advertising objectives?