CHAPTER 9

Market Segmentation, Targeting and Positioning

9.1 LEARNING OBJECTIVES

When you have read this chapter you should be able to understand:

- **(a)** the nature and purpose of market segmentation;
- **(b)** the contribution of segmentation to effective marketing planning;
- **(c)** how markets can be segmented, and the criteria that need to be applied if segmentation is to prove cost-effective;
- **(d)** how product positioning follows from the segmentation process;
- **(e)** the bases by which products and brands can be positioned effectively.

9.2 INTRODUCTION

In Chapters 5–7 we focused on approaches to environmental, customer and competitor analysis, and the frameworks within which strategic marketing planning can best take place. Against this background we now turn to the question of market segmentation, and to the ways in which companies need to position themselves in order to maximize their competitive advantage and serve their target markets in the most effective manner. It does need to be recognized, however, that for many organizations the strategic issues of market segmentation, market targeting and positioning often take on only a minimal role. A variety of authors (see, for example, Saunders, 1987; Solomon *et al.*, 2006) have all pointed to the way in which approaches to segmentation are often poorly thought out and then poorly implemented.

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There are several possible reasons for views such as these, although, in the case of companies with a broadly reactive culture, it is often due largely to a degree of organizational inertia, which leads to the firm being content to stay in the same sector of the market for some considerable time. It is only when the effects of a changing environment become overwhelmingly evident that serious consideration is given to the need for repositioning in order to appeal to new sectors of the market. For other organizations, however, a well-thought-out policy of segmentation plays a pivotal role in the determination of success. It is the recognition of this that has led to the suggestion in recent years that the essence of strategic marketing can be summed up by the initials STP – segmentation, targeting and positioning. This is illustrated in Figure 9.1.

Not all writers are in favour of segmentation so before we examine the methods used to segment markets, it is worth looking briefly at their views. Bliss (1980), for example, has suggested that, while many marketing managers acknowledge the rationale of segmentation, many are dissatisfied with it as a concept, partly because it is inapplicable or difficult to apply in many markets, but also because emphasis is too often given to the techniques of segmentation at the expense of the market itself and the competitive situation that exists. Equally, Resnik *et al.* (1979) have suggested that changing values, new lifestyles, and the rising costs of products and services argue the case for what they call 'counter-segmentation'; in other words, an aggregation of various parts of the market rather than their subdivision. The majority of writers, however, acknowledge the very real strategic importance of segmentation and, in particular, the ways in which it enables the organization to use its resources more effectively and with less wastage.

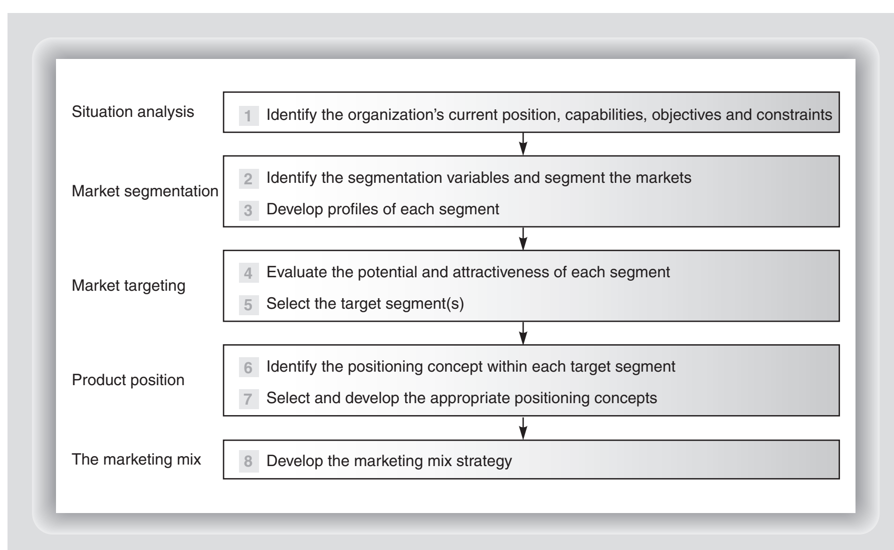


FIGURE 9.1 *The eight stages of the segmentation, targeting and position process*

9.3 THE NATURE AND PURPOSE OF SEGMENTATION

During the past 30 years, market segmentation has developed and been defined in a variety of ways. In essence, however, it is the process of dividing a varied and differing group of buyers or potential buyers into smaller groups, within which broadly similar patterns of buyers' needs exist. By doing this, the marketing planner is attempting to break the market into more strategically manageable parts, which can then be targeted and satisfied far more precisely by making a series of perhaps small changes to the marketing mix. The rationale is straightforward and can be expressed most readily in terms of the fact that only rarely does a single product or marketing approach appeal to the needs and wants of all buyers. Because of this, the marketing strategist needs to categorize buyers on the basis both of their characteristics and their specific product needs, with a view then to adapting either the product or the marketing programme, or both, to satisfy these different tastes and demands.

The potential benefits of a well-developed segmentation strategy can therefore be considerable, since an organization should be able to establish and strengthen its position in the market and, in this way, operate more effectively. Not only does it then become far more difficult for a competitor to attack, but it also allows the organization to build a greater degree of market sector knowledge and customer loyalty.

Although the arguments for segmentation appear strong, it is only one of three quite distinct approaches to marketing strategy which exist. These are:

1. Undifferentiated or mass marketing
2. Product-variety or differentiated marketing
3. Target or concentrated marketing.

These are illustrated in Figure 9.2.

Undifferentiated, differentiated and concentrated (or atomized) marketing

A policy of *undifferentiated* or *mass marketing* emerges when the firm deliberately ignores any differences that exist within its markets and decides instead to focus upon a feature that appears to be common or acceptable to a wide variety of buyers. Perhaps the earliest, best-known and most frequently quoted example of this is Henry Ford's strategy with the Model T, which buyers could have 'in any colour as long as it's black'. A more recent example of undifferentiated marketing is provided by Black & Decker, which in the late 1970s was faced with a drop in its worldwide market share of the power tool market from 20 to 15 per cent as Japanese firms began marketing their brands in a far more aggressive manner. In

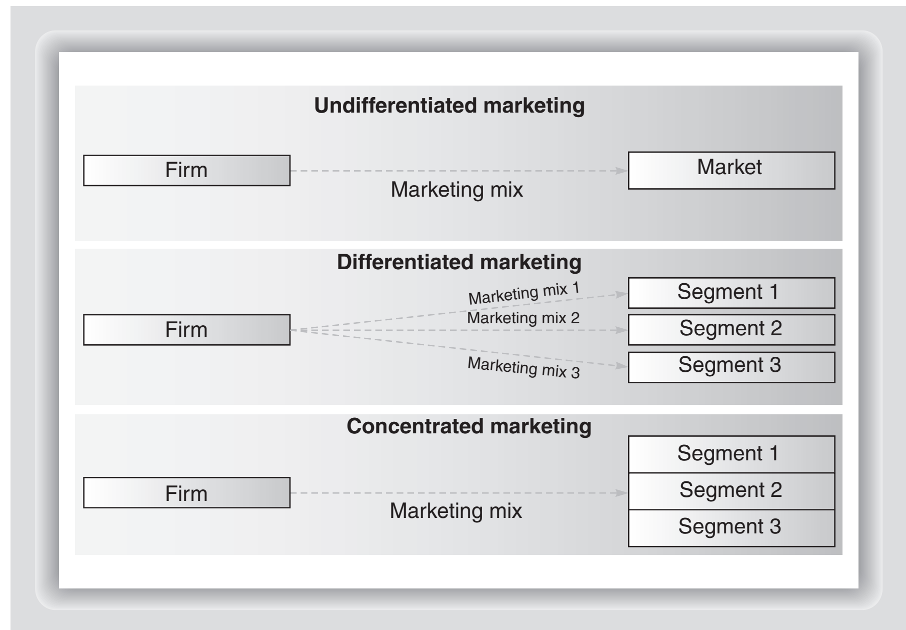


FIGURE 9.2 *Undifferentiated, differentiated and concentrated marketing*

an attempt to counter this, Black & Decker moved away from a policy of customizing products for each market and concentrated instead on making a smaller number of products that could be sold everywhere with the same basic marketing approach. The success of this undifferentiated global marketing strategy was subsequently reflected in the fact that, by the mid-1980s, Black & Decker had more than regained its 20 per cent share of the market. Subsequently, it has strengthened its position yet further.

The obvious advantage of an undifferentiated strategy such as this is that it offers scope for enormous cost economies in production, promotion and distribution, since the organization is dealing with a standardized product. At the same time it needs to be recognized that undifferentiated marketing is becoming increasingly rare, largely because of ever greater degrees of competition and the increasingly sophisticated and fragmented nature of the majority of developed markets. In these circumstances, the scope that exists for marketing a product aimed at a broad sector of the market is reduced significantly.

This de-massification of markets has led many organizations towards strategies of *product-variety marketing* and, ultimately, target marketing. As an example of this, Coca-Cola for many years produced only one type of drink for the entire market in the expectation that it would have a mass-market appeal. The success of the strategy is now part of marketing folklore. The company's strategy was changed, however, partly to

cope with an increasingly aggressive competitive environment (think, for example, about the entry of Red Bull to the soft drinks market and its creation of the energy drinks sector, and the highly successful repositioning of Lucozade) and partly to develop and capitalize on different patterns of consumer demand. As a result, the company's marketing effort today now reflects buyers' needs for a far wider variety of tastes and demands, which are packaged in a number of different sizes and types of container. It should be emphasized that the move on the part of many organizations in recent years towards product-differentiated or product-variety marketing has often had as its primary purpose the need to offer existing buyers greater variety, rather than to appeal to new and different market segments. In many ways, therefore, product-variety marketing can be seen as an interim step in the move towards *target marketing*, in which the strategist identifies the major market segments, targets one or more of these segments, and then develops marketing programmes tailored to the specific demands of each segment.

For some organizations target marketing leads to a concentration of effort on a single target market with a single marketing mix. Referred to as *concentrated segmentation*, it is a strategy that has been pursued with great success by the piano makers Steinway. The company defines its market as the concert and professional pianist and, while others may buy the product, they are not part of the strategic target market. The obvious advantage of an approach such as this is that, having identified a particular market, the firm can then control costs by advertising and distributing *only* to the market segment it views as its primary target.

In so far as disadvantages exist with a strategy of concentration, they stem from the possibility of missed opportunities; it may be the case, for example, that significant opportunities exist elsewhere but that the firm's single-minded approach to just one part of the market fails to recognize this. Equally, the organization can prove vulnerable either to a direct and sustained attack by a competitor or to a downturn in demand within the target market. Because of this, many marketing strategists pursue a policy of *multiple segmentation*, in which the firm focuses upon a variety of different segments and then develops a different marketing mix for each. This is often described as a 'rifle' rather than a 'shotgun' approach, in that the company can focus on buyers they have the greatest chance of satisfying rather than scattering the marketing effort. An example of its use is that of Arcadia which pursues a highly segmented strategy with a series of retail concepts such as TOPSHOP, TOPMAN, Burton, Dorothy Perkins, Evans, Miss Selfridge, and Wallis. In doing this, specific attention is paid to a variety of distinct customer groups by means of different types of retail outlet, each with its own distinct target market, image and customer appeal.

The rationale for target marketing and multiple segmentation can be seen to be straightforward, and stems from an expectation on the part of the organization that it will be able to generate a higher total level of sales

by making specific appeals to a variety of different target groups. At the same time, however, a strategy of multiple segmentation almost invariably leads to cost increases in several areas, including production, promotion, distribution, inventory and administration. The choice between undifferentiated marketing, product-variety marketing and target marketing therefore involves a series of trade-offs, the most obvious of which is an increase in cost against an expectation of higher total returns. As a prelude to deciding which of these three approaches to adopt, the strategist needs to identify clearly the organization's capability, the opportunities that exist and the level of market coverage that is possible or realistic.

Perhaps the most extreme example of a trade-off is to be seen in *customized* or *atomized marketing*, where the product or service is modified to match the specific demands of each buyer, an approach that is often used within the business-to-business sector by organizations with a relatively small number of large customers.

The development of segments over time

Having identified segments within a market, the strategist needs to recognize that this is not a once-and-for-all exercise, but rather one that needs monitoring and updating if it is to maintain its usefulness. This is illustrated by the ways in which attitudes to a given product's country of origin can change, possibly dramatically, over time. Thirty years ago, for example, attitudes in Britain to Japanese products were generally negative, largely because of perceptions of poor quality and inadequate levels of after-sales support. These attitudes changed throughout the 1970s and 1980s and today Japanese products are generally perceived very differently. The implications of this for preference patterns is significant and does, of course, need to be reflected in methods of segmentation. By the same token, Skoda for many years targeted a relatively poor segment of the market, but over the past decade has increasingly moved into a series of very different target markets (here, it might be useful to refer to Illustration 6.2, in which Skoda's changed approach is discussed).

9.4 APPROACHES TO SEGMENTING MARKETS

The majority of markets can be segmented in a variety of ways. For the marketing strategist, the process of identifying the potentially most effective way begins with an initial examination of the market, with a view to identifying whether 'natural segments' already exist.

In the USA in the 1960s, for example, both Volkswagen and Toyota identified the growth potential of a market sector that was concerned with car size and fuel economy, a segment that the three major domestic manufacturers had either failed to identify or had chosen to ignore. Following the

Arab–Israeli conflict of the early 1970s and the subsequent oil crisis, consumers became far more energy conscious and this part of the market grew dramatically. It was several years before domestic manufacturers were able to capitalize on these opportunities. Equally, Honda in the 1960s and 1970s identified and then targeted a young(er) and essentially middle-class market for small and medium-sized motorcycles in the USA that the other players within the market, such as Harley Davidson, had traditionally ignored. The advertising campaign featured college students riding the smaller Honda bikes and used the strapline 'You meet the nicest people on a Honda'. More recently, Mercedes, Porsche and BMW have all targeted the ageing baby boomer generation whose children have left home, have insurance policies maturing, are downsizing and rethinking their priorities, and who are not only searching for their lost youth, but more importantly have the money to indulge themselves.

There are several lessons to be learned from these sorts of examples, including the ways in which new segments can be identified by examining the sequence of variables that consumers consider when choosing a product. One way of doing this involves categorizing current consumer segments on the basis of a hierarchy of attributes. There are those, for example, whose major preoccupation is price (price-dominant), while others are more concerned with the brand (brand-dominant), quality (quality-dominant) or country of origin (nation-dominant).

In the case of hi-fi and audio equipment, for example, a buyer might only be willing to consider products from a Japanese manufacturer – this would be the first-level preference. The second-level preference may then be for, say, Sony followed by Panasonic. After this, issues of the price range and choice of outlet begin to emerge.

Recognition of hierarchies of attitudes such as these has led to the emergence of *market-partitioning theory*, with segments being determined on the basis of particular combinations such as quality/service/brand, price/type/brand, and so on. Underlying this is the belief that each combination will then reflect distinct demographic and psychographic differences.

The question of *how* to segment the market provides the basis for much of the remainder of this chapter. In essence, however, this involves deciding between *a priori* and *post hoc* methods. An a priori approach is based on the notion that the planner decides in advance of any research the basis for segmentation he or she intends to use. Thus, typically the planner will categorize buyers on the basis of their usage patterns (heavy, medium, light and non-users), demographic characteristics (age, sex and income) or psychographic profiles (lifestyle and personality). Having decided this, the planner then goes on to conduct a programme of research in order to identify the size, location and potential of each segment as a prelude to deciding on which of the segments the marketing effort is to be concentrated.

Post hoc segmentation, by contrast, involves segmenting the market on the basis of research findings. Thus, research might highlight particular

attitudes, attributes or benefits with which particular groups of customers are concerned. This information can then be used as the basis for deciding how best to divide the market. One of the best-known – if oldest – examples of this is Haley's research into the toothpaste market in the early 1960s, which highlighted levels of concern among mothers about tooth decay in their children (Haley, 1963). Although a number of brands claiming decay prevention existed at the time, the size and potential for the growth of this segment had not previously been recognized. One result of Haley's work was to increase the number of companies that recognized the value of targeting this segment.

In making these comments, it must be emphasized that both a priori and post hoc approaches to segmentation have their place, and that their real value to the strategist depends largely on how much knowledge of the market the strategist has. If, for example, previous research or experience has enabled the planner to identify key segmentation dimensions within the market, then an a priori approach is likely to be adequate. When, however, the market is new, changing or unrelated to the planner's experience, a post hoc approach to determine the key segmentation variables is likely to prove more valuable.

9.5 FACTORS AFFECTING THE FEASIBILITY OF SEGMENTATION

Market segmentation works at two levels, the strategic and the tactical. At a strategic level it has a direct link to decisions on positioning. At a tactical level it relates to the question of which customer groups are to be targeted. However, for a market segment to justify attention, six conditions typically need to be satisfied. The segment must be:

1. *Measurable*. Although in many consumer markets measurement is generally a relatively straightforward exercise, it is often a more difficult process with industrial or technical goods. This is due largely to the relative lack of specific published data.
2. *Accessible*. In some cases it may be possible to identify a sizeable and potentially profitable segment but then, either because of a lack of finance or in-house expertise, this potential may be difficult to exploit.
3. *Substantial*. If the strategist is to justify the development of a segment, the exercise must be cost-effective. The size and value of the segment is therefore an important determinant of this decision. Size should, of course, be seen in relative rather than absolute terms, since what may be too small to be considered by one organization may be appropriate to another, smaller, company. Morgan, for

example, has concentrated on a very small and specialized part of the car market that is of no interest to the larger firms such as Ford, Toyota and Volkswagen.

4. *Unique* in its response, so that it can be distinguished from other market segments.
5. *Appropriate* to the organization's objectives and resources.
6. *Stable*, so that its behaviour in the future can be predicted with a sufficient degree of confidence.

Against the background of these six conditions, it should be possible to evaluate segments on the basis of two criteria: the attractiveness of the segment and the organization's ability to exploit the value of the segment.

9.6 APPROACHES TO SEGMENTATION

Although a wide variety of methods of segmentation have been developed over the past 40 years, their real value to the strategist in any given situation depends to a very large extent on the nature and characteristics of the product, and the market in which the company is operating. The task with which the strategist is faced involves deciding upon the most appropriate single method or combination of methods for dividing up the market. In the case of consumer goods, for example, the most commonly used methods have typically been geographic, demographic and benefit measures, while in the industrial sector they have typically been usage rate, source loyalty and location. Most of these measures, however, are at best partial, and the past few years have witnessed a growing willingness on the part of many companies, particularly in the consumer sector, to make greater use of more complex methods of segmentation in order to build up more detailed and useful pictures of their target markets. One result of this has been an upsurge of the interest expressed in behavioural and psychographic techniques as a means of gaining a greater insight into the question of *why* people behave in particular ways.

The thread that runs through all of these approaches is the need to understand in detail the structure of the market. This is most typically done by focusing on three areas:

1. Developing a spatial map of consumers' perceptions of brands within a given market sector
2. Identifying consumers' ideal points on this map so that demand for a particular product might then be estimated by examining its position in relation to the ideal
3. Developing a model that will then provide a basis for predicting consumers' responses to new and modified products.

This sort of picture of the market can then be taken a step further by superimposing a second map illustrating in greater detail consumer profiles. This might typically include sex (male versus female), age (young, middle-aged, old), income group (high earners versus low earners) and marital status.

9.7 THE BASES FOR SEGMENTATION

More than 30 years ago, Wind (1978, p. 317) commented that 'over the years almost all variables have been used as bases for market segmentation'. There are several possible explanations for this, the most significant of which is the difficulty that is typically encountered in putting into practice the normative theory of segmentation. In other words, while the marketing planner might well recognize that customer characteristics should determine strategy, all too often this is reversed, with managers focusing on the probable response of different segments to a previously determined strategy. Whilst, in the majority of circumstances, feedback will ensure that changes are subsequently made to the strategy to take account of the response received, it is often the case, that the approach taken is more similar to a strategy of product different than the normative approach which is typically advocated by writers in the area.

Although, as we observed earlier, a wide variety of variables have been used to segment markets, the majority of these can be grouped into four categories.

1. Geographic and geodemographic
2. Demographic
3. Behavioural
4. Psychographic.

Only rarely, however, can just one of these dimensions be used to segment a market effectively, something that is reflected both in Illustration 9.1 and in a comment by Wind (1978, p. 318):

> *In contrast to the theory of segmentation that implies that there is a single best way of segmenting a market, the range and variety of marketing decisions suggest that any attempt to use a single basis for segmentation (such as psychographic, brand reference, or product usage) for all marketing decisions may result in incorrect marketing decisions as well as a waste of resources.*

Illustration 9.1 Recommendations for the bases of segmentation

Some of the most interesting work on market segmentation has been carried out in the USA by Yoram Wind (1978). One of the undoubted attractions of his work is its strong element of pragmatism and the recognition that he gives to the problems

typically experienced by marketing managers in trying to develop and implement an effective segmentation strategy. This has led him to a series of recommendations for the bases of segmentation, which Baker (1985, pp. 142–3) has neatly summarized:

For general understanding of a market

- Benefits sought (in industrial markets, the criterion used is purchase decision)
- Product purchase and usage patterns
- Needs
- Brand loyalty and switching pattern
- A hybrid of the variables above.

For positioning studies

- Product usage
- Product preference
- Benefits sought
- A hybrid of the variables above.

For new product concepts (and new product introduction)

- Reaction to new concepts (intention to buy and preference over current brand)
- Benefits sought.

For pricing decisions

- Price sensitivity
- Deal proneness
- Price sensitivity by purchase/usage patterns.

For advertising decisions

- Benefits sought
- Media usage
- Psychographic/lifestyle
- A hybrid of the variables above and/or purchase/usage patterns.

For distribution decisions

- Store loyalty and patronage
- Benefits sought in store selection.

9.8 GEOGRAPHIC AND GEODEMOGRAPHIC TECHNIQUES

Geographic approaches

Geographic segmentation – one of the earliest and still most commonly used methods of segmentation, within both the consumer and the industrial sectors – involves dividing markets into different geographical units such as countries, regions, counties and cities. The strategist then chooses to operate either in just a few or in all of these. Typically, however, if a company pursues this second approach, minor modifications are often

made to the marketing mix used for different geographical areas in order to take account of different regional tastes and preferences. In the case of the car industry, for example, the majority of manufacturers, while selling a particular model throughout Europe, will typically make a series of minor changes to the design and to the way in which the product is promoted and sold in order to reflect local differences, preferences and legislative demands. Similarly, food manufacturers modify the taste of the product to cater for regional taste differences. Across Europe, for example, companies such as Nestlé vary the strength and flavour of coffee to reflect regional preferences for stronger or weaker coffees. With other products, such as consumer electronics, geographical differences also need to be reflected in strategy. Makers of stereo equipment, for example, offer products that vary by region. Europeans tend to want small, unobtrusive, high-performance equipment, while many Americans prefer large speakers that, as one anonymous commentator said, 'rise from the floor of living rooms like the columns of an ancient temple'.

Among the undoubted attractions of geographic segmentation to the strategist is its flexibility and its apparent simplicity. It is the combination of these, together with its broad applicability, that has led to its widespread use. At the same time, however, it is a relatively unsophisticated approach to categorization and one that at best gives only a partial view of buying motives.

Geodemographic and lifestyle approaches

Largely because of the limitations of geography, a considerable amount of work has been done in Britain over the past few years in an attempt to improve on the traditional methods of geographic segmentation. One outcome of this has been the development of a variety of geodemographic systems such as ACORN (A Classification Of Residential Neighbourhoods), which classify people by where they live. Based on the idea that 'birds of a feather flock together', it gives recognition to the fact that people with broadly similar economic, social and lifestyle characteristics tend to congregate in particular neighbourhoods and exhibit similar patterns of purchasing behaviour and outlook.

The essential purpose of geodemographics is therefore to provide the base for targeting customers in particular areas who exhibit similar behaviour patterns.

The first attempt to formalize this and demonstrate its potential to the strategist was carried out in Liverpool in 1973 by Richard Webber. Working subsequently with the Census Office at a national level, Webber applied techniques of cluster analysis to identify 38 separate neighbourhood types, each of which was different in terms of its population, housing and socio-economic characteristics. The potential value of this to the market

research industry was subsequently recognized by Kenneth Baker (1982) of the British Market Research Bureau, who identified the scope that the system offered for controlling the fieldwork of the bureau's Target Group Index (TGI). The respondents in the TGI survey were categorized on the basis of Webber's neighbourhood groups, and illustrated graphically 'that respondents in different neighbourhood groups displayed significantly different propensities to buy specific products and services'.

Following this, Webber subsequently joined Consolidated Analysis Centres Inc. (CACI) and concentrated on developing the technique further in order to achieve higher levels of discrimination. The result was a classification of households that included agricultural areas, modern family housing owned by people with high incomes, older housing of intermediate status multiracial areas, high status non-family areas, and so on, that is used as a major method of market location. Specific applications of the technique include:

1. The identification of new retail sites
2. The selection of sales territories
3. The allocation of marketing resources
4. Media selection
5. Leaflet distribution
6. Decisions on which products and services to promote in particular retail outlets.

Using this profile, specific areas of high and low consumption can be identified from the ACORN 'buying power' indices, with consumers being classified under one of six headings: wealthy achievers, urban prosperity, comfortably off, moderate means, or hard pressed. The six categories are then further sub-divided. As an example of this, group Ø9 (part of the wealthy achievers) consists of older families living in the prosperous suburbs. By contrast, group 47 is made up of low income families living in terraced estates. Using information such as this, market targeting becomes both easier and far more accurate.

This work on the ACORN system of classification has led subsequently to a major reassessment of the ways in which geographic techniques might be used in the most effective way. One result of this has been the development of a variety of other geodemographic forms of classification, the common element of which is their use of census enumeration district (ED) data. ACORN, for example, uses regularly updated census variables that take account of the demographic, housing and social aspects of EDs. Their clustering techniques then enable customers to be matched to an ACORN type and, by the postcode, to the relevant ED.

Other geodemographic systems are broadly similar to this, although each uses a variety of other variables. MOSAIC, for example, includes financial data at postcode level and then relies on aggregated individual addresses within a postcode to reduce the errors encountered in matching postcodes to EDs. Other systems, base their clustering techniques on a larger sample and improvements to the grid referencing of EDs so that they more accurately match postcodes. Such developments represent a very real attempt to overcome some of the inevitable problems and inaccuracies of geodemographic analysis.

9.9 DEMOGRAPHIC SEGMENTATION

The second major method of segmentation, and probably the one most frequently used, rests on the assumption that markets can be subdivided into groups on the basis of one or more demographic variables such as age, sex, income, education, occupation, religion, race, nationality, family size and stage reached in the family life cycle. Here, we will concentrate on just three of these variables: age and the family life cycle; income and occupation; and sex.

An undoubted attraction of demographic segmentation is the wide availability and easy interpretation of the data, and it is this – together with the fact that not only can most consumer markets generally be divided relatively easily along these lines, but also that purchase behaviour often correlates highly with demographic segmentation – that have combined to make it such a convenient, easily understood and frequently used approach. In recent years, considerable attention has been paid to the ways in which specific demographic variables can be used more effectively, with the result that variables such as age and life cycle, income, and sex have all been greatly refined. As an example of this, firms such as Lego, Toys 'R' Us and the Early Learning Centre give full recognition to the differences that exist between children of various ages, with the result that toys are now designed to fall into highly specific age categories. In this way, not only is the development potential of the child maximized, but the task of choosing toys by parents, friends and relatives is made infinitely easier. A similar, if perhaps rather more esoteric, recognition of the importance of age and life cycle is reflected in the marketing strategies of various petfood manufacturers who, over the past few years, have developed different dog foods for puppies, adult dogs, older dogs, overweight dogs and dogs with 'sensitive stomachs'. More frequently, however, the significance of life cycle is reflected in the notion of a *family life cycle* (FLC).

The family life cycle

The idea of a FLC, which is illustrated in Figure 9.3, can be traced back to Rowntree's work in the early part of the twentieth century, and while

Stages in the family life cycle	Buying patterns
1 Bachelor stage: young, single people living at home	Few financial commitments. Recreation and fashion orientated Buy: cars, entertainment items, holidays
2 Newly married couples: young, no children	Better off financially than they are likely to be in the near future; high purchase rate of consumer desirables Buy: cars, white goods, furniture
3 Full nest 1: youngest child under six	House buying is at a peak; liquid assets are low Dissatisfied with level of savings and financial position generally Buy: medicines, toys, baby food, white goods
4 Full nest 2: youngest child six or over	Financial position is improving; a higher proportion of wives are working Buy: wider variety of foods, bicycles, pianos
5 Full nest 3: older married couples with dependent children	Financial position is improving yet further; a greater proportion of wives work and some children get jobs. Increasing purchase of desirables Buy: better furniture, unnecessary appliances and more luxury goods
6 Empty nest 1: older married couples, no children at home, head of household still in the workforce	Home ownership is at a peak; the financial situation has improved and savings have increased. Interested in travel, recreation and self-education. Not interested in new products Buy: holidays, luxuries and home improvements
7 Empty nest 2: older married, no children living at home, head of household retired	Substantial reduction in income Buy: medical products and appliances that aid health, sleep and digestion
8 Solitary survivor in the workforce	Income still high but may sell home
9 Solitary survivor, retired	Same medical and product needs as group 7 Substantial cut in income. Need for attention and security

FIGURE 9.3 *The family life cycle and its implications for buying behaviour (adapted from Wells and Gubar, 1966)*

changes have occurred since then to the pattern through which the family passes, the concept is still the same. Today, the nine-stage FLC that was developed by Wells and Gubar (1966) starting with a bachelor stage and culminating with the retired solitary survivor, is still the one to which reference is made most frequently. The potential strategic value of the FLC stems from the way in which it highlights the different and changing financial situation and priorities of the family as it moves through the nine stages. By recognizing and taking account of these differences, the strategist should be more easily able to develop a marketing programme that satisfies the *specific* rather than the general demands of target groups.

However, although the FLC has an apparent logic, the reality is often far more complex with personal relationships and family structures being far more fluid and very different from, say, 20 years ago. In part, this has been driven by rising divorce rates, the later age of marriage (and, indeed, a decline in the number of marriages), and the growth in the number of single-parent households, all of which have made the early ideas of a series of neat FLC stages far less meaningful.

Because of criticisms such as these, fundamental questions have been raised about the model's validity and usefulness. However, defenders of the model have argued that it is simply a summary demographic variable that combines the effects of age, marital status, career status (income), and the presence or absence of children. This can then be used *together* with other variables to reflect reality.

The psychological life cycle

As an extension both to the traditional thinking about the FLC and as a recognition of a number of fundamental – and increasingly evident – weaknesses of the FLC model, work recently has focused upon the idea of a *psychological life cycle*, in which chronological age by itself is not necessarily the factor of greatest significance in determining consumption patterns. Rather it is the transformation of attitudes and expectations that becomes a more important factor, something which is reflected in Neugarten's (1968) research in the USA:

> *Age has become a poor predictor of the timing of life events, as well as a poor predictor of a person's health, work status, family status, and therefore, also of a person's interests, preoccupations, and needs. We have multiple images of persons of the same age: there is the 70-year-old in a wheelchair and the 70-year-old on the tennis court. Likewise, there are 35-year-olds sending children off to college and 35-year-olds furnishing the nursery for newborns, producing in turn, first-time grandparenthood for persons who range in age from 35 to 75.*

The significance of the psychological life cycle is also illustrated by the emergence of the 'kidults' segment, to which we made brief reference earlier (see the Appendix to Chapter 6), and by the way in which important target markets for Microsoft's X Box and Sony's Playstation are young adults as well as teenagers. Equally, Reebok and Adidas brands are owned by as many 25- to 44-year-olds as 15- to 24-year-olds.

Income and occupation

The second major category of demographic variable focuses upon *income* and *occupation*, the combination of which is reflected in the JICNARS approach to social classification.

Developed in the immediate post-war period, the JICNARS classification of A, B, C1, C2, D and E social classes proved for many years to be a popular, enduring and easily understood method of classification. Increasingly, however, it was seen to be an imprecise method of segmenting a market, since social class today is a far less accurate predictor of income and spending patterns than was once the case. It has also been argued that social class gives little *real* insight into a household's level of disposable income,

particularly where there are several wage earners. Largely because of this, a considerable amount of work has been done in recent years in an attempt to develop it further and to identify better alternative methods of discrimination. It was this that led in 1999 to the revised JICNARS approach to social classification that appears in Figure 9.4.

The problems of the early thinking on social class as a basis for segmentation have also been highlighted by O'Brien and Ford (1988, pp. 289–332), who commented:

> *The trends today are towards a more disparate family group, less inclined to share their meals and leisure time as a household unit, but following their own interests and tastes with like-minded peers. Whether peer groups share the same 'social' background is less important than their shared pursuit. Equally, Social Class does not act as an accurate gauge of disposable income. A C2 or D may not intellectually be performing the same role in the job market as a B or C1, but may well have more cash with which to acquire the trappings of our society. The financial chains of private education are likely to constrain the AB as much as the black economy and overtime can enhance the apparently lower wage of the C2 and D. From a different standpoint, social class categories are difficult to apply consistently. The variety and complexity of people's jobs make many social classifications inherently subjective rather than objective.*

NS-SEC

The weaknesses of the JICNARs approach to social classification and, in particular, its inability to reflect the complexity, differences and subtleties of what we referred to earlier as 'the new consumer', led the government at the beginning of the 1990s to fund the search for an alternative approach. Developed by Professor David Rose of the University of Essex, the new system – known as NS-SEC (National Statistics Socio-Economic Classification) – was designed to provide a far stronger base for the classification and tracking of today's consumers, who have many more facets to their lives than was the case when JICNARs was first developed. At the heart of the system is an essentially classless view of the consumer that reflects three profound shifts in society: the growth of the middle class, the emergence of a new petit bourgeoisie, and the very different role within the workforce played by women. Although it is similar to JICNARs in that it is occupation-based, NS-SEC gives far greater emphasis to people's purchasing power in the labour market. In doing this, it is designed to be a far more accurate tool with which to draw distinctions between purchasing habits.

The initial reaction from the market research industry to the new classification, which is shown in Figure 9.4 alongside the JICNARs approach, was somewhat sceptical. Despite this, there was a widespread recognition

NS-SEC		The old JICNARS	and the new
Class 1a	Large employers, higher level managers: company directors, senior police/fire/prison/military officers, newspaper editors, football managers (with squad of 25 plus), restaurateurs	A Professional	Class 1
Class 1b	Professionals: doctors, solicitors, engineers, teachers, airline pilots	B Managerial/technical	Class 2
Class 2	Associate professionals: journalists, nurses/midwives, actors/musicians, military NCO/junior police/fire/prison officers, lower managers (fewer than 25 staff)	C1 Skilled (non-manual)	Class 3
Class 3	Intermediate occupations: secretaries, air stewardesses, driving instructors, footballers (employee sportsmen), telephone operators	C1 Skilled (non-manual)	Class 3
Class 4	Small employers/managers, non-professional self-employed: publicans, plumbers, golfers/tennis players (self-employed sportsmen), farm owners/managers (fewer than 25 employees)	C2 Skilled (manual)	Class 3
Class 5	Lower level supervisors, craft and related workers: electricians, mechanics, train drivers, building site/factory foremen, bus inspectors	D Partly skilled	Class 4
Class 6	Semi-routine occupations: traffic wardens, caretakers, gardeners, supermarket shelf-stackers, assembly-line workers	D Partly skilled	Class 4
Class 7	Routine occupations: cleaners, waiters/waitresses/bar staff, messengers/couriers, road workers, dockers	E Unskilled	Class 5
Class 8	Excluded: long-term unemployed, never worked, long-term sick	Other	Class 6

FIGURE 9.4 *The JICNARS and NS-SEC approaches to social classification*

that JICNARs, which is essentially a definition of wealth rather than attitude, although adequate for broad consumer definitions, fails to reflect the ways in which consumers have become better educated, move jobs more frequently, and have higher levels of disposable income. It is these sorts of changes that have led to the recognition that class, income and gender are no longer accurate predictors of consumer behaviour.

In Rose's system, consumers are divided into 17 narrow classifications by occupation that take account of employment relationships between managers and the managed. These 17 classifications are then grouped into the eight broad categories that appear in Figure 9.4.

The need for an alternative to classification has also been highlighted by the Future Foundation, which has developed a method designed to capture changing values and systems. Based on the ideas of fuzzy logic, the technique – called 'fuzzy clustering' – allows consumers to be recognized and defined in different ways according to the time of day. Recognition of the complexity of modern society has also led the Henley Centre (2000) to a form of fuzzy clustering. In *Planning for Consumer Change*, the Centre reflected the dimensions of the complex consumer in a classification

referred to as *polyglotting*. The thinking behind polyglotting is based not so much on consumer identity as upon modes of acting and behaviour at different times.

Sex

The third demographic category is that of sex. While this variable has obvious applications to such products as clothes, cosmetics, magazines and so on, ever greater attention has been paid in recent years to the ways in which it can be used as a key element in the strategies to market a far wider range of products. In part, this has been brought about by a series of fundamental changes that are taking place within society, including a greater number of working women and the generally higher levels of female independence. One result of this has been an increase in the number of marketing campaigns targeted specifically at women: examples include cigarettes, cars and hotels.

9.10 BEHAVIOURAL SEGMENTATION

The third major approach to segmentation is based on a series of behavioural measures, including attitudes, knowledge, benefits sought by the buyer, a willingness to innovate, loyalty status, usage rates, and response to a product. Of these, *benefit segmentation* (in other words, reasons to believe) is probably the best known and most widely used, and is based on the assumption that it is the benefits that people are seeking from a product that provide the most appropriate bases for dividing up a market.

In applying this approach, the marketing planner begins by attempting to measure consumers' value systems and their perceptions of various brands within a given product class. The information generated is then used as the basis for the marketing strategy. One of the earliest and best-known examples of this is the work conducted on the watch market by Yankelovich (1964). His findings that 'approximately 23 per cent of the buyers bought for lowest price, another 46 per cent bought for durability and general product quality, and 31 per cent bought watches as symbols of some important occasion' were subsequently used by the US Time Company, which created its Timex brand to capitalize on the first two of these segments. The majority of other companies at this stage focused either largely or exclusively on the third segment and Timex therefore faced little direct competition in the early years.

Benefit segmentation begins therefore by determining the principal benefits customers are seeking in the product class, the kinds of people who look for each benefit, and the benefits delivered by each brand. Apple, for example, based its initial strategy, at least in part, on appealing to those looking for a more user-friendly system.

One of the first major pieces of benefit research was the work conducted by Russell Haley (1963), to which we made brief reference earlier. On the basis of his work in the toothpaste market, Haley identified four distinct segments, which, he argued, were sufficiently different to provide a platform for selecting advertising copy, media, commercial length, packaging and new product design. The four segments he identified were: seeking economy, decay prevention, cosmetic and taste benefits respectively.

Haley demonstrated that each group exhibited specific demographic, behavioural and psychographic characteristics. Those concerned primarily with decay prevention, for example, typically had large families, were heavy toothpaste users and were generally conservative in their outlook. By contrast, the group that was more concerned with bright teeth (the cosmetic segment) tended to be younger, were more socially active and in many cases were smokers. Each of these groups, he then demonstrated, exhibited preferences for particular brands: Crest in the case of those concerned with decay prevention, and Macleans and Ultra-Brite for those preoccupied with bright teeth.

The information generated by studies such as these can, as we observed earlier, be used in a variety of ways. Most obviously they prove useful in classifying the specific benefits being sought by particular customer groups, the segment's behavioural, demographic and psychographic characteristics, and the major competitive brands. An additional by-product of this sort of research can also be that it highlights a benefit that customers are seeking, but which currently is not being satisfied. As examples of this:

- In the 1990s, Lucozade developed Lucozade Sport to cater for the fast-growing sports market, while Red Bull developed its product as a functional energy drink targeted at 16–34 sports enthusiasts, students, clubbers and people who need a pick-me-up during the day.
- In the car market, Renault developed one of the first people-carriers, the Espace, in the 1980s in response to the increasingly different ways in which people were using their cars and what they wanted from them.
- In the cereals market, Kellogg's developed Special K as a product to help a predominantly female market with what is referred to as weight and shape management. More recently, the company developed cereal bars such as Nutri-Grain to meet the demand from people who skipped more traditional forms of breakfast, and Optovita designed to help a predominantly male market manage cholesterol levels.
- In the glass market, Pilkington developed Pilkington Activ, a glass that has a coating that, through the action of sunlight and rainwater, leads to it being self-cleaning.

In many markets, benefit segmentation results in the company focusing upon satisfying just one benefit group, with the benefit offered being the

unique selling proposition (USP). This is, however, just one of four choices that exist:

1. Single benefit positioning
2. Primary and secondary benefit positioning
3. Double benefit positioning
4. Triple benefit positioning.

These will be discussed in greater detail at a later stage in the chapter.

User status

As an alternative to benefit segmentation, markets can be subdivided on the basis of what is referred to as *user status*. Thus, a number of segments can typically be identified, including non-users, ex-users, potential users, first-time users and regular users. These final two categories can then be subdivided further on the basis of *usage rate* (this is sometimes referred to as *volume segmentation*).

For many firms the marketing task is seen in terms of moving buyers and potential buyers along the buying continuum; thus, non-users and potential users all need to be persuaded to try the product, while first-time users need to be persuaded to become medium users, and medium users to become heavy users. The essence of this approach is reflected in the strategies of a variety of organizations, including those of a number of cigarette companies, which, having been affected by changing smoking habits over the past two decades, have targeted particular user status groups. Across Europe, for example, young females in particular have been identified as a potentially valuable – and vulnerable – segment and a variety of brands developed to appeal specifically to this part of the market.

The attraction of different user status groups tends to vary from one type of organization to another. High market share companies, for example, typically focus on converting potential users into actual users, while smaller and lower share firms will often concentrate upon users of competitive brands with a view to persuading them to switch brands.

Loyalty status and brand enthusiasm

The third technique encompassed by behavioural segmentation is that of *loyalty status*, in which buyers are categorized on the basis of the extent and depth of their loyalty to particular brands or stores. Most typically this leads to the emergence of four categories: hard-core loyals, soft-core loyals, shifting loyals and switchers. In the case of the airlines, for example, the past few years have seen an enormous investment in frequent flyer schemes that are designed to build loyalty. However, as we suggest in Section 6.8,

loyalty and the relationships upon which they are supposedly built are not necessarily as straightforward or as deep as they might appear at first sight. It is for this reason that customer promiscuity has become a far more significant and costly issue for many organizations (see pages 242–3).

The implications of loyalty are, of course, significant since, in the case of those markets in which high patterns of loyalty exist, the ability to persuade buyers to shift from one brand to another is likely to be limited, even in the face of high levels of marketing expenditure. Thus, in these circumstances, a share-gaining or market-entry strategy may well prove to be at best only marginally cost-effective. However, the process of categorization referred to above is not by itself sufficient for the strategist. Rather it is the starting point from which the specific characteristics of each category then need to be examined. It may be the case, for example, that those buyers with the highest degrees of loyalty exhibit certain common characteristics in terms of age, socio-economic profile and so on, while those with lower degrees of loyalty exhibit a very different but common set of characteristics. Research designed to identify these differences may well then provide the planner with a far greater understanding and insight into the ways in which patterns of loyalty may prove vulnerable to attack. Equally, analysis of this sort can provide an insight into the ways in which a competitor's products are vulnerable to attack. In the case of soft-core loyals, for example, the strategist needs to identify the brands that compete either directly or indirectly with its own. By doing this, it can then strengthen its position, possibly by means of knocking copy or direct comparison advertising.

Analysis of the final group – the switchers – is also of potential strategic value, since this can provide the basis for understanding in greater detail the brand's weaknesses and the basis for attack.

As an alternative or addition to loyalty status, consumers can often be categorized on the basis of their *enthusiasm* for the product, the five categories that are used most frequently being *enthusiastic*, *positive*, *indifferent*, *negative* and *hostile*. Its major value as a technique is principally as a screening step in that, having identified the category within which the consumer falls, the organization can then focus its energies on the most likely prospects. This process can then be taken a step further by focusing on the *occasions* on which consumers develop a need, purchase or use a product.

Greeting cards companies, for example, have concentrated on increasing the number of occasions on which cards are given in relation to what was the case, say, 30 years ago. A glance at the shelves of any newsagent will reveal the enormous variety of cards that now exist, ranging from Father's Day and Mother's Day through to Get Well and Congratulations on Your Examination Success/New Baby/Moving House/New Job/Passing Your Driving Test, and so on. Ice-cream manufacturers have pursued a broadly similar strategy in order to move away from a pattern of sales that was overly dependent on hot, sunny weather. The result in this case has been

the development of a whole series of ice-cream-based desserts and cakes that can be used throughout the year.

Critical events

As a further development of occasion-related segmentation, the past few years have been the emergence of what is usually referred to as *critical event segmentation* (CES). This is based on the idea that major or critical events in an individual's life generate needs that can then be satisfied by the provision of a collection of products and/or services. Typical examples of these critical events are marriage, the death of someone in the family, unemployment, illness, retirement and moving house. Among those who have recognized the potential of CES are estate agents who, during the past decade, have moved away from simply selling houses to providing the whole range of legal and financial services surrounding house sale and purchase. The idea of critical events has also underpinned the marketing approach used by some of the chocolate companies, such as Thorntons, who have focused upon dates such as Valentine's Day, Mother's Day, Christmas, and so on.

9.11 PSYCHOGRAPHIC AND LIFESTYLE SEGMENTATION

The fourth and increasingly popular basis of consumer segmentation stems from work by Riesman *et al.* (1950), which led to the identification of three distinct types of social characterization and behaviour:

1. *Tradition-directed behaviour*, which changes little over time and, as a result, is easy to predict and use as a basis for segmentation
2. *Other directedness*, in which the individual attempts to fit in and adapt to the behaviour of his or her peer group
3. *Inner directedness*, where the individual is seemingly indifferent to the behaviour of others.

Although this relatively simplistic approach to categorization has subsequently been subjected to a degree of criticism, it has provided the basis for a considerable amount of further work, all of which has been designed to provide the strategist with a far more detailed understanding of personality and lifestyle.

The attempts to use personality to segment markets began in earnest in the USA in the late 1950s, when both Ford and Chevrolet gave emphasis to the brand personalities of their products in order to appeal to distinct consumer personalities. Buyers of Fords, for example, were identified as 'independent, impulsive, masculine, alert to change, and self-confident, while Chevrolet owners were conservative, thrifty, prestige-conscious, less

masculine, and seeking to avoid extremes'. The validity of these descriptions was subsequently questioned by Evans (1959), who, by using a series of psychometric tests, argued that Ford and Chevrolet owners did not in fact differ to nearly the extent that had been suggested. More recent research has, with just one or two possible exceptions, been equally inconclusive. Among these exceptions is the work of Westfall (1962) and Young (1972). Westfall, for example, has reported finding evidence of personality differences between the buyers of convertible and non-convertible cars, with the former seemingly being 'more active, impulsive and sociable', while Young has pointed to the successful development of personality trait-based segmentation strategies in the cosmetics, drinks and cigarettes markets.

Largely because of the difficulties encountered in using personality as an easy, consistent and reliable basis for segmentation, attention in recent years has switched to *lifestyle* and to the ways in which it influences patterns of consumer demand. Lifestyle has been defined in a variety of ways, but is in essence *how* a person lives and interacts with their environment. As such, it is potentially a long way removed from social class and personality, and instead is a reflection of a person's way of being and acting in the world. An example of how psychographics and lifestyle can be used is that of Gap Inc., which owns the Gap, Banana Republic and Old Navy store chains. Gap customers are categorized as either 'style-conscious' or 'updated classics'. The style-conscious customers are 20- to 30-year-olds, while updated classics are older and more conservative customers (this is the group that felt disenfranchised by Gap's move into younger and edgier designs in 2001). Banana Republic targets sophisticated fashion leaders who want quality clothes and accessories and are not price-sensitive. The 811-strong Old Navy chain consists of large (14 000 square feet) stores with value-priced clothing that attracts young families.

Because of the *apparent* insights offered by lifestyle analysis, a variety of models for categorizing consumers has emerged over the past few years. Prominent among these are the VALS framework, Young & Rubicam's 4Cs, and Taylor Nelson's Monitor.

The VALS framework

Developed in the USA by Arnold Mitchell of the Stanford Research Institute, the VALS framework used the answers of 2713 respondents to 800 questions to classify the American public into nine value lifestyle groups:

1. *Survivors*, who are generally disadvantaged and who tend to be depressed, withdrawn and despairing
2. *Sustainers*, who are again disadvantaged but who are fighting hard to escape poverty
3. *Belongers*, who tend to be conventional, nostalgic, conservative and generally reluctant to experiment with new products or ideas

4. *Emulators*, who are status conscious, ambitious and upwardly mobile
5. *Achievers*, who make things happen and enjoy life
6. *'I-am-me' people*, who are self-engrossed, respond to whims and are generally young
7. *Experientials*, who want to experience a wide variety of what life can offer
8. *Societally conscious people*, who have a marked sense of social responsibility and want to improve the conditions of society
9. *Integrated people*, who are psychologically fully mature and who combine the best elements of inner and outer directedness.

The thinking that underpins the VALS framework is that individuals pass through a series of developmental stages, each of which influences attitudes, behaviour and psychological needs. Thus, people typically move from a stage that is largely need-driven (survivors and sustainers) towards either an outer-directed hierarchy of stages (belongers, emulators and achievers) or an inner-directed hierarchy (I-am-me, experientials, societally conscious); relatively few reach the nirvana of the integrated stage.

From the marketing point of view, the need-driven segments have little apparent appeal, since it is this part of society that lacks any real purchasing power. Outer-directed consumers, by contrast, represent a far more attractive part of the market and in general buy products with what has been described as 'an awareness of what other people will attribute to their consumption of that product'. Typically, therefore, brand names such as Rolex, Gucci, Benetton, Chanel and Cartier will prove to be important. Inner-directed consumers, by contrast, are those people who in their lives place far greater emphasis on their individual needs as opposed to external values. Although in terms of overall numbers this group represents only a small part of the total market, it is often seen to be an important sector in terms of its ability to set trends. It is this group also that is currently showing the fastest growth rate within society, while the number of need-driven consumers declines and outer-directed remains about the same.

Young & Rubicam's 4Cs and Taylor Nelson's Monitor

Developed by the advertising agency Young & Rubicam, 4Cs (a Cross-Cultural Consumer Characterization) divides people into three main groups, each of which is further subdivided along the following lines:

1. The constrained
   (i) the resigned poor
   (ii) the struggling poor.

2. The middle majority
   (i) mainstreamers
   (ii) aspirers
   (iii) succeeders.

3. The innovators
   (i) transitionals
   (ii) reformers.

The largest single subgroup in the UK is the mainstreamers, said to account for between 30 and 35 per cent of the population.

The principal benefit of 4Cs is that it defines in a fairly precise manner individual or group motivational needs. It does this by acknowledging the multidimensional nature of people and groups by taking the key motivational factors (e.g. success in the case of a succeeder) and overlaying this with other important motivational values to develop a motivational matrix. This can then be used to construct strategic frameworks for marketing and advertising campaigns both domestically and internationally.

A similar framework, labelled Monitor, has been developed by the UK-based market research agency, Taylor Nelson. The Monitor typology divides people into three main groups, which are again subdivided:

1. *Sustenance-driven*. Motivated by material security, they are subdivided into:
   (i) the aimless, who include young unemployed and elderly drifters (5 per cent of the UK population)
   (ii) survivors, traditionally minded working-class people (16 per cent of the population)
   (iii) belongers, who are conservative family-oriented people (18 per cent of the population, but only half of them are sustenance-driven).

2. *Outer-directed*. Those who are mainly motivated by the desire for status. They are subdivided into:
   (i) belongers
   (ii) conspicuous consumers (19 per cent of the population).

3. *Inner-directed*. This group is subdivided into:
   (i) social resisters, who are caring and often doctrinaire (11 per cent of the population)
   (ii) experimentalists, who are hedonistic and individualistic (14 per cent of the population)
   (iii) self-explorers, who are less doctrinaire than social resisters and less materialistic than experimentalists.

The development of approaches such as these has also led to the emergence of a wide variety of acronyms and labels. Prominent among these are Yuppies (Young Upwardly Mobile Professionals), Bumps (Borrowed-to-the-hilt, Upwardly Mobile Professional Show-offs), Jollies (Jet-setting Oldies with Lots of Loot), Woopies (Well-Off Older Persons), Glams (Greying Leisured Affluent Middle-Aged) and Kippers (Kids in Parent's Pockets Eroding Retirement Savings). Although a number of these labels are now rather passé – Yuppies, for example, proved to be a phenomenon of the 1980s and the Big Bang – they have proved to be useful in that they characterize in an easily understood fashion a particular style of life.

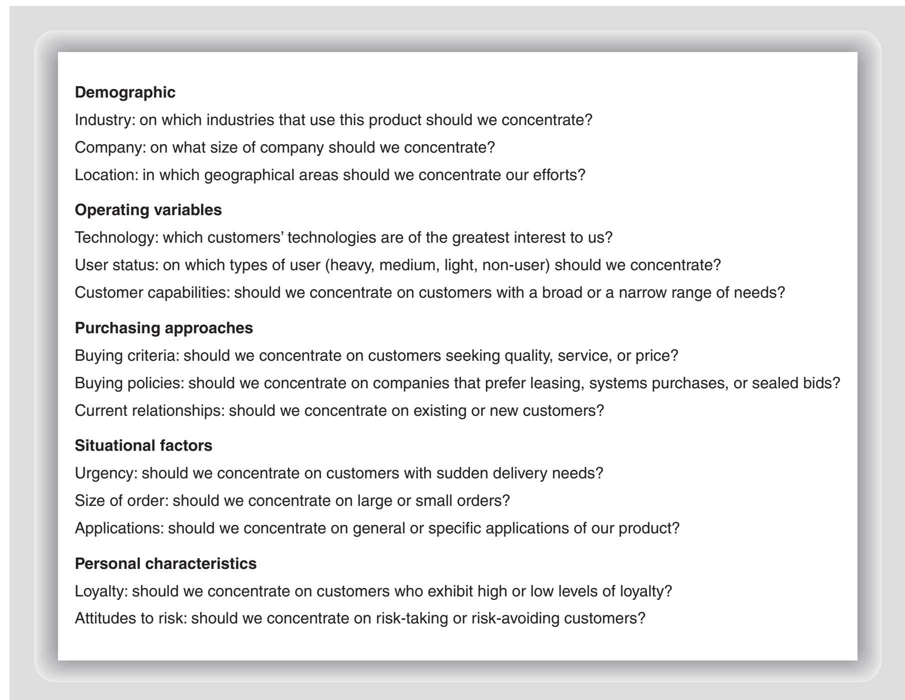
9.12 APPROACHES TO SEGMENTING INDUSTRIAL MARKETS

Although much of the work that has been done on segmentation analysis over the past 40 years has focused on consumer markets, many of the variables, such as benefits sought, geography and usage rates, can be applied with equal validity to industrial markets. Recognizing this, a number of writers, including Cardozo (1980) and Bonoma and Shapiro (1983), have concentrated on demonstrating, developing and refining their applicability. Cardozo, for example, has identified four dimensions that can be used either separately or collectively to classify organizational buying situations:

1. Familiarity with the buying task and in particular whether it is a new task, modified rebuy or straight rebuy
2. The type of product and the degree of standardization
3. The significance of the purchase to the buying organization
4. The level of uncertainty in the purchase situation.

Of these, it is arguably the last two factors that are of particular significance, as they reflect the fact that buyers also try to segment potential suppliers by developing assessment criteria and establishing formal vendor rating systems. This general line of thinking has been developed by Johnson and Flodhammer (1980), who, in arguing that the need to understand buyers' needs is as important in industrial markets as in consumer markets, have suggested that: 'Unless there is knowledge of the industrial users' needs the manufactured product usually has the lowest common denominator – price. Quality and service are unknown qualities.'

A slightly different line of argument has been pursued by Bonoma and Shapiro (1984), who have concentrated on developing a classification of industrial segmentation variables and listing the questions that industrial marketers should pose in deciding which customers they want to serve. A summary of these questions, in declining order of importance, appears in Figure 9.5.



Demographic
Industry: on which industries that use this product should we concentrate?
Company: on what size of company should we concentrate?
Location: in which geographical areas should we concentrate our efforts?

Operating variables
Technology: which customers' technologies are of the greatest interest to us?
User status: on which types of user (heavy, medium, light, non-user) should we concentrate?
Customer capabilities: should we concentrate on customers with a broad or a narrow range of needs?

Purchasing approaches
Buying criteria: should we concentrate on customers seeking quality, service, or price?
Buying policies: should we concentrate on companies that prefer leasing, systems purchases, or sealed bids?
Current relationships: should we concentrate on existing or new customers?

Situational factors
Urgency: should we concentrate on customers with sudden delivery needs?
Size of order: should we concentrate on large or small orders?
Applications: should we concentrate on general or specific applications of our product?

Personal characteristics
Loyalty: should we concentrate on customers who exhibit high or low levels of loyalty?
Attitudes to risk: should we concentrate on risk-taking or risk-avoiding customers?

FIGURE 9.5 *The major industrial market segmentation variables (adapted from Bonoma and Shapiro, 1984)*

From this it can be seen that the starting point is the question of which industry to serve, followed by a series of decisions on customer size and purchase criteria.

This method has been employed to great effect by, among others, IBM. IBM's starting point for segmentation has always been the idea that the company sells solutions rather than products. They therefore segment the market by commercial type: banking, transportation, insurance, processing industry and so on, in order to be able to tailor solutions to specific problem areas. Each segment is then divided into a series of sub-segments. Transportation, for example, can be divided into road, air, sea and rail.

Market segmentation and the dialogue of the deaf

The need for the planner to understand markets in detail and to avoid falling into the trap of blindly accepting the market and organizational preconceptions was highlighted by the American futurologist Faith Popcorn. In her book *Eve-olution* (2001), she argues that many (male) marketing planners fail to understand the real differences between men and women and,

as a consequence, have been unable to capitalize upon them. To illustrate this, she points to the buying power of women (in the USA it is estimated that women are responsible for or influence 80 per cent of all consumer, healthcare and vehicle purchases, 60 per cent of all electronic purchases, and represent 48 per cent of stock market investors) and to the biological differences that lead to women processing information differently.

Although Popcorn's critics have argued that these differences are not as significant or as far-reaching as she suggests, this can be seen to be part of a more fundamental issue about the relationship between companies and their customers. Almost irrespective of the sector, marketers are finding the gaps between what they think they know and actual buying behaviour are getting bigger. In an attempt to overcome this, marketing planners are spending ever more on technologies that, it is claimed, overcome the problems and imprecision of current segmentation models.

However, in many cases this is likely to have little effect, since there is often a fundamental misunderstanding at the heart of the customer/company dialogue. One example of this was the way in which Monsanto misread the issues surrounding genetically modified (GM) foodstuffs. The company was mesmerized by what it saw as a great scientific revolution and viewed the world through this one framework. How, its planners wondered, could there be objections to developments that had the potential to make food production so much more efficient? What it seemingly could not understand was that consumers viewed the situation very differently, were concerned for their safety and wanted information to make informed choices. The result was a dialogue of the deaf between manufacturer and consumer. It was, instead, the supermarkets that responded to these concerns by launching organically produced and GM-free ranges of foodstuffs.

9.13 MARKET TARGETING

Having decided how best to segment the market, the strategist is then faced with a series of decisions on how many and which segments to approach. Three factors need to be considered:

1. The size and growth potential of each segment
2. Their structural attractiveness
3. The organization's objectives and resources.

The starting point for this involves examining each segment's size and potential for growth. Obviously, the question of what is the 'right size' of a segment will vary greatly from one organization to another. The specialist

car manufacturer Morgan has, for example, chosen to concentrate on a very small and specialized segment of the car market. Its customers are seeking the nostalgia of a pre-war sports car and the company has tailored its marketing mix accordingly. In commenting on this, *What Car*? said:

> *The ride's as hard as a rock, comfort and space minimal, noise levels deafeningly high, and overall the sports car has about as much refinement as a tractor. Wonderful!*

This is neither a specification nor a segment that has any appeal for, say, Volkswagen or Jaguar, but Morgan operates within it with a high degree of success.

In so far as it is possible to develop broad guidelines, we can say that large companies concentrate on segments with large existing or potential sales volumes and quite deliberately overlook or ignore small segments, simply because they are rarely worth bothering with. Small firms, by contrast, often avoid large segments, partly because of the level of resource needed to operate in them effectively and partly because of the problems of having to cope with a far larger competitor.

With regard to the question of each segment's *structural attractiveness*, the strategist's primary concern is profitability. It may be the case that a segment is both large and growing but that, because of the intensity of competition, the scope for profit is low. Several models for measuring segment attractiveness exist, although arguably the most useful is Michael Porter's five-force model. This model, which is discussed at the beginning of Chapter 11, suggests that segment profitability is affected by five principal factors:

1. Industry competitors and the threat of segment rivalry
2. Potential entrants to the market and the threat of mobility
3. The threat of substitute products
4. Buyers and their relative power
5. Suppliers and their relative power.

Having measured the size, growth rate and structural attractiveness of each segment, the strategist needs then to examine each one in turn against the background of the organization's objectives and resources. In doing this, the strategist is looking for the degree of compatibility between the segment and the organization's long-term goals. It is often the case, for example, that a seemingly attractive segment can be dismissed either because it would not move the organization significantly forward towards its goals, or because it would divert organizational energy. Even where there does appear to be a match, consideration needs to be given to whether the organization has the necessary skills competences, resources and commitment needed to operate effectively. Without these, entry is likely to be of little strategic value.

There are therefore two questions that need to be posed:

1. *Is the segment growing or declining*? Here we are interested in two broad aspects of growth and decline. What is the projected future of the segment in terms of volume sales and profit? Despite much argument to the contrary, there need not be a link between volume sales and profit. Declining volumes in certain market segments can still be extremely profitable for the organizations that service them. It is therefore often more a question of how the segment is managed rather than what the segment is doing.

2. *Is the segment changing*? There are three aspects to this question of change. First, we need to understand how the structure and make-up of the segment are likely to change over time. Is the segment starting to attract new and slightly different members to its centre? What effect will this have on the segment's needs? The second aspect of change relates to the nature of the products and services that we would expect this segment to be demanding in the future. In other words, do we see any significant change in the way in which the members of the segment are likely to translate their needs into buying behaviour? Will they want different products or services in three years' time? The third area of segment change must consider the movements of the segments over time. Do we, for example, see the overall array of segments changing? There are two ways in which this structural change can occur. Segments may merge and combine to create larger, more 'shallow' segments. Alternatively, larger segments may fragment over time into smaller, more precise market targets for the organization to approach.

9.14 DECIDING ON THE BREADTH OF MARKET COVERAGE

The final segmentation decision faced by the strategist is concerned with which and how many segments to enter. In essence, five patterns of market coverage exist:

1. *Single segment concentration*. Here, the organization focuses on just one segment. Although a potentially high-risk strategy in that the firm is vulnerable to sudden changes in taste or the entry of a larger competitor, concentrated marketing along these lines has often proved to be attractive to small companies with limited funds. Left to itself, an organization that opts to concentrate upon a single segment can develop a strong market position, a specialist reputation, and above-average returns for the industry as a whole.

2. *Selective specialization*. As an alternative to concentrating upon just one segment, the strategist may decide to spread the risk by covering several. These segments need not necessarily be related, although each should be compatible with the organization's objectives and resources. One organization that has done this with a high degree of success is Land Rover. Launched at the end of the 1940s as a rugged, utilitarian and easily maintained off-road vehicle, the Land Rover was targeted at a wide variety of geographically dispersed agricultural and military markets. Having dominated these markets for a considerable time, the company subsequently developed the far more luxurious (and expensive) Range Rover, which proved to have an immediate appeal to a very different type of market altogether. Their strategy was then developed further in 1990 by the launch of the Land Rover Discovery and then, a few years later, the Freelander.
3. *Product specialization*. Here, the organization concentrates on marketing a particular product type to a variety of target markets. Examples of this include the Burton Group (now renamed Arcadia) and Next, both of which have concentrated upon selling fashion clothing to a predominantly young market.
4. *Market specialization*. Here, the organization concentrates on satisfying the range of needs of a particular target group. An example of this would be an agrochemicals manufacturer, whose principal target market is farmers.
5. *Full market coverage*. By far the most costly of the five patterns of market coverage, a strategy of full market coverage involves serving all (or most) customer groups with the full range of products needed. Two companies that have increasingly moved towards this position over the past few years are Volkswagen (the small VW Lupo through to the premium-priced VW Phaeton) and Mercedes-Benz (the A-Class through to premium-priced saloons and sports cars).

In deciding which of these five approaches to adopt, the marketing planner needs to take account of two interrelated issues:

1. *The nature of the current strategy*. In discussing this, Fifield and Gilligan (1996, p. 98) suggest that 'market segments ought to be selected according to the broader strategic decisions taken by the company'. For example, the organization aiming for a 'differentiated' position in the marketplace will need to retain a certain degree of flexibility, which will allow it to operate in a number of related market segments while still retaining its differentiated market position. The 'focused' organization, on the other hand, will

necessarily have to get much, much closer to its fewer market segments, and will have to predict fragmentation and merging long before this phenomenon arises. It must be prepared and be able to continue to service changing segment needs as they arise. Failure to do this by the focused organization will leave it very vulnerable to competitive attack in its core markets.

2. *Organization resources and capability*. These need to be harnessed so that the customers' needs within the segments that are chosen are capable of being properly served.

Against the background of the answers to these two issues, the planner can then begin the process of ordering the segments so that a measure of their relative attractiveness across a series of dimensions can be developed.

Market niching and focusing

For small companies in particular, market niching offers a degree of security that is often denied to them if they try to compete in segments which, by virtue of their size, appeal to larger and better-funded organizations (market niching and the characteristics of the supernichers are also discussed in Section 8 of Chapter 12).

An undoubted attraction of many niche markets is the scope they offer for premium pricing and above-average profit margins. In addition, an effective niche strategy has for many firms provided a convenient jumping-off point for entry into a larger market. Both Volkswagen and Toyota, for example, niched when they first entered the North American car market. Their strategies, together with the subsequent growth of the small car market, combined to change what had previously been a niche into a sizeable segment, which the American big three (Ford, General Motors and Chrysler) found difficult to attack because of the entrenched positions of VW and Toyota. Elsewhere, the Japanese have often used a niche as the entry point to a larger market. In the case of motorcycles, for example, 50 cc 'toys' proved to be the niche that gave Honda, in particular, the basis for expansion. Similarly, Volvo developed what was previously a niche that wanted a safe, functional and long-lasting car into a relatively large market. Amongst the others to have started with a strong niching strategy within a specialized, and initially small, market but who have subsequently developed the niche into a sizeable market segment are Body Shop, Harley Davidson, and Häagen-Dazs and Ben & Jerry's ice-creams.

There is, however, a hidden danger in looking at what appear to be niche markets. Many strategists with small brands often deceive themselves by believing they have a niche product. The reality may in fact be very different, with the product being a vulnerable number four or number five brand in a mass market. To clarify whether a brand is a true market nicher, three questions can be posed:

1. Do consumers and distributors recognize the niche or is it simply a figment of the overactive imagination of a marketing planner?
2. Is the niche product or service *really* distinctive and does it have a strong appeal to a specific customer group?
3. Is the product capable of being priced at a premium and does it offer the scope for above-average profit margins?

Unless the answer to all three of the questions is 'yes', it is unlikely that the brand is a true nicher, but is instead simply a poor performer in a far larger market segment, something that leads to the idea that, although it is relatively easy to find a niche, the real secret is to ensure that it is of the right size – large enough to be profitable, but not sufficiently large to attract the far larger players, at least in the early days when the organization is trying to establish a market position.

Although there is a temptation to see niche marketers as small companies, the reality is that many niches are occupied by far larger organizations that have developed the skills of operating with small-volume products.

Given this, the characteristics of the ideal niche are:

1. It should be of sufficient size to be potentially profitable
2. It should offer scope for the organization to exercise its distinctive competences
3. It should/must have the potential for growth.

Other characteristics that favour niching would be patents, a degree of channel control, and the existence of customer goodwill.

9.15 PRODUCT POSITIONING: THE BATTLE FOR THE MIND

The third strand of what we referred to at the beginning of this chapter as STP marketing (segmentation, targeting and positioning) involves deciding on the position within the market that the product is to occupy. In doing this, the strategist is stating to customers what the product means and how it differs from current and potential competing products. Porsche, for example, is positioned in the prestige segment of the car market, with a differential advantage based on performance; Patek Phillipe is positioned as one of the highest quality watches available and for which the 'owner' is simply the product's custodian for the next generation; Mothercare is positioned to appeal to mothers of young children, with its differential advantage being based on the breadth of merchandise for that target group; Duracell is positioned as the longer-life and hence better value battery; brands such

as Quiksilver are positioned to appeal to the urban street warrior; while Ryanair and easyJet are positioned as low-cost airlines.

The way in which an organization or a brand is perceived by its target markets (this is not just the existing customers, but also includes those who do not buy currently, might never buy, and so on) is determined by a series of factors including:

1. The nature of the produce and the product range
2. Product quality and performance
3. Pricing levels
4. The nature of the distribution network used
5. The types of advertising appeal, the media used and the nature of anyone used to endorse the product
6. Customer profiles
7. Customer experiences and word of mouth.

Positioning is therefore the process of designing an image and value so that customers within the target segment understand what the company or brand stands for in relation to its competitors. This can perhaps best be understood by considering an example such as grocery retailing, where the major UK retailers have set out to establish distinct market positions. Waitrose, for example, occupies a service and quality position. Aldi and Netto, by contrast, have pursued the low-price/no-frills position, while Sainsbury's and Tesco occupy the quality, breadth of range and convenience position, while Morrison's pursues a position based on freshness and good value. In doing this, the organization is sending a message to consumers and trying to establish a competitive advantage that it hopes will appeal to customers within a sub-segment of the target segment. In the case of Waitrose, therefore, the company hopes that its quality/service position will appeal to the customer to whom these two dimensions are far more important than low prices. In the drinks market, Castlemaine XXXX is positioned as the genuine Australian lager, while in the banking sector the Co-operative Bank is positioned on the basis of an ethical proposition. Given this, the reader needs to recognize that positioning is a battle for the customer's mind, since it is how the customer perceives the company or brand that determines success or failure. As an example of this, in the breakfast cereals market we can see the very different positions occupied by Kellogg's Corn Flakes, Kellogg's All-Bran and Kellogg's Special K.

It should be apparent from this that positioning is a fundamental element of the marketing planning process, since any decision on positioning has direct and immediate implications for the whole of the marketing mix. In essence, therefore, the marketing mix can be seen as the tactical

details of the organization's positioning strategy. Where, for example, the organization is pursuing a high-quality position, this needs to be reflected not just in the quality of the product that is to be sold, but in every element of the mix, including price, the pattern of distribution, the style of advertising and the after-sales service. Without this consistency, the believability of the positioning strategy reduces dramatically.

For some organizations the choice of a positioning strategy proves to be straightforward. Where, for example, a particular positioning strategy and image has already been established in a related market, there are likely to be synergistic benefits by adopting the same approach in a new market or with a new product. For other organizations, however, the choice of position proves to be more difficult or less clear and the firm ends up by pursuing the same position as several others in the market. Where this happens, the degree and costs of competition increase dramatically. There is a strong case, therefore, for the strategist to decide in detail on the basis of differentiation: in other words, the organization must identify and build a collection of competitive advantages that will appeal to the target market and then communicate these effectively.

In the light of these comments, it should be apparent that the process of positioning involves three steps:

1. Identifying the organization or brand's possible competitive advantages
2. Deciding on those that are to be emphasized
3. Implementing the positioning concept.

Points 1 and 2 are discussed in detail in Chapter 11; therefore, only point 3 will be considered here.

Capitalizing on the competitive advantage

Having identified the competitive advantage (see Chapter 11) that appears to offer the greatest potential for development, the final step in the process involves communicating this to the market. Ries and Trout (1982), who in the eyes of many are the founding fathers of positioning theory, argue that positioning is first and foremost a communication strategy (this is the issue of the battle of the mind referred to earlier) and that any failure to recognize this will undermine the whole of the marketing mix. All too often, however, and despite having identified potentially valuable competitive advantages, organizations fail to signal these advantages sufficiently strongly. This then leads to one of three errors:

1. *Confused positioning*, where buyers are unsure of what the organization stands for (refer to the comments on the opposite page about Gap's misjudgement of the market in 2001)

2. *Over-positioning*, where consumers perceive the organization's products as being expensive and fail to recognize the full breadth and value of the range (this can be summed up in terms of over-promise and under-delivery)
3. *Under-positioning*, where the message is simply too vague and consumers have little real idea of what the organization stands for or how it differs from the competition.

In order to select the most effective market position, the strategist needs to begin by identifying the structure of the market and the positions currently held by competitors. This can be done in a variety of ways, including by means of the sort of brand map to which we referred earlier. With maps such as these the planner sets out first to plot where the product lies in relation to competitive products and, secondly, to identify those areas in which marketing opportunities might exist either for a new brand or for the existing brand if it was to be repositioned. In taking this second step, the strategist is setting out to position the product in such a way that its marketing potential is fully realized.

As an example of how the greater potential of a different market sector might be realized, the German car manufacturer Audi set out in the 1980s and 1990s to reposition its range of products in order to move further up-market. In doing this, the company recognized that the organizations against which it would be competing would change and that, in this particular case, it would bring itself into more direct competition with both BMW and Mercedes-Benz. At the same time, numerous other car manufacturers have pursued repositioning strategies, with Jaguar targeting a younger market than in the past and Porsche, with part of its product range, pursuing a (relatively) less affluent sector.

In electing for a positioning or repositioning strategy, strategists therefore need to feel confident that, first, they will be able to reach the new market position for which they are aiming, and secondly, that they will be able to operate and compete effectively and profitably in this new position.

For many organizations, however, repositioning proves to be a less than successful exercise. In 2001, for example, Gap reported an $8 million loss against net earnings of $877 million in 2000 and $1.1 billion in 1999, a problem that seemingly had emerged as the result of the way in which they had moved from their previously very clear market position to one that was far more edgy, fashion-forward and less appealing to its traditional markets.

The San Francisco-based company, which had grown dramatically for a decade, was accused by analysts of having alienated its Generation X market by trying to appeal to younger shoppers. However, in doing this, not only did Gap lose some of its traditional and highly loyal customer base, but failed to achieve the penetration of its new target market for which it was hoping. Subsequently, of course, the company has successfully moved

back to its core markets. (Refer also to our discussion about Gap and its Banana Republic and Old Navy brands on page 362.)

Against the background of these comments, it should be recognized that very different positioning strategies need to be followed depending upon whether the firm is a market leader, follower or challenger and that, as a general rule, market followers should try to avoid positioning themselves too closely or directly against the market leader. The reasoning behind this is straightforward, since a smaller firm is most likely to succeed if it can establish its own position within the market and develop its own customer base. To compete head-on against an aggressive market leader such as Wal-Mart with a very clear position is to invite retaliation and a costly marketing war (see Illustration 9.2).

The potential pitfalls of weak positioning

The dangers of poor product positioning have been illustrated in the US car market by General Motors. Under Alfred Sloan in the 1920s and 1930s, the company had a clear positioning strategy that was reflected in a product ladder ranging from Chevrolet (low price) to Cadillac (high price) and a slogan 'a car for every purse and purpose'. The clarity of strategic thinking was lost in the 1980s when the company began a move towards 'badge engineering', under which essentially the same car was re-badged for different brands. The net effect of this is that the customer could buy a similar minivan under the Buick, Pontiac, Chevrolet and Saturn names.

Illustration 9.2 Wal-Mart and its positioning by price

With more than 3000 stores serving 60 million people a week and annual revenues in excess of $140 billion, Wal-Mart is the world's largest retailer. The company's positioning statement is simple and unambiguous: 'We sell for less.' In order to achieve this, the founder, Sam Walton, rationalized and controlled costs to such an extent that he was able to undercut every one of his competitors. In commenting on this, Ritson (2002) suggests that:

Walton achieved this control through a revolutionary approach to distribution and inventory management. Taking the company public in 1970 enabled him to use the subsequent funds to build his own distribution network of giant warehouses that each had its own transportation system, linked up with 175 Wal-Mart stores. This network ensured that Wal-Mart handled its own distribution, saving millions of dollars on freight costs. The distribution network also had tremendous bargaining power because of the number of stores served. Walton underlined this power by ensuring that no supplier provided more than 3 per cent of the total Wal-Mart inventory. The message: if you don't price it as low as possible, we'll switch our business elsewhere.

Source: Ritson (2002).

A similar approach emerged in both Procter & Gamble and Unilever with a multitude of overlapping products and brands. The eventual response in both companies was a significant culling of the portfolio. In the case of Unilever, for example, the company's 'Path to Growth' strategy involved 1200 of its 1600 brands being sold or dropped so that marketing resources could be concentrated behind the too 400 high-growth brands. There was then a further culling of the brands in 2007 so that the company could concentrate upon those brands that were the top-two sellers in each segment.

Repositioning strategies

Having developed a position for a brand, there is frequently the need to reposition as the market develops, competitors enter or exit, and customers' expectations and needs change. In thinking about repositioning, the marketing planner has four strategic options:

1. *Gradual repositioning*, which involves a planned and continuous adaptation to the changing market environment. An example of this would be Skoda's move from an essentially utilitarian offer to one that is far more firmly mid-market.
2. *Radical repositioning*, where an increasing gap between what the brand offers and what the market wants leads the management team to think about a major strategic change. As an example of this, Lucozade moved from a position where its primary appeal was to the sick and the old to one where its major appeal is as a lifestyle and health drink.
3. *Innovative repositioning*, where the planner finds a new strategic position that offers market opportunities that have not so far been identified by competitors. Häagen-Dazs recognized the potential of the premium-quality, premium-priced adult ice-cream market, and throughout the 1990s successfully developed this.
4. *Zero positioning*, where the organization maintains an unchanged face to the market over a long period of time and/or it communicates very poorly with the target market, with the result that potential customers have little idea of what the organization stands for.

9.16 SUMMARY

Within this chapter we have focused upon the ways in which a well-developed strategy of market segmentation, targeting and positioning contributes to effective marketing planning.

The rationale for segmentation is straightforward, and is based on the idea that only rarely can a single product or marketing approach appeal to

the needs and wants of a disparate group of potential customers. Because of this there is a need for the marketing strategist to categorize buyers on the basis both of their characteristics and their specific product needs, with a view then to adapting either the product and the marketing programme, or both, to satisfy more specifically these different tastes and demands. An effective policy of segmentation is therefore a key contributory factor to the development of a competitive advantage.

A wide variety of approaches to segmentation have been developed, and these were discussed in some detail in the text. Many of the early approaches to segmentation are unidimensional and are incapable of providing the marketing planner with a sufficiently detailed picture of buyers' motives to be of real value. A considerable amount of work has therefore been conducted over the past 30 years to improve segmentation techniques, with the greatest emphasis being placed upon geodemographics and psychographics.

Work within the industrial products sector has, for the most part, tended to lag behind that in the consumer goods field, although the work of Cardozo, and Bonoma and Shapiro, has gone some way towards rectifying this.

Having segmented the market, the strategist should then be in a position to identify those segments which, from the organization's point of view, represent the most attractive targets. In deciding where to focus the marketing effort, the strategist needs to give consideration to three elements:

1. The size and growth potential of each segment
2. The structural attractiveness of different segments
3. The organization's objectives and resources.

Once a decision has been made on the breadth of market coverage, the strategist needs then to consider how best to position the organization, the product range and the brand within each target segment. A number of guidelines for market positioning have been discussed, and emphasis was placed upon the need to avoid making any one of the three most common positioning errors:

1. Confused positioning
2. Over-positioning
3. Under-positioning.

We concluded by returning to the significance of competitive advantage and to the ways in which a well-conceived and properly implemented strategy of segmentation, targeting and positioning can contribute to a highly effective marketing programme.