6

Market Segmentation and Positioning

> **Positioning is not what you do to a product; it is what you do to the mind of a prospect.**
>
> **Ries and Trout (1972)**

Learning outcomes

After reading this chapter, you will be able to:

- ✔ Describe the principles of market segmentation and the STP process.
- ✔ Explain the characteristics and differences between market segmentation and product differentiation.
- ✔ Explain how market segmentation can be undertaken in both consumer and business-to-business markets.
- ✔ Describe different targeting strategies.
- ✔ Explain the concept of positioning.
- ✔ Illustrate how the use of perceptual maps can assist the positioning process.

CASE INSIGHT

Stagecoach operates bus services across the UK. How does it know who its customers are and where they want to access its services? We speak to Elaine Rosscraig to find out more.

Elaine Rosscraig for Stagecoach

Stagecoach UK Bus is one of the largest bus operators in the UK, operating both express and local bus services across the country. In addition the company operates a comprehensive network of intercity operations under the Megabus Brand. We connect communities in over 100 towns and cities in the UK, operating a fleet of around 7,000 buses. We carry over two million customers every day on our network which stretches from Devon to the north of Inverness. So how do we identify who our customers are and where they may wish to access our services? Well, that's a very interesting and important question.

At Stagecoach we have formulated our segmentation and positioning strategy using primary research. By using the results of the primary research we have identified our key market segments, which have been compiled into three groups, all of which are linked to bus use. These groups may be categorized as: user, lapsed user, and non-user.

> *An important market to target is the non-user segment…[especially those with] a propensity to switch.*

An important target market for Stagecoach is the non-user segment. The customers contained within this segment demonstrate a propensity to switch the mode of transport to bus. We estimate that about 30% of existing non-bus users in the UK have a propensity to switch the mode of transport they are regularly using, given the appropriate incentives. In addition it is essential that Stagecoach address the perceived barriers associated with bus travel amongst this group.

Through geodemographic profiling we have further identified microdemographic segments within each of the local areas which we serve, to whom specific barriers to bus use are an issue. This information has formed the basis of our segmentation strategy and how we subsequently tailor our communication with each of these prospect customer groups.

A major issue to consider is how public transport is currently perceived by these target segments. Public transport in general has a negative reputation in the UK. This is the result historically of limited ongoing customer communication, inadequate staff training, and poor customer relations within the industry.

Customer perception of Stagecoach is linked directly to the journey experience and customer satisfaction. In order of priority the following aspects of service contribute to customer satisfaction with the Stagecoach service: reliability/punctuality, staff attitude, comfort during the journey, cleanliness of the vehicle (interior and exterior), space for bags/pushchairs, and value for money.

Given the primary research findings to date and the market segments identified, what would you recommend Stagecoach do to target and position their brand to the differing market segments to encourage switching in mode of transport and use of Stagecoach's services?

Customer perceptions seem to be entirely driven by the journey experience

Stagecoach

Introduction

Ever wondered why marketers only target certain markets or how these markets are identified? Think about universities for a moment: how do they identify which students to communicate with about degree schemes? What criteria do they use? Do they base it on where you live, your age, your gender, or is it just about your entrance scores? Do they market to postgraduate and undergraduate audiences differently, what about international and domestic student groups—is this difference important for the effective marketing of higher education services to prospective students?

In this chapter, we consider the way organizations determine the markets in which they need to concentrate their commercial efforts. This process is referred to as **market segmentation** and is an integral part of marketing strategy, discussed in Chapter 5. After defining the principles of market segmentation this chapter commences with an exploration of the differences between market segmentation and **product differentiation**, as this helps clarify the underlying principles of segmentation. Consideration is also given to the techniques and issues concerning market segmentation within consumer and business-to-business markets.

The method by which whole markets are subdivided into different segments is referred to as the **STP process**. STP refers to the three activities that should be undertaken, usually sequentially, if segmentation is to be successful. These are segmentation, targeting, and positioning, and this chapter is structured around these key elements.

The STP Process

The growing use of the STP process has occurred as a direct result of the prevalence of mature markets, the greater diversity in customer needs, and the ability to reach specialized or niche segments. As such marketers are increasingly segmenting markets and identifying attractive segments (i.e. who to focus on and why?), in order to identify new product opportunities, develop suitable positioning and communications strategies (i.e. what message to communicate), and effectively allocate resources to key marketing activities (i.e. how much should we spend and where?). Organizations will often commission segmentation research when they want to re-scope their marketing strategy, investigate a declining brand, launch a new product, or restructure their pricing policy. Organizations operating in highly dynamic environments seek to conduct segmentation research at regular intervals, to keep in touch with changes in the marketplace.

STP refers to the three activities segmentation, targeting, and positioning (Figure 6.1).

Key benefits of the STP process include:

- Enhancing a company's competitive position by providing direction and focus for marketing strategies such as targeted advertising, new product development, and brand differentiation. For example, Coca-Cola identified through market

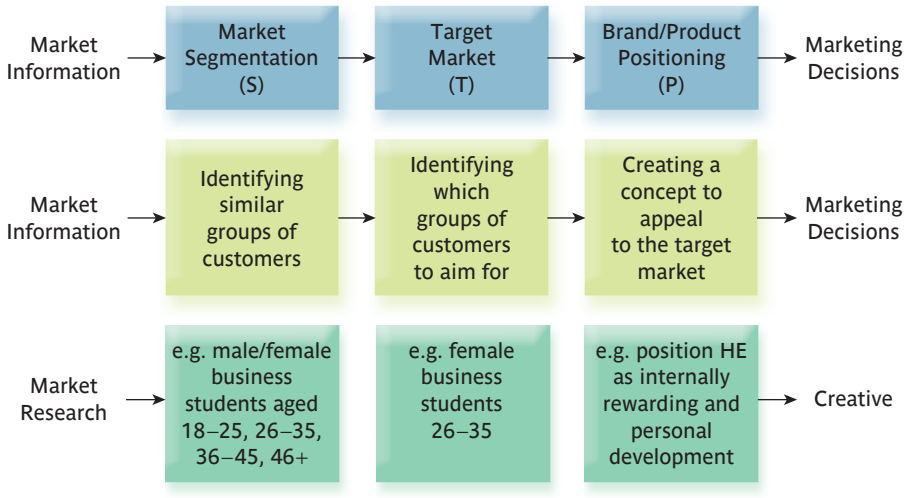

Figure 6.1
The STP process

research that its Diet Coke brand (also marketed as Coca-Cola Lite) was regarded as 'girly' and 'feminine' by male consumers. As a direct result the company developed a new product, branded Coke Zero, which is targeted at the health-conscious male segment of the soft drinks market.

- Examining and identifying growth opportunities in the market through the identification of new customers, growth segments, or new product uses. For example Arm & Hammer was able to attract new customers when existing consumers identified new uses for their baking soda (Christensen, Cook, and Hall, 2005). Lucozade also changed the positioning and targeting from its original marketing strategy positioned for sick children and rebranded to target athletes as an energy drink.
- More effective and efficient matching of company resources to targeted market segments promises the greatest return on marketing investment (ROMI). For example, financial institutions like HSBC and Barclays and large retailing multinationals such as Tesco and ASDA Wal-Mart are utilizing data-informed segmentation strategies to effectively target direct marketing messages and rewards to customers they have classified as offering long-term value to the company, i.e. they are profitable customers.

The Concept of Market Segmentation

Market segmentation is the division of a market into different groups of customers with distinctly similar needs and product/service requirements. Or to put it another way, market segmentation is the division of a mass market into identifiable and distinct groups or segments, each of which have common characteristics and needs and display similar responses to marketing actions.

Market segmentation was first defined as 'a condition of growth when core markets have already been developed on a generalised basis to the point where

additional promotional expenditures are yielding diminishing returns' (Smith, 1956). There is now widespread agreement that they form an important foundation for successful marketing strategies and activities (Wind, 1978; Hooley and Saunders, 1993).

The purpose of market segmentation is to leverage scarce resources; in other words, to ensure that the elements of the marketing mix, price, distribution, products and promotion, are designed to meet particular needs of different customer groups. Since companies have finite resources it is not possible to produce all possible products for all the people, all of the time. The best that can be aimed for is to provide selected offerings for selected groups of people, most of the time. This process allows organizations to focus on specific customers' needs, in the most efficient and effective way. As Beane and Ennis (1987) eloquently commented, 'a company with limited resources needs to pick only the best opportunities to pursue'.

The market segmentation concept is related to product differentiation. If you aim at different market segments, you might adapt different variations of your offering to satisfy those segments, and equally if you adapt different versions of your offering, this may appeal to different market segments. Since there is less

The M&S Per Una range: designed to attract the young female shopper

Per Una

competition, your approach is less likely to be copied and so either approach will do.

An example in the area of fashion retailing might be if you adapt your clothing range so that your skirts are more colourful, use lighter fabrics, and a very short hemline, for instance, this styling is more likely to appeal more to younger women. If alternatively, you decide to target older women, then you might need to change the styling of your skirts to suit them by using darker, heavier fabrics, with a longer hemline. This is exactly what Marks and Spencer (M&S) did to attract a younger female shopper into their M&S stores and compete more directly with Next and Debenhams for share of this market. The company launched a range of female clothing called Per Una, and three years on the fashion range has been a huge success reportedly generating annual sales of nearly £230 m—more than 10 per cent of the total womenswear sales at M&S. If you start by adapting new product variants, you are using a product differentiation approach. If you start with the customer's needs, you are using a market segmentation approach. This is illustrated more clearly in Figure 6.2 using offering rather than product to indicate that the same concept may apply to a service.

A relational marketing perspective would replace the marketing mix—the 4Ps—either with the 7Ps (see Chapter 15) or with a discussion of the need to design, develop, and deliver the customer experience (see Chapter 17).

The concept of market segmentation was first proposed as an alternative market development technique in imperfectly competitive markets, that is, in markets where there are relatively few competitors selling an identical product. Where there are lots of competitors selling identical products, market segmentation and product differentiation produce similar results as competitors imitate your strategic approach more quickly and product differentiation approaches meet market segment needs more closely.

With an increasing proliferation of tastes in modern society, consumers have increased disposable incomes. As a result, marketers have sought to design product and service offerings around consumer demand (market segmentation) more than around their own production needs (product differentiation) and they use market research to inform this process (see Market Insight 6.1 and Chapter 4).

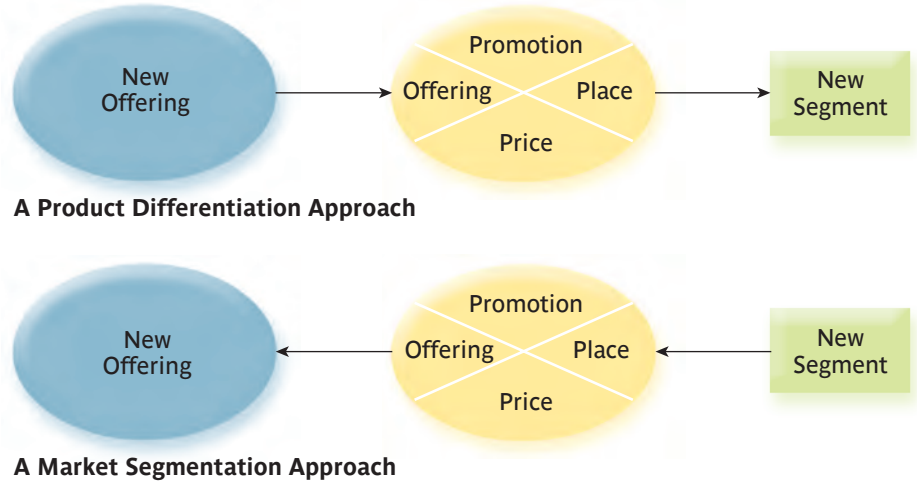

Figure 6.2
The difference between market segmentation and product differentiation

MARKET INSIGHT 6.1

A Tale of Two Approaches

Tale 1 is about Amway, a global company that manufactures and distributes over 450 different consumer products and invests heavily in research and development in order to remain competitive and meet customer needs. For example, after several years of research and development, Amway produced a new range of products called Satinique, which used the 'Ceramide Infusion System'. The core attribute is that Satinique contains a moisturizing agent, which can restore the nutrients in hair. Once Amway had developed the product they then undertook market research to determine which group of consumers they should target. Having identified a segment made up of professional women, who always want to look their best and who want professional, salon-quality products and who rely on recommendations from friends when making haircare purchase decisions, they then developed a marketing strategy and implemented a successful marketing plan.

Tale 2 is about NIVEA Sun, the leading sun care brand owned by Beiersdorf. There are three main usage segments in the sun care market: protection (from harmful rays), after sun (for relief and moisturizing after being in the sun), and self-tan (for those who want an all year round 'cosmetic' tan). Beiersdorf have developed their portfolio of NIVEA Sun brands around these usage segments, but unlike Amway have used innovation to develop products to meet customer needs identified through market research and segmentation analysis. For example, market research has shown that awareness of the need for protection from the sun does not necessarily lead to product purchase and usage. It was also found that women enjoy the luxurious nature of sun care products, men prefer convenience, and children don't enjoy the sun cream application process. As a result NIVEA Sun developed and introduced a spray application device, designed specifically to appeal to men and their preference for convenience. They also introduced a coloured formulation for children's sun products in order to make the application process more fun.

1. Which of these two companies use a product differentiation approach and which uses a market segmentation approach? Justify your selection.
2. Choose a beauty, fragrance, or grooming product that you like to use and determine likely segments.
3. Do you believe Amway should change their approach? Justify your decision.

RESEARCH INSIGHT 6.1

To take your learning further, you might wish to read this influential paper.

Smith, W. R. (1956), 'Product differentiation and market segmentation as alternative marketing strategies', *Journal of Marketing*, July, 3–8.

A seminal article on market segmentation which put forward the idea that because neither supply nor demand sides of marketing were homogeneous (i.e. different groups wanted to produce and consume different things), a product differentiation approach which was concerned with the bending of demand to the will of supply must also be accompanied by an alternative mechanism of the bending of supply to the will of demand. This alternative marketing strategy was termed market segmentation.

The Process of Market Segmentation

The intricacies involved in market segmentation are said to make it an exacting activity. Griffith and Pol (1994) argue this point on the basis of multiple product applications, greater customer variability, and problems associated with the identification of the key differences between groups of customers. However, there have been numerous attempts to define and describe business segmentation, using a variety of variables and ranging from the severely product-based to customer needs-based orientation.

There are two main approaches to segmenting markets. The first adopts the view that the market is considered to consist of customers which are essentially the same, so the task is to identify groups which share particular differences. This is referred to as the **breakdown method**. The second approach considers a market to consist of customers that are all different, so here the task is to find similarities. This is known as the **build-up method**. The breakdown approach is perhaps the most established and well recognized and is the main method used for segmenting consumer markets. The build-up approach seeks to move from the individual level where all customers are different, to a more general level of analysis based on the identification of similarities (Freytag and Clarke, 2001). The build-up method is customer oriented as it seeks to determine common customer needs. The aim of both methods is to identify segments in the market where identifiable differences exist between segments (segment heterogeneity) and similarities exist between members within each segment (member homogeneity). This is displayed in Figure 6.3.

Other segmentation researchers have distinguished between **a priori** or **post hoc** segmentation methods (Green, 1979). In the former, segments are predetermined using the judgement of the researchers beforehand (i.e. a priori). This approach typically progresses along seven stages encompassing the following steps (Wind, 1978) including:

1 Selection of the base (a priori) for segmentation (e.g. **demographics**, socio-economics).

2 Selection of segment descriptors (including hypotheses on the possible link between these descriptors and the basis for segmentation).

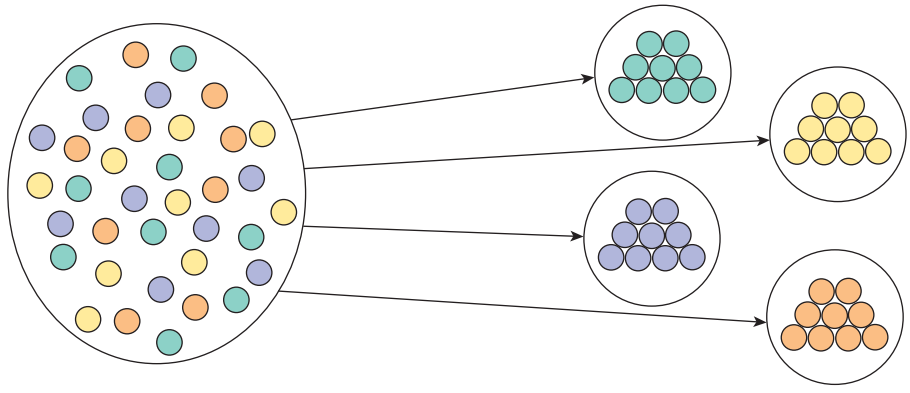

Figure 6.3
Segment heterogeneity and member homogeneity

3 Sample design—mostly using stratified sampling approaches and occasionally a quota sample (see Chapter 4).

4 Data collection.

5 Formation of the segments based on a sorting of respondents into categories.

6 Establishment of the profile of the segments using multivariate statistical methods (e.g. multiple discriminate analysis, multiple regression analysis).

7 Translation of the findings about the segments' estimated size and profile into specific marketing strategies, including the selection of target segments and the design or modification of specific marketing strategy.

With the post hoc approach, the segments are deduced from the research and instead pursue the following process:

1 Sample design—mostly using quota or random sampling approaches (see Chapter 4).

2 Identification of suitable statistical methods of analysis.

3 Data collection.

4 Data analysis—formation of distinct segments using multivariate statistical methods (e.g. cluster analysis, CHAID).

5 Establishment of the profile of the segments using multivariate statistical methods (e.g. factor analysis) and selection of segment descriptors (based on the key aspects of the profile for each segment).

6 Translation of the findings about the segments' estimated size and profile into specific marketing strategies, including the selection of target segments and the design or modification of specific marketing strategy.

Segmentation in business markets should reflect the relationship needs of the parties involved and should not be based solely on the traditional consumer market approach, which is primarily the breakdown method. Through use of both the breakdown and the build-up approaches, a more accurate, in-depth, and potentially more profitable view of industrial markets can be achieved (Crittenden, Crittenden, and Muzyka, 2002). However, problems remain concerning the practical application and implementation of B2B segmentation. Managers report that the analysis processes are reasonably clear, but it is not clear how they should 'choose and evaluate between the market segments' which have been determined (Naudé and Cheng, 2003).

Much segmentation theory has been developed during the period when transactional marketing was the principal approach to marketing, rather than the more relational approaches adopted in today's service-dominated environment. Under these circumstances, the allocation of resources to achieve the designated marketing mix goals was of key importance. Freytag and Clarke (2001) have quite rightly identified that market segmentation is not a static concept. In other words, those customers who make up the various segments have needs which may change, and consequently, those customers may no longer remain members of the particular segment to which they originally belonged. Market segmentation programmes must therefore use customer data which are current.

The segmentation process will therefore vary according to the prevailing conditions in the marketplace and the changing needs of the parties involved, not simply the needs of the selling organization.

Market Segmentation in Consumer Markets

To segment consumer goods and service markets, we use market information we have collected based on certain key customer-, product-, or situation-related criteria (variables). These are classified as segmentation bases and include profile (e.g. who are my market and where are they?); behavioural (e.g. where, when, and how does my market behave?); and psychological criteria (e.g. why does my market behave that way?). These differing types of segmentation bases are depicted in Figure 6.4. A fourth segmentation criterion that can be added is contact data, a customer's name and full contact details beyond just their postcode (e.g. postal address, email, mobile and home telephone number). The data are useful for tactical-level marketing activities such as addressable direct marketing (see Chapter 12).

Table 6.1 illustrates the key characteristics associated with each of the main approaches to consumer market segmentation.

An important consideration when selecting the differing bases for segmentation is the trade-off between ease and cost of measurement or data acquisition and the degree to which the criteria for which data has been acquired can provide an accurate snapshot of current and future customer behaviour, especially its predictability of customer choice behaviour.

As is depicted in Figure 6.5 demographics and **geodemographics** are relatively easy to measure or the data to obtain; however, these bases suffer from low

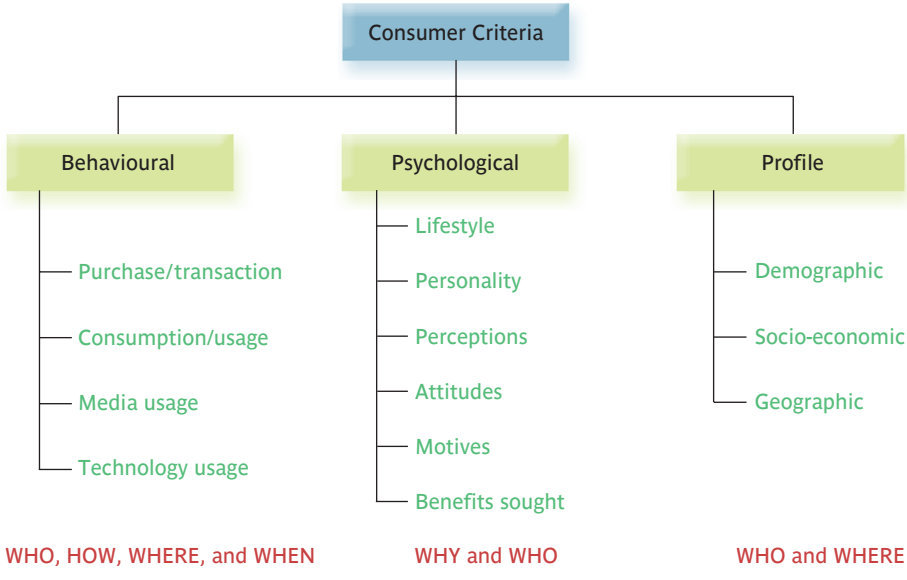

Figure 6.4
Segmentation criteria for consumer markets

Table 6.1
Segmenting criteria for goods and services markets

Base type	Segmentation criteria	Explanation
Profile	Demographic	Key variables concern age, sex, occupation, level of education, religion, social class, and income characteristics, many of which determine a potential buyer's ability to purchase a product or service.
	Lifestage	Lifestage analysis is based on the principle that people need different products and services at different stages in their lives (e.g. childhood, adulthood, young couples, retired).
	Geographic	In many situations the needs of potential customers in one geographic area are different from those in another area. This may be due to climate, custom, or tradition.
	Geodemographic	This approach to segmentation presumes that there is a relationship between the type of housing and location that people live in and their purchasing behaviours.
Psychological	Psychographic (lifestyles)	Analysing consumers' activities, interests, and opinions, we can understand individual lifestyles and patterns of behaviour, which in turn affect their buying behaviour and decision-making processes. On this basis, we can also identify similar product and/or media usage patterns.
	Benefits sought	By understanding the motivations customers derive from their purchases it is possible to have an insight into the benefits they seek from product use.
Behavioural	Purchase/ transaction	Data about customer purchases and transactions provides scope for analysing who buys what, when, how often, how much they spend, and through what transactional channel they purchase. This provides very rich data for identifying 'profitable' customer segments.
	Product usage	Segments are derived from analysing markets on the basis of their usage of the product offering, brand, or product category. This may be in the form of usage frequency, time of usage, and usage situations.
	Media usage	Data on what media channels are used, by whom, when, where, and for how long provides useful insight into the reach potential for certain market segments through differing media channels, and also insight into their media lifestyle.

levels of accurate predictability of a customer's future behaviour. In contrast, behavioural data, what a customer does, their **product usage**, purchase history, and media usage, although more difficult and costly to acquire (although with changes in technology this cost/accessibility is changing), provides a more accurate predictability of future behaviour. This is founded on the notion that humans are creatures of habit and behavioural trends. Therefore the brand of toothpaste you purchased on the last three occasions is more than likely going to be the brand of toothpaste you purchase next time. However, this is also influenced by a

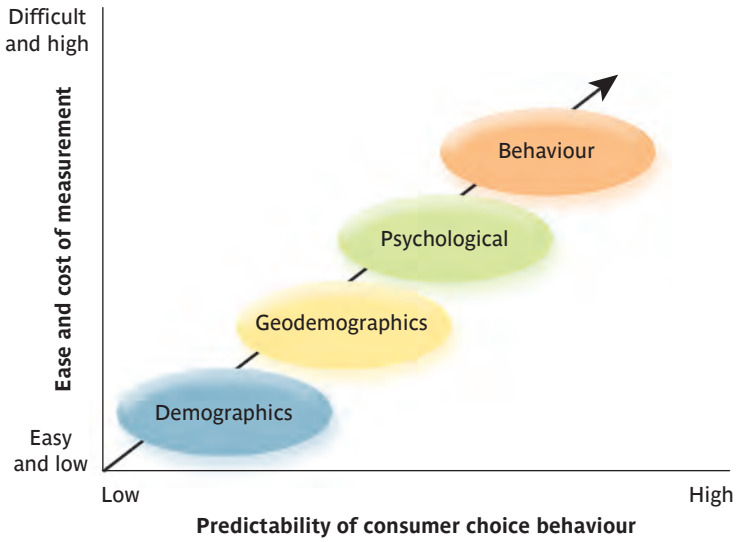

Figure 6.5
Considerations for segmentation criteria accessibility and use

Source: Integrated Marketing Communications in Advertising and Promotion (AISE; 7th edn. by SHIMP, 2007). Reprinted with permission of South-Western, a division of Thomson Learning.

customer's susceptibility to marketing communications such as sales promotions (**media usage** and response behaviour) and market environment.

Profile Criteria

A core customer-related method of segmenting consumer goods and service markets is using criteria to profile who the market is and where they are. This is called profile segmentation criteria and includes using demographic methods (e.g. age, gender, race), socio-economics (e.g. determined by social class, or income levels) and **geographic** location (often using sophisticated postal or zip code systems). For example, a utility company might segment households based on geographical area to assess brand penetration in certain regions; or a financial investment fund might segment the market based on age, employment, income, and asset net worth to identify attractive market segments for a new investment portfolio. All these are examples of segmentation based on profile criteria.

Demographic

Demographic variables relate to age, gender, family size and lifecycle, generation (such as baby boomers, Generation X, etc.), income, occupation, education, ethnicity, nationality, religion, and social class. These relate to the profile of a consumer and are particularly useful in assisting marketing communications and media planning, simply because media selection criteria have been developed around these variables.

Age is a common way of segmenting markets and is the first way in which a market is delineated. Children are targeted with confectionery, clothes, music, toys, and food simply because their needs and tastes are radically different from older people. For example, Yoplait Dairy Crest (YDC) has launched Petits Filous Plus probiotic yogurt drinks to extend the brand and increase its appeal among 4 to 9 year olds and inform parents that 'one Petits Filous Plus yogurt drink

consumed every day as part of a balanced diet can help maintain kids' wellbeing'. In the drinks market we often see the use of age. For example, the popular chocolate drink Milo is targeted to children and teenagers as an after school chocolate energy drink. In contrast Red Bull is positioned as an energy drink for young adults. In the travel industry we see organized tours and holidays for the 18–35s, with the differing needs of senior citizens met by brands such as Saga Holidays which are exclusively targeted at the over 50s. Stena Stair Lifts provide products to meet the needs of physically disadvantaged older consumers.

Gender differences have also spawned a raft of products targeted at women such as beauty products and fragrances (e.g. Clinique, Bobby Brown, Chanel); magazines (e.g. *New Woman*, *Cleo*, *Cosmopolitan*); hairdressing (e.g. Pantene, Clairol); and clothes (e.g. New Look, Sussan, Zara). Products targeted at men include magazines (e.g. *Ralph*, *Nuts*); grooming products (e.g. hair gel and styling mousse); and beverages (e.g. beers like Heineken, Carlsberg). Some brands develop products targeted at both men and women, for example fragrances (e.g. Calvin Klein) and watches (e.g. Tag). Increasingly marketers are also recognizing the importance of segments that have not traditionally been targeted by certain product categories, such as insurance products designed for women (e.g. First For Women Insurance—FFW in South Africa and Sheila's Wheels in the UK) and beauty products for men (e.g. Clinique men's range).

An example of a product designed according to the combination of age and gender is Dove's new Dove ProAge product range. These products reflect the unique needs of women in their later years, continuing Dove's campaign for Real Beauty by launching a new series of products with television and print advertisements targeted to women in their fifties.

Income or socio-economic status is another important demographic variable because it determines whether a consumer will be able to afford a product. As discussed in Chapter 3, this comprises information about consumer personal income, household income, employment status, disposable income, and asset net worth. Many companies target affluent consumers (e.g. Chanel, DKNY, Bentley,

The Dove ProAge product range aimed at women in their fifties

Dove ProAge

and Ferrari) offering high-end exclusive product offerings. Targeting low-income earners can also be profitable. Discount stores such as Dollar Dazzlers, Crazy Clarks, and Pound Stretcher make a considerable impact on the retail market by developing an offer for low-income market segments. The socio-economic distinction in marketing strategies is also increasingly apparent in the development of differing retail brand labels of large multinational retailers like Tesco, ASDA Wal-Mart, and Coles Myer. For example, Tesco Finest is developed for markets with more disposable income in contrast to Tesco Value, which is marketed to the more price-conscious and low-income market segment.

Lifecycle

The lifestage approach to segmenting markets is based on the premise that people at different stages in the lifecycle need different products and services. Adolescents need different products from a single 26-year-old person, who in turn needs different products from a 26 year old who is married with young children. For example, Tesco, ASDA Wal-Mart, and Sainsbury's have all invested in the development of product lines targeted at singles with high disposable incomes and busy lifestyles with their 'meal for one' ranges. This is in contrast with the 'family value' and 'multi-packs' targeted at families. However, as families grow and children leave home so the needs of the parents change and their disposable income increases. Holidays (e.g. Butlins and Disneyland) and automobiles (e.g. people carriers) are key product categories that are influenced by the lifestage of the market.

Historically the family lifecycle consisted of five categories through which individuals and households would progress: single bachelor, newly married, married with children, empty nester, and solitary survivor. However, since this classification was developed, society has changed and continues to change in values, beliefs, and family lifecycle. A more modern lifecycle classification was developed with support from the British Market Research Bureau (BMRB) called the Target Group Index (TGI) or BMRB-TGI Lifestage Segmentation Product which classifies 12–13 lifestage groups based on age, marital status, household composition, and children (e.g. if they have children and the child's age). These groups are presented in Table 6.2. (See Market Insight 6.2.)

Geographics

This approach is useful when there are clear locational differences in tastes, consumption, and preferences. For example, what do you put on your toast in the morning: Vegemite, Marmite, jam, or jelly? Or perhaps you don't east toast at all and prefer cold meats or noodles for your morning meal. These consumption patterns provide an indication of preferences according to differing geographic regions. Markets can be considered by country or region, by size of city or town, postcode, or by population density such as urban, suburban, or rural. For example, it is often said that American beer drinkers prefer lighter beers, compared with their UK counterparts and particularly compared with German beer drinkers, who prefer a much stronger drink. In contrast Australians prefer colder more carbonated beer than the UK or the USA. In the UK there are generalizations which state that Scottish beer drinkers prefer heavy bitters, northerners in

Table 6.2
BMRB-TGI lifestage segmentation groups

Lifestage group	Demographic description
Fledglings	15–34, not married and have no son or daughter; living with own parents
Flown the nest	15–34, not married, do not live with relations
Nest builders	15–34, married, do not live with son/daughter
Mid-life independents	35–54, not married, do not live with relations
Unconstrained couples	35–54, married, do not live with son/daughter
Playschool parents	Live with son/daughter and youngest child 0–4
Primary school parents	Live with son/daughter and youngest child 5–9
Secondary school parents	Live with son/daughter and youngest child 10–15
Hotel parents	Live with son/daughter and have no child 0–15
Senior sole decision makers	55+ not married and live alone
Empty nesters	55+, married, and do not live with son/daughter
Non-standard families	Not married, live with relations, do not live with son/daughter, and do not live with parents if 15–34
Unclassified	Not in any group

Source: Developed from http://www.bmrb-tgi.co.uk/main.asp?p=516. Reproduced with the kind permission of BMRB.

England prefer mild bitter, drinkers in the west prefer cider, and in the south, lager is the preferred drink. Further information about international market differences can be found in Chapter 7.

In addition to product selection and consumption, geographic segmentation is important with regard to retail location, advertising with regard for media selection, and recruitment. For example, to the armed forces recruits from differing geographic areas have certain demographic attributes. Furthermore, low-cost retail formats might be used for retail outlets in low-income regions. Direct sales operations (e.g. catalogue sales) can use census information to develop better customer segmentation and predictive models.

Geodemographics

Geodemographics is a natural outcome when combining demographic and geographic variables. The 'marriage' of geographics and demographics has become

MARKET INSIGHT 6.2

Political Failure to Segment

The Conservative Party emerged from the British general election in June 2005 some considerable way behind the Labour Party. By 2005 they had made substantial improvements in many areas. After the two landslide elections of 1997 and 2001, by 2005, the Conservative Party had still only managed to gain 198 seats in the election against Labour's 356 seats, giving Labour a comfortable working majority in government of 66 seats.

Part of the reason for the failure of the Conservative Party to increase its national vote by a substantial amount was that the Conservatives' campaign in the 2005 British general election failed to excite the parent voter segment—an important segment comprising 1 in 3 people (34%) in the electorate. In this segment, voting intention for the Conservatives was only 18%, the same as that for the third party in British politics, the Liberal Democrats, and nearly half that of Labour (35%)—a much lower level of support than the Conservatives enjoyed generally in the electorate at around 33%.

The parent segment regarded Labour as best by far on health and education (first/second most important issues) with Conservatives seen as marginally better on law and order (the third most important issue).

Source: Adapted from Baines *et al.* (2005).

1. Why do you think the Conservative Party failed to fully consider the importance of parents when designing their political policies and their marketing communication strategies?
2. Do you think that market segmentation is an appropriate strategy in marketing political parties and candidates, given that political parties are supposed to represent the whole electorate in a representative democracy?
3. What other market segmentation failures can you think of? What were the products or services in question?

Photodisc

There are clear locational differences in tastes: do you like cold meats for breakfast?

an indispensable tool for market analysis. Fusing census data with demographic information, especially socio-economic data, can lead to a rich mixture of 'who lives where' and 'what they are like'. Consumers can be classified by where they live, which is often dependent on their stage in life and their lifestyle (see Chapter 3). Two of the best known UK geodemographic systems are ACORN and MOSAIC.

ACORN

One system of measurement of consumer lifestyles, developed by the British market research group CACI, is known as ACORN—**A** **C**lassification of **R**esidential **N**eighbourhoods—shown in Table 6.3, which demonstrates how these postcode areas are broken down into 5 lifestyle categories, 17 groups, and 56 types. ACORN is a geodemographic tool used to identify and understand the UK population and the demand for products and services. Marketers use this information to improve their understanding of customers and target markets, and determine where to locate operations, field sales forces, retail outlets, and so on. ACORN can also be used to determine where to send direct marketing material and host billboard and other advertising campaigns. In total, ACORN categorizes all of Britain's 1.9 million UK postcodes, using over 125 demographic statistics within England, Scotland, Wales, and Northern Ireland, and 287 lifestyle variables. The classification technique operates on the principle that people living in similar areas have the same needs and lifestyles, that is 'birds of a feather flock together'.

MOSAIC

In contrast, MOSAIC is a geodemographic segmentation system developed by Experian and marketed in over twenty countries worldwide. MOSAIC was originally constructed using the 1990 census, and is now based on the 2000 census data and updated on an annual basis. The resulting segmentation system consists of sixty segments which are presented as twelve separate groups. MOSAIC is based on the premise of assigning lifestyle groups to differing geographic catchment areas. For example, using MOSAIC, Figures 6.6 and 6.7 show the area catchment profiles by income and household composition around Bristol, UK.

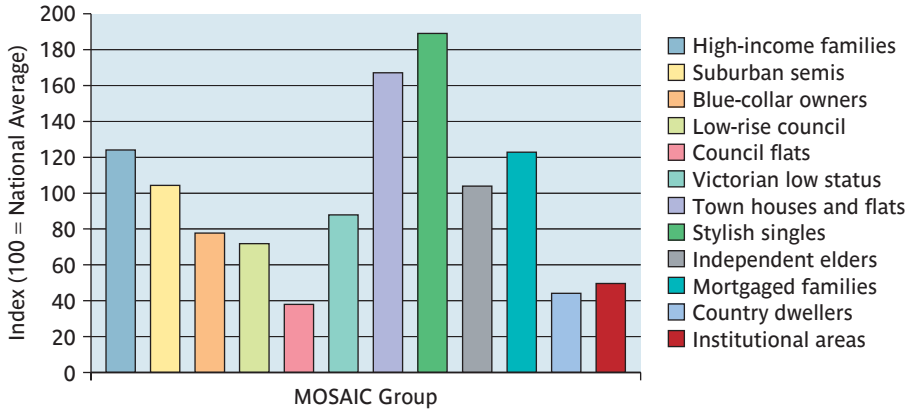

Figure 6.6
Thirty-minute off-peak drivetime by MOSAIC group

Source: Experian © 2007.

Table 6.3
ACORN geodemographic categories

Category	Group	Type
Wealthy achievers	Wealthy executives	01—Affluent mature professionals, large houses
		02—Affluent working families with mortgages
		03—Villages with wealthy commuters
		04—Well-off managers, larger houses
	Affluent greys	05—Older affluent professionals
		06—Farming communities
		07—Old people, detached houses
		08—Mature couples, smaller detached houses
	Flourishing families	09—Larger families, prosperous suburbs
		10—Well-off working families with mortgages
		11—Well-off managers, detached houses
		12—Large families and houses in rural areas
Urban prosperity	Prosperous professionals	13—Well-off professionals, larger houses and converted flats
		14—Older professionals in detached houses and apartments
	Educated urbanites	15—Affluent urban professionals, flats
		16—Prosperous young professionals, flats
		17—Young educated workers, flats
		18—Multi-ethnic young, converted flats
		19—Suburban privately renting professionals
	Aspiring singles	20—Student flats and cosmopolitan sharers
		21—Singles and sharers, multi-ethnic areas
		22—Low-income singles, small rented flats
		23—Student terraces
Comfortably off	Starting out	24—Young couples, flats and terraces
		25—White-collar singles/sharers, terraces
	Secure families	26—Younger white-collar couples with mortgages
		27—Middle-income, home-owning areas
		28—Working families with mortgages
		29—Mature families in suburban semis
		30—Established home-owning workers
		31—Home-owning Asian family areas
	Settled suburbia	32—Retired home owners
		33—Middle-income, older couples
		34—Lower-income people, semis
	Prudent pensioners	35—Elderly singles, purpose-built flats
		36—Older people, flats
Moderate means	Asian communities	37—Crowded Asian terraces
		38—Low-income Asian families
	Post-industrial families	39—Skilled older family terraces
		40—Young family workers
	Blue-collar roots	41—Skilled workers, semis and terraces
		42—Home-owning, terraces
		43—Older rented terraces
Hard pressed	Struggling families	44—Low-income larger families, semis
		45—Older people, low income, small semis
		46—Low income, routine jobs, unemployment
		47—Low-rise terraced estates of poorly off workers
		48—Low incomes, high unemployment, single parents
		49—Large families, many children, poorly educated
	Burdened singles	50—Council flats, single elderly people
		51—Council terraces, unemployment, many singles
		52—Council flats, single parents, unemployment
	High-rise hardship	53—Old people in high-rise flats
		54—Singles and single parents, high-rise estates
	Inner city adversity	55—Multi-ethnic purpose-built estates
		56—Multi-ethnic, crowded flats

Source: Adapted from CACI Ltd.

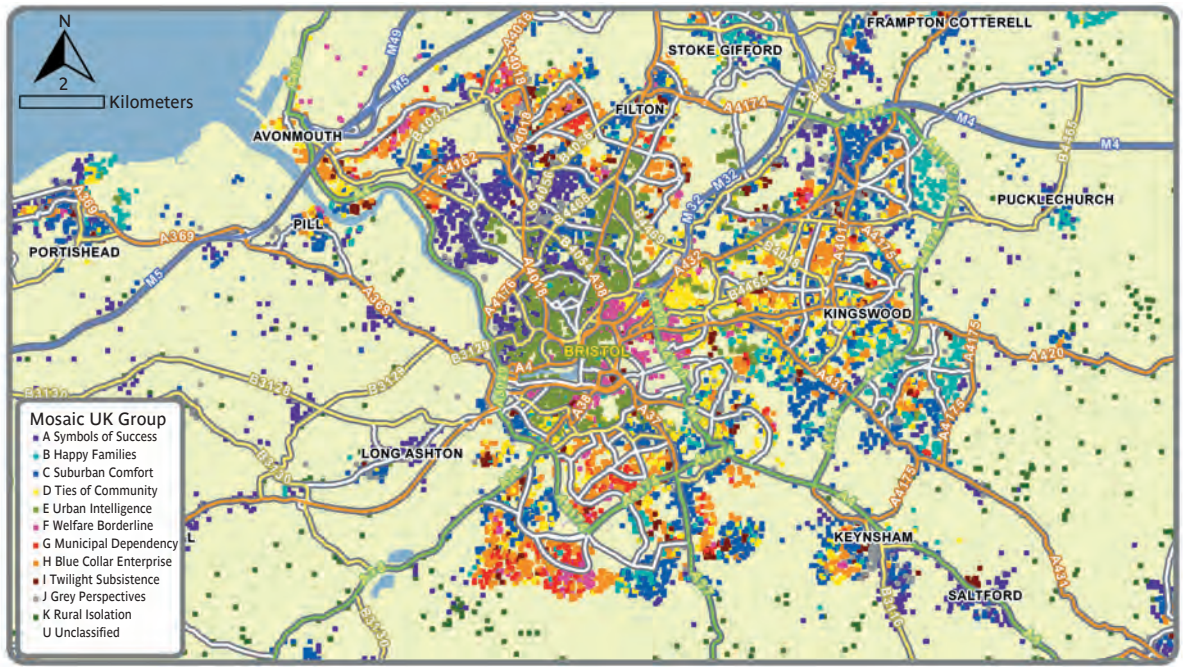

Figure 6.7 Area catchment profile

Source: Experian copyright 2007.

Psychological Criteria

Psychological criteria used for segmenting consumer product and service markets include using attitudes and perceptions (e.g. negative feelings about fast food); **psychographics** or the lifestyles of customers (e.g. extrovert, fashion conscious, high achiever), and the types of **benefits sought** by customers from products and brands and their consumption choices.

Psychographics

Psychographic approaches rely on the analysis of consumers' activities, interests, and opinions, in order to understand consumers' individual lifestyles and patterns of behaviour.

Psychographic segmentation includes an understanding of the values that are important to different types of customers. A traditional form of lifestyle segmentation is AIO, based on customer Activities, Interests, and Opinions. These provide useful insight into what makes people 'tick'. Taylor Nelson Sofres (TNS) in 2003 developed a UK Lifestyle Typology based on lifestyles and classified the following types of lifestyle categories: belonger, survivor, experimentalist, conspicuous consumer, social resistor, self-explorer, and the aimless.

For example, the Accor hotel group used value-based segmentation to develop the brand. The Dorint-Novotel was repositioned to attract those who value

personal efficiency. This involved changing the service offering by introducing efficiency-related facilities such as automated checkouts, car hire facility, 24-hour food, and wireless computing. The Dorint-Sofitel brand was repositioned by introducing fine art for the walls, real fires, fine wines, live piano in the reception, libraries, and more experienced concierge staff. This was designed to appeal to those who valued classical (styling), customization, and passion (Howaldt and Mitchell, 2007). (See Market Insight 6.3 below for segmentation which uses a combination of demographic and psychographic data.)

MARKET INSIGHT 6.3

Slap it On, All Over

Using a single base to segment a market is usually unproductive. Most successful companies use several bases and fuse the data to expose meaningful segments. In an earlier example, the NIVEA Sun brand was introduced. The brand owner, Beiersdorf, uses market research to understand its markets and to then develop viable segments. In the protection market, research was used to determine different types of people in the market, based on their demographic data that are combined with data about their attitudes towards the use of sun care products.

From this they have been able to identify different consumer segments.

- Concerned consumers—sun protection is really important and the main reason to buy.
- Sun avoiders—they prefer to stay out of the sun and they regard sun care as a hassle.
- Sun lovers—this group worship sunshine and know how to use and value products that provide protection. They understand sun protection factors (SPF).
- Careless tanners—these people like the sun but don't bother to protect themselves.
- Beauty conscious—this group like to tan themselves, know that protection is important, but don't really understand or worry about SPFs.

Many organizations develop segments in this way and use the information to develop personality profiles of each of their segments. These segments are then used to develop products and services that are of value to each segment. If sufficient knowledge is collected about people's media usage and preferences, the segment profile can then be used to develop suitable marketing communications.

Sources: www.nivea.co.uk/; www.Times100/casestudy/; www.euromonitor.com/PDF/C&T-Beiersdorfag.pdf.

1. Which of the five segments listed above would prefer easy-to-use sun care products and which group are most likely to want a brand they can trust?
2. Using at least three different bases for each of the following, how might you segment the mobile phone, energy drinks, and fashion clothing markets?
3. Think of a brand you like and buy regularly and consider what characteristics you favour and how the brand owner might classify and segment people like you.

Benefits Sought

The root of this approach to market segmentation lies in the idea that we should provide customers with exactly what they want, not based on how we design products and services for them, but based on the benefits that they derive from the goods/services that they use. This may sound obvious but consider what the real benefits, both rational and irrational (see Chapter 3), are of different goods and services that people derive from purchasing mobile phones and sunglasses or of something you have bought recently.

For example, a major airline might well segment the airline passenger market on the basis of the benefits they seek from transport. Typically, the industry does this by differentiating between the first-class passenger (who is given substantial extra luxury benefits in their travel experience), the business-class passenger (who gets some of the luxury of the first-class passenger), and the economy-class passenger (who gets none of the luxury of the experience but still enjoys the same flight). This is also a useful segmentation base with respect to new and emerging technologies. Marketers are increasingly identifying the key benefits and motivations of electronic technology adoption and use. For example the benefits of convenience, accessibility, and handset durability dominate mobile handset adoption for blue-collar trade workers; teenagers seek novelty through games and ringtones and innovation through the latest trends in handset design; and white-collar workers seek multifunctionality, with the device acting as a mobile, an organizer, and a storage device. Korgaonkar and Wolin (1999) explored web users' motivations and concerns, identifying the presence of seven motivations and concerns regarding web use. The motivations described in Table 6.4 suggest that consumers use the web for many more reasons than to retrieve information or to communicate and that motivations play a more significant role in determining actions with respect to usage than demographics alone.

Behavioural Criteria

Product-related methods of segmenting consumer goods and service markets include using behaviouristic methods (e.g. by product usage, purchase, and ownership) as bases for segmentation. Observing consumers as they utilize products and media can be an important source of new product ideas, and can lead to ideas for new product uses or product design and development. Furthermore, new markets for existing products can be indicated, as well as appropriate communication themes for product promotion. Purchase, ownership, and usage of products and media are three very different behavioural constructs we can use to help profile and segment consumer markets.

Product Usage

A company may segment a market on the basis of how often a customer uses its products or services, categorizing these into high, medium, and low users, by usage rate. This can be used to develop service specifications or marketing mixes for each of these groups of users. For example heavy users of public transport

Table 6.4
Benefits and concerns motivating web use

Motivation	Description
Social escapism	The benefits of the web as a pleasurable, fun, and enjoyable activity that allows one to escape
Transactional security and privacy	Concerned about giving of personal and transactional-based information and thus privacy and security concerns
Information	The benefits of the web for self-education and information needs
Interactive control	The interactive benefits of the self-directed and interactive control that users have with web usage
Socialization	The social benefits of the web as a facilitator of interpersonal communication and activities
Non-transactional privacy	Concerned about privacy in general rather than the security and privacy issues related to web transactions
Economic	The economic benefits of collection of information for learning and information purposes as well as for shopping and buying motivations

Source: Adapted from Korgaonkar and Wolin (1999).

RESEARCH INSIGHT 6.2

To take your learning further, you might wish to read this influential paper.

Haley, R. I. (1968), 'Benefit segmentation: a decision-oriented research tool', *Journal of Marketing*, 32, 30–5.

In this seminal article, Haley segmented the market for toothpaste purchasers into segments based on what benefits users derived from its use including: those who bought toothpaste to produce and maintain the whiteness of their teeth (sociables), those who wished to prevent decay (worriers), those who liked the taste and refreshment properties (sensors), and those who bought on a price basis (independents). Each of these groups had particular demographic, behaviouristic, and psychographic characteristics. This approach to defining market segments based on the benefits derived from the use of a particular offering is still much in use today.

might be targeted differently from heavy users of private vehicles or car pooling activities.

Consumer product use can be investigated from three perspectives:

- Social interaction perspective examines the symbolic aspects of usage and the social meanings attached to the consumption of socially conspicuous

products such as a car or house (Belk, Bahn, and Mayer, 1982; Solomon, 1983). For example, Greenpeace launched a television campaign targeting owners of four-wheel drive cars or 'Gas Guzzlers', highlighting the environmental social stigma of this car purchase.

- Experiential consumption perspective investigates emotional and sensory experiences as a result of usage, especially consumer experience such as satisfaction, and 'fantasies, feelings and fun', the hedonic consumption of products (Holbrook and Hirschman, 1982). For example, the Oxo gravy campaign concentrates on the usage of Oxo as bringing families together, emotionally appealing to consumers and expressing family values like love, sharing, time together.
- Functional utilization perspective examines the functional usage of products and their attributes in different situations (McAlister and Pessemier, 1982; Srivastava, Shocker, and Day, 1978). For example, when the product is used, how often, and in what contexts.

Service providers may segment the market on the basis of the purchase behaviour of their customers. This might involve segmentation on the basis of loyalty to the service provider, or length of relationship, or some other mechanism. Usage of soft drinks can be considered in terms of purchase patterns (two bottles per week), usage situations (parties, picnics, or as an alcohol substitute), or purchase location (supermarket, convenience store, or wine merchant). **Lifestage** analysis is based on the principle that people have varying amounts of disposable income and different needs at different stages in their lives. Their priorities for spending change at different trigger points and these points or lifestages do not occur at the same time.

One method of segmenting service customers defines four segments based on propensity to switch suppliers: definitely will not switch, probably will not switch, might switch, and definitely will switch (Payne and Frow, 1999). The services literature points out that customers often stay with a service provider even when they are dissatisfied (Bitner, Booms, and Tetreault, 1990; Kelley, Hoffman, and Davis, 1993) and this is particularly true in retail banking for current accounts, for example, where customers seldom can see the point in shifting their funds from one account to another for very limited gains. Customers only shift suppliers when they perceive the service to be poorly priced, when inconvenienced by the service provider, when there is a core service failure (e.g. a hotel room is inadequately cleaned), when service encounters fail (e.g. arriving at a hotel with a pre-booked room and finding no room is available), when there is a poor response to service failures (e.g. in a hotel when complaining about the poor cleaning), competition (a rival hotel chain offers better rates), ethical problems, and when they have to (for example, the hotel customer is forced to move to another city and a Marriot Hotel is not available, for example, but a Hilton is).

Transaction and Purchase

The development of electronic technologies has facilitated the rapid growth in the collection of consumer purchase and transactional data, providing an additional consumer characteristic upon which to base market segmentation. The collection

of purchase data has been enabled through the installation of electronic-point-of-sale (EPOS) computing systems, coupled with standardized universal product codes (UPC) in the USA or European article numbers (EAN) in Europe and the growth of integrated purchasing systems (e.g. web, in-store, telephone). These have enabled retailers to track more accurately who buys what, when, for how much, in what quantities, and with what incentives (e.g. sales promotions). This provides companies with the ability to monitor purchase patterns in differing geographic regions, times, or seasons of the year, for differing product lines, and increasingly for differing market segments.

Transactional and purchase information is very useful for marketers to assess who their most profitable customers are. This is through an analytical formula called the **RFM analysis**. RFM analysis is based on the principle postulated in 1897 by an Italian economist, Vilfredo Pareto. Pareto's Principle ascertains that '80% of a company's profits are usually delivered by just 20% of their customers'. As such there is a significant need to segment markets and create precisely targeted marketing programmes for those most profitable to the company. RFM analysis is a method by which marketers can identify market segments comprising customers that are most profitable. RFM stands for recency, frequency, and monetary value. Thus, those customers who purchased from you most recently, purchase from you frequently, and spend a high unit value per purchase (or the life of their relationship with you) would be classified as profitable customers. The acquisition of purchase data per customer through electronic technologies either in-store or online provides increased effectiveness of profitable segment identification.

However, one thing to note is that transactional data is just behaviour and although it might provide some insight into useful purchase trends, it will not be able to shed deeper insight into why those trends in purchase and consumption are occurring. With the rise in loyalty card schemes such as the famous Tesco Clubcard or customer reward programmes such as the many airline frequent flyer clubs (e.g. Star Alliance, KLM Flying Blue), and the precision of ACORN and MOSAIC geodemographic databases, we are seeing the merging of transactional and purchase data with customer profile and psychological data. This provides the bases for more effective targeting of marketing strategies to specific and defined market segments.

Media Usage

The understanding and profiling of audience media usage is central to the process of communications planning. From the 1950s television viewing information was collected by organizations such as Arbitron in the USA and AGB Ltd in the UK, providing a basis for classic studies of television viewing. Similar developments occurred with radio and print, which made possible formal studies of listening and readership. In more recent years, web usage data has been collected by market researchers such as Media Metrix, A. C. Nielsen, and NetRatings, to help profile web users. See Table 6.5 for an example of web user segmentation based on usage characteristics.

The logic of segmenting on the basis of frequency of readership, viewership, or patronage of media vehicles can be found in media research conducted in

Table 6.5
Segmenting the web user

User segment	Usage characteristics
'Quickies' 8%	• Usage occasions are short (1 min) • Visit two or few familiar sites • 15 seconds per page acquiring specific information or sending email
'Surfing' 23%	• Usage occasions are the longest, averaging 70 minutes • Hit 45 sites in a typical session on the web • 1 minute or more per page • Shopping, online communities, and news sites grab their attention
'Just for facts' 15%	• Usage occasions involve looking for specific information from known sites • 9 minutes usage occasion duration • Rapid page views like quickies (30 seconds per page) • Visit transaction and time-consuming sites • Not interested in visiting for entertainment
'Information, please' 17%	• Usage occasions average 37 minutes and are used to build in-depth knowledge of a topic • Gathering broad information from a range of sites • Jump among linked sites without using a search engine
'Single mission' 7%	• Users who want to complete a task or gather specific information • Average session is 10 minutes with a 1.5 minute page view • Venture to unfamiliar sites with email sites rarely visited
'Loitering' 16%	• Leisurely visits to familiar sticky sites such as news, gaming, telecommunications • Average 33 minutes in duration with 2 minute page views
'Do it again' 14%	• Usage occasions are 14 minutes long and 2 minute pages views • Strong focus in session on familiar places with users spending 95% of session at site previously visited • Visit favourite sites for auctions, games, and investments

Source: Adapted from A. C. Nielsen and Booz Allen Hamilton (2000).

the 1970s. For example, Urban (1976) suggested that heavy and light magazine readership might respond differently to ads with different creative appeals. Potter *et al.* (1988) attempted to identify the profiles of five usage segments for VCRs. As further discussed by Chatterjee, Hoffman, and Novak (1998), segmenting users on the basis of their usage frequency of the media and its vehicles yields insights on whether the publisher attracts and retains consumers that are more or less responsive to an advertiser's communication. This information provides an important input when evaluating the efficiency and effectiveness of media. Furthermore, Chatterjee *et al.* (1998) identify that differences in frequency may lead to differences in response to repeated passive ad exposures, competing ads of other sponsors, and prior ad exposure.

Frequency of media usage has been the predominant measure of media usage experience. However, Olney, Holbrook, and Batra (1991) also identified viewing

Table 6.6
Types of media usage

Usage type	Definition	Example
Usage frequency	How often the medium is used within a certain timeframe.	How many times a week television is watched or the web is accessed.
Usage variety	The different motivations for use (motivational variety) and different situations (situational variety) in which the medium is used.	The number of different motivations for using a VCR (e.g. recording, playing movies); the number of locations from where the web is accessed (e.g. home, work).
Breadth of use	The number of different types of media vehicles purchased or used in a category within a given timeframe.	The number of different brands of magazines read by the consumer within a 3-month period; the number of different types of television programmes viewed in a week.
Depth of use	The total number of media channels within a category used within a certain timeframe.	The total number of magazines purchased or subscribed to or the total number of websites visited.
Duration of use	Length of time for which the media device is used.	The number of hours the web is used in a typical web session.
Usage time	The time when the media device is used or accessed.	The differing times of day the radio or television is watched.

Source: Page (2003: 9).

time as an important dependent variable in a model of advertising effects. This is consistent with Holbrook and Gardner's (1993) argument that duration time is a critical outcome measure of consumption experiences and may be a useful behavioural indicator of experiential versus goal-directed orientations. The differing types of media usage are depicted in Table 6.6.

Segmentation in Business Markets

Wind and Cardozo (1974) referred to market segmentation in business-to-business markets as the identification of 'a group of present or potential customers with some common characteristic which is relevant in explaining (and predicting) their response to a supplier's marketing stimuli'. However, B2B market segmentation has not been as well researched and documented as that in consumer markets (Bonoma and Shapiro, 1983). Abratt (1993) and Weinstein (1994) sought to extend our understanding, the latter making comparisons of both markets'

Table 6.7
Segmentation bases used in business markets

Base type	Segmentation base	Explanation
Organizational characteristics	Organizational size	Grouping organizations by their relative size (MNCs, international, large, SMEs) enables the identification of design, delivery, usage rates or order size, and other purchasing characteristics.
	Geographic location	In many situations the needs of potential customers in one geographic area are different from those in another area.
	Industry type (SIC codes)	Standard industrial classifications (SIC) are codes used to identify and categorize all types of industry and businesses.
Buyer characteristics	Decision-making unit structure (DMU)	The attitudes, policies, and purchasing strategies used by organizations provide the means by which organizations can be clustered.
	Choice criteria	The types of product/services bought and the specifications that companies use when selecting and ordering products and equipment may also form the basis for clustering customers and segmenting business markets.
	Purchase situation	This approach segments buyers on the way in which a buying company structures its purchasing procedures, the type of buying situation, and whether buyers are in an early or late stage in the purchase decision process.

characteristics. Recalling the simple principle that 80 per cent of profits are usually delivered by just 20 per cent of customers, there is a significant need to segment markets and create precisely targeted marketing programmes.

There are two main groups of interrelated variables used to segment business-to-business markets as presented in Table 6.7. The first set of variables involves organizational characteristics, such as **organizational size** and location. Those seeking to segment markets where transactional marketing and the breakdown approach dominate would be expected to start with these variables. The second group is based upon the characteristics surrounding the decision-making process of buyer characteristics. Those organizations seeking to establish and develop particular relationships would normally be expected to start with these variables, and build up their knowledge of their market and customer base.

Organizational Characteristics

These factors concern the buying organizations that make up a business market. There are a number of criteria that can be used to cluster organizations, including size, geography, market served, value, location, **industry type**, usage rate, and **purchase situation**. Below we discuss the main three categories used. These are presented in Figure 6.8.

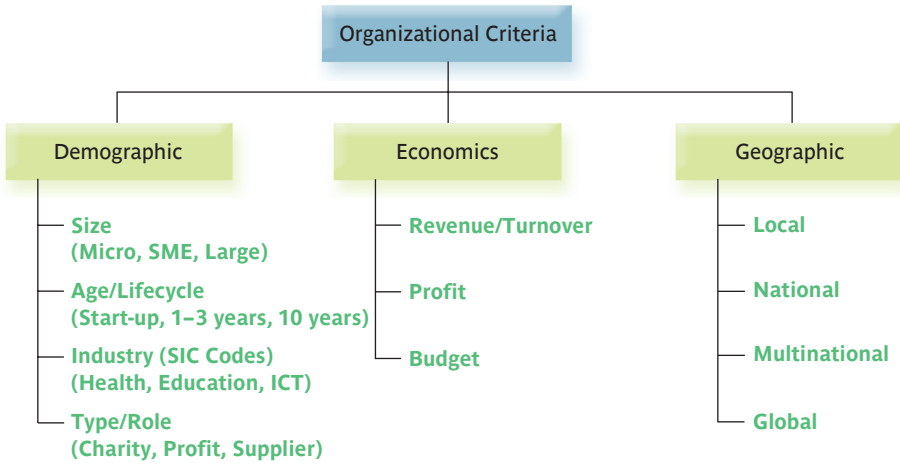

Figure 6.8
Organizational characteristics

Organizational Size

By segmenting organizations by size it is possible to identify particular buying requirements. Large organizations may have particular delivery or design needs based on volume demand. For example, the large multiple retailers such as America's Wal-Mart and Britain's Tesco pride themselves on purchasing goods in large quantities so as to allow them to offer cheaper-priced goods. The size of the organization may have an impact on the usage rates of a good or service, so organizational size is likely to be linked to whether an organization is a heavy, medium, or low buyer of a company's products or services.

Geographic Location

Targeting by geographic location is one of the more common methods used to segment business-to-business markets, and is often used by new or small organizations attempting to establish themselves. This approach is particularly useful since it allows sales territories to be drawn up around particular locations which salespersons can easily service. Such territories may based on European regions, for example, Scotland, England, and Wales, Scandinavia, Western Europe and Eastern Europe, and the Mediterranean. Alternatively, they might be based on specific regions within a country: for example, in the UK sales territories might be based on counties or individual nations within the UK (i.e. England, Northern Ireland, Scotland, and Wales). However, this approach is increasingly less useful as the internet and associated websites increase the channels for distribution and communicating product and service offerings (see Chapter 18).

SIC Codes

Standard Industrial Classification (SIC) codes are often used to get an indication of the size of a particular market. They are easily accessible and standardized across most Western countries, e.g. UK, Europe, and the USA. However, some have argued that SIC codes contain categories which are too broad to be useful. Consequently, SIC codes have received limited application although they do

provide 'some preliminary indication of the industrial segments in (a) market' (Naudé and Cheng, 2003).

The Standard Industrial Classification (SIC) system was first introduced into the United Kingdom in 1948 to classify business establishments by the type of economic activity that they conducted. The classification has been revised on at

MARKET INSIGHT 6.4

Fluid Service Flows!

Standard Industrial Lubrication (SIL) was one of the largest suppliers of industrial fluids in the world, servicing thousands of companies in industries ranging from underground mining to pharmaceutical manufacturing. However, the industry operated on low prices and SIL had responded by stripping out cost from its business. But it was still failing to meet its financial objectives and there were calls for SIL to exit the industry because it was regarded as a commodity business.

However, buyers buy on price if that is all that is on offer to them. Perhaps, if given the opportunity, they would make a purchase because of something else. SIL undertook research and found that price was not a universal determinant. Many buyers reported that they wanted services and guarantees from suppliers rather than rock bottom prices, and research found that one buyer out of three was willing to pay more to get the quality and service they wanted.

As part of the research exercise one of SIL's larger customers was reported to have said the following. 'If you miss one delivery and this plant goes down because a machine burns out, it costs us millions in repair and lost production and I'd be out of a job. So really price is not foremost in my mind. SIL delivers the stuff that I order, but no one technical has ever come in here to take a look at our machines or audit how we use and manage fluids and tell us what we could do or use to run better and faster. I want to know how we could make more money here. That's what I really need.'

It soon became apparent that price was not the only buying criterion, that lubricating oils were not a commodity, and SIL decided to segment the market. The normal approach would be to use SIC codes or buyer behaviour but SIL and their advisers segmented the market in terms of a customer's potential profitability. This was achieved by asking the question: 'What types of companies and which key decision makers are willing to pay more (rather than less) for products and services that solve their problems?' This revealed three segments that comprised more than 75% of the profit potential for the firm.

Having segmented the market SIL then determined how to motivate target buyers. After further analysis a new value proposition for the business was developed: 'SIL is the superior provider of industrial lubricant solutions with the smartest, most dedicated people committed to one thing: Making our customers' business run faster, smoother, and more efficiently.' There was further internal structural, process, and training change, and within two years the division had become SIL's most profitable area.

Source: 'Listen and Learn: Industry Commodization is a Wake-up Call to Start Listening to Customers'. Reprinted with permission from *Marketing Management*, published by the American Marketing Association; Clancy and Kieff (2004: 16–18).

1. What is the key characteristic that defines a commodity?
2. The case does not specify the type of segments it developed. What do you think these might have been?
3. Having developed viable segments, list the probable marketing activities that followed.

least five occasions since then because, over a period of time, new products and the new industries that produce them emerge. The need to take account of changes in industrial structures and industries is equally applicable to all international classifications and so they are revised from time to time to bring them up to date. A new International Standard Industrial Classification of All Economic Activities was agreed in the Statistical Commission of the United Nations in February 1989 and in 1990 the European Communities' Internal Market Council followed suit by passing a regulation to introduce a new statistical classification system.

Customer Characteristics

These factors concern the buyers within the organizations that make up a business market. There are a number of criteria that can be used to cluster organizations based on customer characteristics including by decision-making unit, by purchasing strategies, by relationship type, attitude to risk, **choice criteria**, and purchase situation. (See Market Insight 6.4 for segmentation in terms of a customer's potential profitability.) Below we discuss the three main bases used in business-to-business market segmentation.

Decision-Making Unit

An organization's decision-making unit may have specific requirements that influence their purchase decisions in a particular market. There may be policy factors, purchasing strategies, a level of importance attached to these types of purchases, attitudes towards vendors and towards risk, all or some of which may help segregate groups of organizations for whom particular marketing programmes can be developed/refined and delivered.

Organizations may establish certain policies that govern purchasing decisions. A business may require specific delivery cycles to support manufacturing plans. Increasingly organizations require certain quality standards to be met by their suppliers and membership of particular quality standards organizations (e.g. ISO 9002) is required as evidence of these thresholds having been reached. Policy may dictate that the reputation of all their suppliers is critical and that contracts can only be signed with organizations that meet certain internally determined criteria. For example, if a proposed supplier is currently contracted to a significant competitor it may be a sufficient signal to open negotiations.

The relationship between organizations is obviously a critical factor. Whilst this is considered in greater depth elsewhere in the book, the attitudes and relationships between the people that represent organizations can be used as a means of segmentation. Segmentation might be based on the closeness and level of interdependence that may already exist between organizations. This could be measured in terms of a continuum from partners to unknowns.

Organizational attitude towards risk, and the degree to which an organization is willing to experiment through the acquisition of new industrial products, can vary a great deal. This variance is partly a reflection of the prevailing culture and philosophy, leadership, and managerial style. The extent to which the buying organization resists or embraces change is in turn reflected in the speed with

which new product decisions are made, as well as the nature of the products selected and choice of suppliers.

The starting point of any business-to-business segmentation is a good database or customer relationship management system (see Chapter 17). It should contain customer address and contact details, along with a detailed purchase and transaction history. In an ideal world, it will also include the details of those buyers present in the customer company's **decision-making unit structure**.

Choice Criteria

Business markets can be segmented on the basis of the specifications of product/service that they choose. For example, an accountancy practice may segment its clients on the basis of those that seek 'compliance' type accounting products such as audits and tax submission work, companies that require management accounting services, and companies that require a complex mix of both. A computer manufacturer may segment the business market for computers on the basis of those requiring computers with strong graphical capabilities (e.g. educational establishments, publishing houses) and computers with strong processing capabilities (e.g. scientific establishments). Companies do not necessarily need to target multiple segments, they might simply target a single segment, as Silverjet—the UK airline company—has done with the business flyer from London to New York. See Market Insight 6.5.

Purchase Situation

There are three factors associated with the purchase situation. First, the structure of the buying organization's purchasing procedures: is it centralized, decentralized, flexible, or inflexible? Second, what type of buying situation is present: new task (i.e. buying for the first time), modified rebuy (i.e. not buying for the first time, but buying something with different specifications from previously), or straight rebuy (i.e. buying the same thing again)? Third, what stage in the purchase decision process have target organizations reached; are buyers in early or late stages and are they experienced or new? The marketing programme will need to consider, and attempt to answer, these questions in order to be successful.

For example, a large services project management consultancy company like Serco in the UK might segment the market for service project management services into public and private services and focus specifically on fulfilling large government contracts which are put out to tender in an exercise where a group of selected buyers are offered the opportunity to bid for an exclusive franchise to deliver agreed services for a defined period of time. The service provider with the best bid is then selected accordingly by the tendering organization, using its own, sometimes secret and unpublished, choice criteria, and an exclusive contract is written for the winning supplier.

Typically in segmenting business markets, a service provider may use a mix of macro- and micro-industrial market segmentation approaches, by defining the customers a company wants to target using a macro-approach such as standard industrial classification or geographic region, and then further segmenting using

MARKET INSIGHT 6.5

Silverjet Circles the Business Flyer

Silverjet plc, the first British exclusively business-class airline, commenced daily operations in 2007 with its maiden flight from London Luton to New York's Newark airport. The new airline challenges the dominant UK–US carriers (i.e. Virgin Atlantic/British Airways, United Airlines/American Airlines) for space in the transatlantic market by offering customers a private jet experience which includes a 30 minute only check-in time at Silverjet's exclusive private terminal, all from a relatively inexpensive £999 return. Lawrence Hunt, the company's chief executive, said:

'By offering our customers a fantastic, exclusively business class product from £999 return compared to an average of £3,000 from competitors, we will create a whole new breed of low fare luxury travel . . . As the first truly carbon neutral airline, we are enabling customers to neutralize the environmental impact and actively engage in the process of offsetting emissions from each flight.'

Customers flying on Silverjet can enjoy sleeping on a 6'3" long flat bed with no in-flight announcements or other disturbances. Individually served gourmet meals are provided, complete with a digital in-flight entertainment system and, for Silverjet's female customers, a ladies only toilet.

Included in the ticket price, Silverjet offers a mandatory carbon offset contribution through a joint scheme with leading climate change business the CarbonNeutral Company, giving passengers environmental peace of mind in knowing that the 'carbon points' that they earn will be put back into various climate-friendly projects around the world.

Silverjet offers customers gourmet meals and luxurious seating, amongst other business class services

Silverjet/Chris Young

Source: Adapted from www.silverjet.co.uk. Reproduced with permission.

1. Why do you think Silverjet has targeted business-class only passengers?
2. To what extent have Silverjet adapted their product/service offering for the segment they have targeted?
3. How do airlines normally segment their passengers? What segmentation bases do they typically use?

RESEARCH INSIGHT 6.3

To take your learning further, you might wish to read this influential paper.

Beane, T. P., and Ennis, D. M. (2001), 'Market segmentation: a review', *European Journal of Marketing*, 32, 5, 20–42.

Beane and Ennis' article provides a useful insight into the main bases for market segmentation and the strengths and weaknesses of the key statistical methods by which we analyse customer data to develop segmentation models. The article concludes that there are many ways in which to segment a market and it is important to exercise creativity.

the choice criteria for which they select a company. In other words, multi-stage market segmentation approaches can be adopted.

Target Markets

The second important part of the STP process is to determine which, if any, of the segments uncovered should be targeted and made the focus of a comprehensive marketing programme. Ultimately, managerial discretion and judgement determines which markets are selected and exploited and which others are ignored. Kotler (1984) suggested that in order for market segmentation to be effective, all segments must be:

- *Distinct*—is each segment clearly different from other segments? If so, different marketing mixes, to use the traditional approach to marketing, will be necessary.
- *Accessible*—can buyers be reached through appropriate promotional programmes and distribution channels?
- *Measurable*—is the segment easy to identify and measure?
- *Profitable*—is the segment sufficiently large to provide a stream of constant future revenues and profits?

This approach to the evaluation of market segments is often referred to by the DAMP acronym, making it easier to remember. Another approach to evaluating market segments uses a rating approach for different segment attractiveness factors, such as market growth, segment profitability, segment size, competitive intensity within the segment, and the cyclical nature of the industry (e.g. whether or not the business is seasonal, e.g. retailing, or dependent on government political cycles as some large-scale defence contracts are). Each of these segment attractiveness factors is rated on a scale of 0–10 and loosely categorized in the high, medium, or low columns, based on either set criteria, or subjective criteria, dependent on the availability of market and customer data and the approach

Table 6.8
Examples of segment attractiveness factors

Segment attractiveness factors	Rating		
	High (10 – 7)	Medium (6 – 4)	Low (3 – 0)
Growth	+2.5%	+2.5% × – 2.0%	<2.0%
Profitability	>15%	10 – 15%	<10%
Size	<£5m	£1m – £5m	<£1m
Competitive intensity	Low	Medium	High
Cyclicality	Low	Medium	High

Source: McDonald and Dunbar (2004). Reproduced with permission. © Elsevier.

Table 6.9
Example of a segment attractiveness evaluation matrix

Segment attractiveness factors	Weight	Segment 1		Segment 2		Segment 3	
		Score	Total	Score	Total	Score	Total
Growth	25	6	1.5	5	1.25	10	2.5
Profitability	25	9	2.25	4	1.0	8	2.0
Size	15	6	0.9	5	0.9	7	1.05
Competitive intensity	15	5	0.75	6	0.9	6	0.9
Cyclicality	20	2.5	0.5	8	1.6	5	1
Total	100		5.9		5.65		7.45

Source: McDonald and Dunbar (2004). Reproduced with permission. © Elsevier.

adopted by the managers undertaking the segmentation programme (see Table 6.8).

Other examples of segment attractiveness factors might include segment stability (i.e. stability of the segment's needs over time), mission fit (i.e. the extent to which dealing with a particular segment fits the mission of your company, perhaps for political or historical reasons), and a whole host of other possibilities. Once we have determined which segment attractiveness factors we intend to use, we can then weight the importance of each segment attractiveness factor and rate each segment on each factor using the classifications in Table 6.8. This provides us with the segment attractiveness evaluation matrix shown in Table 6.9.

Decisions need to be made about whether a single product is to be offered to a range of segments, whether a range of products should be offered to multiple segments or a single segment or whether one product should be offered to a single segment. Whatever the decision, a marketing strategy should be developed to meet the needs of the segment and reflect an organization's capability with respect to its competitive strategy and available resources.

A segmentation exercise will have been undertaken previously as part of the development of the marketing strategy. The marketing communications strategist will not necessarily need to repeat the exercise. However, work is often necessary to provide current information about such factors as perception, attitudes, volumes, intentions and usage, among others. It is the accessibility question that

is paramount: how can the defined group be reached with suitable communications? What is the media consumption pattern of the target audience? Where can they get access to our product and purchase it?

Targeting Approaches

Once identified, the organization needs to select its approach to target marketing it is going to adopt. Four differing approaches can be considered. These include undifferentiated, differentiated, concentrated or focused, and customized target marketing approaches (see Figure 6.9).

In an **undifferentiated approach** there is no delineation between market segments, and instead the market is viewed as one mass market with one marketing strategy for the entire market. Although very expensive, this targeting approach is often selected in markets where there is limited segment differentiation. For example, the Olympics is marketed at a world market, or certain government services. The UK postal service uses an undifferentiated marketing strategy, targeting everyone, although the Post Offices do differentiate between other products and services.

A **differentiated targeting approach** recognizes that there are several market segments to target, each being attractive to the marketing organization. As such, to exploit market segments, a marketing strategy is developed for each segment. For example, Hewlett Packard has developed its product range and marketing strategy to target the following user segments of computing equipment: home officer users; small and medium businesses; large businesses; and health, education, and government departments. The clothing brand Levi's uses multiple marketing strategies to target the trendy/casual, the price shopper, the traditionalist, the utilitarian, and the mainstream clothing shopper. A disadvantage of this approach is the loss of economies of scale due to the resources required to meet the needs of many market segments.

A **concentrated** or **niche-marketing strategy** recognizes that there are segments in the market, but implements a concentrated strategy by focusing on just a few market segments. This is often adopted by firms that either have limited resources by which to fund their marketing strategy, or are adopting a very exclusive

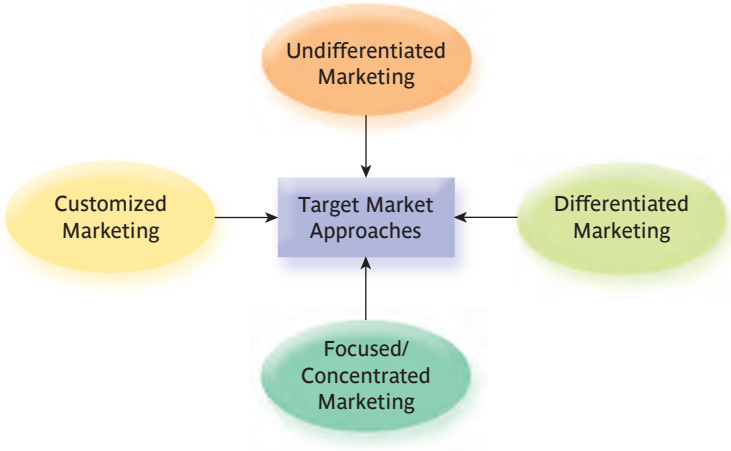

Figure 6.9
Target marketing approaches

strategy in the market. Jordan's the cereal company originally used this approach to target just consumers interested in organic food products. This approach is also used a lot by small to medium and micro-sized organizations, given their limited resources: the local electrician, for example, focusing on the residential market or the cement manufacturer who targets the building market.

The final approach is a **customized targeting strategy** in which a marketing strategy is developed for each customer as opposed to each market segment. This approach is more predominant in B2B markets (e.g. marketing research or advertising services) or consumer markets with high-value highly customized products (e.g. purchase of a custom-made car). For example, a manufacturer of industrial electronics for assembly lines might target and customize its product differently from Nissan, Unilever, and Levi's, given the differing requirements in assembly line processes for the manufacture of automobiles, foodstuffs, and clothing.

Jordan's

Jordan's used a concentrated strategy to market its organic food range

Market Segmentation: Some Limitations

While market segmentation is a useful process in allowing an organization to aggregate customer needs into distinct groups, it is not a perfect process. Market segmentation has been criticized for the following reasons:

- Because the process involves approximating product/service offerings to the needs of customer groups, rather than providing an individual customized offering, there is a chance that our customers' needs are not being fully met. Customer relationship marketing processes, and software, are increasingly allowing companies to develop customized approaches to individual customers.
- There is insufficient consideration of how market segmentation is linked to competitive advantage (see Hunt and Arnett, 2004). Whilst the product differentiation concept is clearly linked to the need to develop competing offerings, market segmentation has not tended to stress the need to segment on the basis of differentiating the offering from competitors.
- It is unclear how valuable segmentation is to the manager. Suitable processes and models to indicate how to measure the effectiveness of market segmentation processes are not yet available.

The processes involved in the target marketing process are not as precise as many authors imply. Dibb *et al.* (2001) suggest segmentation plans in business to business markets often fail because businesses fail to overcome barriers encountered when implementing their plans. These include infrastructure barriers, process issues, and implementation barriers.

Infrastructure Barriers

Infrastructure barriers concern culture, structure, and the availability of resources preventing the segmentation process from ever starting. For example, there may be a lack of financial resource or political will to collect the market data necessary for a segmentation programme, or even worse, an organizational culture which is rigidly product oriented.

Process Issues

Process issues relate to the lack of experience, guidance, and expertise concerning the way in which segmentation is undertaken and managed. There are many and various statistical methods which allow us to determine whether there are different distinct groups of customers within our mass of market data. Typically, market research agencies and in-house market research teams use market data and statistical software packages to undertake this task. However, because the

RESEARCH INSIGHT 6.4

To take your learning further, you might wish to read this influential paper.

Yankelovich, D., and Meer, D. (2006), 'Rediscovering market segmentation', *Harvard Business Review*, 84, 2, 122–31.

In this seminal article, Yankelovich and Meer discuss the concept of non-demographic segmentation, the classification of consumers according to criteria other than age, residence, income, and such. The authors argue that the predictive power of marketing studies based on demographics is no longer strong enough to serve as a basis for marketing strategy. The proposal is presented that we are now seeing behavioural patterns, e.g. buying patterns, as far better guides to consumers' future purchases.

different statistical methods provide different results, care must be taken in determining which method to use and how to interpret these results when they are produced.

Implementation Barriers

Implementation barriers concern the way in which an organization can move towards a new segmentation model. This may be due to a move away from a business model based on products (e.g. engine sizes for fleet buyers), to one based on customer needs. Goller, Hogg, and Kalafatis (2002) support this view, suggesting that there is insufficient information and practical guidance for managers for segmentation strategies to be implemented successfully. It may be that the established ways of doing business becomes a barrier to moving over to a new approach. The practical issues involved in moving a business from one type of segmentation are often overlooked yet these invariably impede organizations from developing their segmentation policies.

Positioning

Having segmented the market, determined the size and potential of market segments, and selected specific target markets, the third part of the STP process is to position a brand within the target market(s). **Positioning** is important because it is the means by which goods and services can be differentiated from one another and so give consumers a reason to buy. Positioning encompasses two fundamental elements. The first concerns the physical attributes, the functionality and capability that a brand offers. For example, a car's engine specification, its design, and carbon emissions. The second positioning element concerns the way in which a brand is communicated and how consumers perceive the brand relative to other competing brands in the marketplace. This element of communication

is vitally important as it is 'not what you do to a product, it is what you do to the mind of a prospect' (Ries and Trout, 1972) that determines how a brand is really positioned in a market.

Kotler (1997) brings these two elements together when he says that 'Positioning is the act of designing the company's offering and image so that they occupy a meaningful and distinct competitive position in the target customers' minds.'

Positioning therefore is about a product's attributes and design, how the product is communicated, and the way these elements are fused together in the minds of customers. It is not just the physical nature of the product that is important for positioning, and it is not just communication that leads to successful positioning. Claims (through communication) that a shampoo will remove scurf and dandruff will be rejected if the product itself fails to deliver on these attributes. Positioning therefore is about how customers judge a product's value relative to competitors and its ability to deliver against the promises made.

The Positioning Concept

In order to develop a sustainable position it is important to understand the market in which the product is to compete and to understand the way in which competitor brands are competing. In other words, what is the nature of the competition in the market and what tangible and intangible attributes are customers looking for when buying these types of products?

At a simple level, positioning takes place during the target market selection process. Strategic groups are the various clusters of brands that compete directly against each other. For example, in the car market, Ford, Toyota, and Mercedes each have brands that compete against each other in the high-end luxury car market. This strategic group consists of Jaguar, Lexus, and the S-Class respectively, amongst others. The specification and design of these cars are based on the attributes that customers in this segment deem to be important and are prepared to pay for. However, designing a car that includes key attributes alone is not sufficient. Successful positioning of each of these car brands is important in order that customers perceive how each brand is different and understand the value that each represents.

Key to this process is the identification of the attributes that are considered to be important. These attributes may be tangible (for example, the gearbox, transmission system, seating, and interior design) and intangible (for example, the reputation, prestige, and allure that a brand generates). By understanding what customers consider to be the ideal standard or level that each attribute needs to attain and how they rate the attributes of each brand in relation to the ideal level, and each other, it becomes possible to see how a brand's attributes can be adapted and communicated to become more competitive.

Through market research we can identify what factors (attributes) are the key drivers of a consumer's preference for a brand. For example, as shown in Figure 6.10, from a sample of 1,521 female teenagers that were surveyed it was identified that being trendy and stylish, having a good range of clothing, and a good brand reputation, were the most important factors for this target market when selecting a preferred brand of fashion retailer.

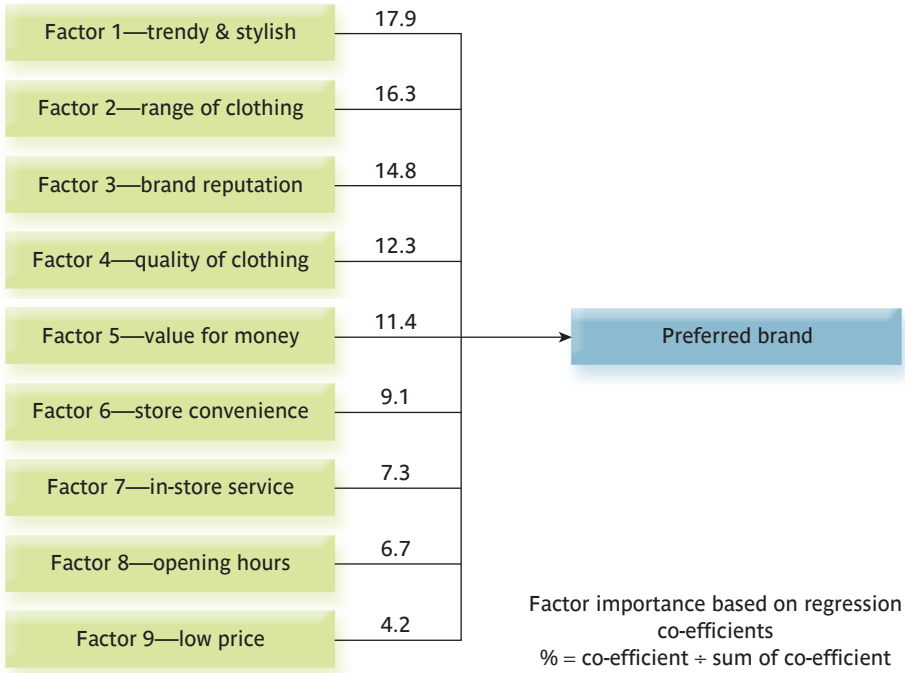

Figure 6.10
Drivers of preferred brand of fashion retailer

Using this list of drivers we can further depict on what we call a perceptual map how the different competing brands of fashion retailers in the market are positioned according to these drivers.

Perceptual Mapping

Understanding the complexity associated with the different attributes and brands can be made easier by developing a visual representation of each market. These are known as perceptual maps and they are used to determine how various brands are perceived according to the key attributes that customers value. In addition, is it possible to determine and map how customers see an ideal brand, based on the key attributes, and from this see how far away a brand is from occupying the ideal position.

Perceptual mapping represents a geometric comparison of how competing products are perceived (Sinclair and Stalling, 1990). One thing to note is that the closer products/brands are clustered together on a perceptual map, the greater the competition. The further apart the positions, the greater the opportunity for new brands to enter the market, simply because the competition is less intense. For example, in fashion retailing there are numerous brands in the marketplace all competing with each other across differing core attributes, brand reputation, store presence, price, and clothing quality or trendy and stylish. To show how the differing brands might be positioned relative to each other using the attribute scores for each brand of fashion retailer we can measure and map the brand positioning for the respective brands. Figure 6.11 shows the positioning of a number of fashion retailers using the dimensions of price, store presence, and trendy and stylish.

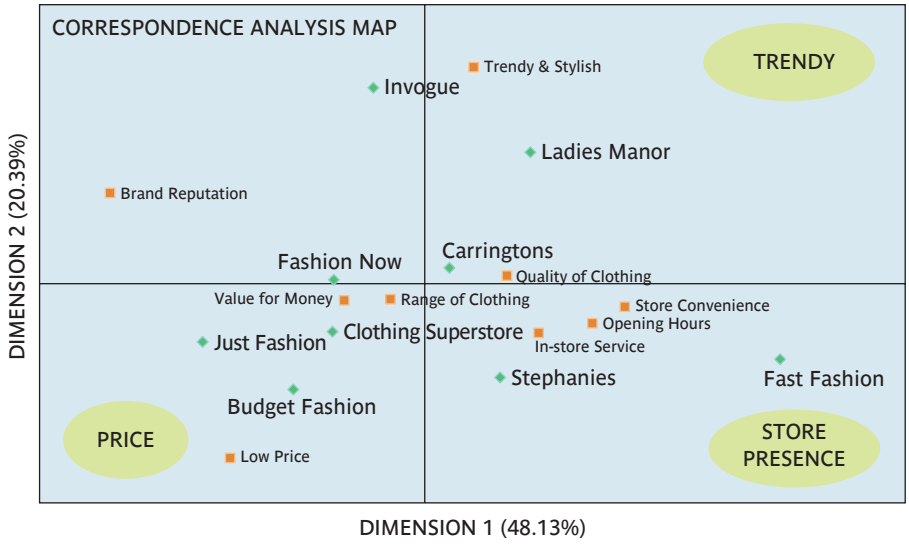

Figure 6.11
Market brand positioning: all brands

BASE: Female Teen Shoppers, n = 1521

Given the distance between the differing brands on the perceptual map, Figure 6.11 shows us that there is a relatively high level of differentiation in brand positioning between the retailing brands Invogue and Fast Fashion. However, in contrast there is a low level of differentiation between Budget Fashion and Just Fashion. Given the distance of the differing brands from each attribute, Figure 6.11 also shows us that Invogue and Ladies Manor are more closely associated with the attribute of trendy and stylish; Budget Fashion, Just Fashion, and the Clothing Superstore with the attributes of price and value for money; and Stephanie's and Fast Fashion with the attributes of in-store service, opening hours, and store convenience. Determining attribute importance and mapping the brands across these attributes, we can discover how our brand and competing brands are perceived in the marketplace.

It is very rare that using just two attributes adequately reflects the diversity of opinion and preferences of the target market. Using multidimensional scaling techniques it is possible to add further attributes and create a composite picture of the main segments that constitute a market.

Perceptual mapping can provide significant insight into how a market operates. For example, it provides marketers with an insight into how their brands are perceived and it also provides a view about how their competitors' brands are perceived. In addition to this substitute products can be uncovered, based on their closeness to each other (Day *et al.*, 1979). All of the data reveal strengths and weaknesses that in turn can assist strategic decisions about how to differentiate on the attributes that matter to customers and how to compete more effectively in the target market.

Positioning Strategies

Understanding how brands are positioned provides important inputs not only to the way a brand performs but also to the marketing communications used to

support a brand. Through communications, and especially advertising, information can be conveyed about each attribute and in doing so adjust the perceptions customers have of the brand. For example, Carrington's might want to reposition the perception the market has of its brand from range and quality of clothing to be more trendy and stylish; Fashion Now reposition more on in-store service and convenience; and Budget Fashion and Just Fashion might want to maintain their current positioning of low price, affordable, but also good value for money. Following any necessary adjustments to the product, marketing communications would emphasize these attributes and hope to further differentiate the fashion retailers across their brands' perceived positioning.

Marketing communications can be used in one of two main ways to position brands, namely to position a brand either functionally or expressively (symbolically). Functionally positioned brands emphasize the features and benefits, whilst expressive brands emphasize the ego, social, and hedonic satisfactions that a brand can bring. Both approaches make a promise: with regard to, for example, haircare, a promise to deliver cleaner, shinier, and healthier hair (functional) or hair that we are confident to wear because we want to be seen and admired, or because it is important that we feel more self-assured (expressive). Within each of these two main approaches there are numerous sub-strategies, some of which are presented in Table 6.10.

Repositioning Strategies

Markets change and some change quickly. Technology, customer tastes, and competitors' new products are some of the reasons for these changes. If the position adopted by a brand is strong, if it was the first to claim the position and the position is being continually reinforced with clear, simple messages, then there may be little need to alter the position originally adopted. However, most marketers need to be alert and be prepared to reposition their brands as the relative positions occupied by brands, in the minds of customers, will be challenged and shifted around on a frequent basis. However, repositioning is difficult to accomplish, often because of the entrenched perceptions and attitudes held by buyers towards brands and the vast (media) resources required to make the changes.

Repositioning is essentially a task that revolves around the product and the way it is communicated. There are four main ways to approach repositioning a product. The choice of approach depends on each individual situation facing a brand. In some cases the brand needs to be adapted before relaunch.

- **Change the tangible attributes and then communicate the new product to the same market**. Regent Inns repositioned themselves in 2007, ahead of the public place smoking restrictions. The primary positioning on bar and restaurant brands such as Walkabout, Jongleurs, and Old Orleans moved to food, while lighting and seating changes were made to change the atmosphere and ambience. The brands' logos were refreshed and then communicated to the target audience through a mix of media (Godsell, 2007).

Table 6.10
Product positioning strategies

Position	Strategy	Explanation
Functional	Product features	The brand is positioned on the basis of the attributes, features, or benefits that the brand has relative to the competition. For example, Volvos are safe; Weetabix contains all the vitamins needed each day; and Red Bull provides energy.
	Price quality	Price can be a strong communicator of quality, typified by the lager Stella Artois, which is positioned as 'reassuringly expensive'. A high price denotes high quality, just as a low price can deceive buyers into thinking a product to be of low quality and poor value.
	Use	By informing when or how a product can be used, it is possible to create a position in the minds of the buyers. For example, Kellogg's have tried to reposition their products to be consumed throughout the day, not just at breakfast. After Eight chocolate mints clearly indicate when they should be eaten.
Expressive	User	By identifying the target user, messages can be communicated clearly to the right audience. So, Flora margarine was for men, and then it became 'for all the family'. Some hotels position themselves as places for weekend breaks, as leisure centres, or as conference centres.
	Benefit	Positions can also be established by proclaiming the benefits that usage confers on those that consume. Top Shop position themselves on the benefits users gain by being seen to be fashionable. The benefit of using Sensodyne toothpaste is that it enables users to drink hot and cold beverages without the pain associated with sensitive teeth and gums.
	Heritage	Heritage and tradition are sometimes used to symbolize quality, experience, and knowledge. Kronenbourg 1664, 'Established since 1803', and the use of coats of arms by many universities to represent depth of experience are designed to convey trust, permanence, and longevity.

- **Change the way a product is communicated to the original market**. When the World Golf Village in Florida was first developed, the retail, commercial, residential resort failed to attract sufficient purchasers. The scheme was repositioned using communications to convey not a 'golf only development' message but one that emphasized a well-balanced, developing premium community (www.nyma.org).
- **Change the target market and deliver the same product**. On some occasions repositioning can be achieved through marketing communications alone, but targeted at a new market. For example, Lucozade was repositioned from a drink for sickly children, a niche market with limited volume sales growth, to an energy drink for busy, active, and sports-oriented people. This was achieved through heavyweight advertising campaigns. (See also Market Insight 6.6.)
- **Change both the product (attributes) and the target market**. For example, the Indian company Dabur needed to develop but had to reposition itself as

an FMCG company, rather than retain its earlier position as an Ayurvedic medicine manufacturer. To do this it had to develop new product offerings and new packaging, it dropped the umbrella branding strategy, and adopted an individual branding approach. This was then communicated, using leading Bollywood actors and sports stars, to reach their various new markets.

MARKET INSIGHT 6.6

Repositioning the Yorkie bar

The confectionery brand Yorkie was originally positioned as a masculine chocolate bar, established when the brand was launched in 1976 using a lorry driver as a symbolic representation of masculine values. However, this association became outdated and lacked relevance with contemporary consumers. In addition, the brand was losing market penetration.

Considerable market research was undertaken to understand how society viewed gender issues, especially at a time when the media were promoting stories about increased feminine success at school, university, and at work. The impact of this, at a time when being politically correct (PC) was gaining momentum, was to emphasize the rise of feminism and to decrease the perceived role for men.

A new campaign was required to reposition the brand. At the time some brands were using masculinity to position themselves and this was seen as a useful indicator to continue using the men only orientation. In the alcohol market, for example, Vinnie Jones was fronting the Bacardi campaign, Smirnoff Ice used a 'cheeky chappie', and WKD have continued to use a 'prankster' to convey a rogue identity appeal.

The 'Not for Girls' campaign was developed out of this background and used TV, press, posters, online, sponsorship idents, and PR. The campaign received a vast amount of coverage and featured in all the major newspapers and radio stations. There were over 150 newspaper articles about the campaign and over 40 radio pieces. This coverage was helped following an incident at Liverpool railway station. A sampling team refused to give bars to passing women and as a result Yorkie was branded as sexist and the advert was promptly banned.

The result of the 'Not for Girls' campaign was that Yorkie's market share increased by over 40 per cent during the advertised period and over the longer term base sales have increased by an average of 20 per cent.

Source: Adapted from various public sources.

1. Why do you think Nestlé decided not to change the physical attributes of the Yorkie bar?
2. What are the opportunities and risks associated with positioning brands in crowded markets such as confectionery?
3. Since the male-oriented positioning was disallowed, how else might the Yorkie bar be positioned?

RESEARCH INSIGHT 6.5

To take your learning further, you might wish to read this influential book.

Ries, A., and Trout, J. (2006), *Positioning: The Battle for your Mind*, London: McGraw-Hill Professional.

Al Ries and Jack Trout's book, first published in 1981, remains the bible of advertising strategy. In 1972 they defined what they called 'positioning' not as what you do to a product to make it acceptable to potential customers, but what you do to the mind of the prospect. Positioning, therefore, requires an outside-in thinking rather than an inside-out thinking approach.

Chapter Summary

To consolidate your learning, the key points from this chapter are summarized below:

- **Describe the principles of market segmentation and the STP process.**

  The method by which whole markets are subdivided into different segments is referred to as the STP process. STP refers to the three activities that should be undertaken, usually sequentially, if segmentation is to be successful. These are segmentation, targeting, and positioning, and this chapter is structured around these key elements. Market segmentation is the division of a market into different groups of customers with distinctly similar needs and product/service requirements. The second important part of the STP process is to determine which, if any, of the segments uncovered should be targeted and made the focus of a comprehensive marketing programme. Having segmented the market and determined the size and potential of market segments and selected specific target markets, the third part of the STP process is to position a brand within the target market(s).

- **Explain the characteristics and differences between market segmentation and product differentiation.**

  The market segmentation concept is related to product differentiation. If you aim at different market segments, you might adapt different variations of your offering to satisfy those segments, and equally if you adapt different versions of your offering, this may appeal to different market segments with an increasing proliferation of tastes in modern society, and increasing disposable incomes in some market segments. As a result, marketers have sought to design product and service offerings around consumer demand (market segmentation) more than around their own production needs (product differentiation).

- **Explain how market segmentation can be undertaken in both consumer and business-to-business markets.**

  To segment a market, we use data based on differing consumer, user, organizational, and market characteristics. These differ for consumer (B2C) and business (B2B) markets. To segment consumer goods and service markets we use market information we have collected based on certain key customer-, product-, or situation-related criteria

(variables). These are classified as segmentation bases and include profile (e.g. who are my market and where are they?); behavioural (e.g. where, when, and how does my market behave?); and psychological criteria (e.g. why does my market behave that way?). To segment business markets there are two main groups of interrelated variables used: organizational characteristics and buyer characteristics.

- Describe different targeting strategies.

  Once identified, the organization needs to select its approach to target marketing. Four differing approaches can be considered. These include undifferentiated (entire market with one strategy), differentiated (target different segments with different strategies), concentrated or niche (only target one segment from many segments), and customized target marketing (target individual customers with individual strategies).

- Explain the concept of positioning.

  Positioning is important because it is the means by which products and services can be differentiated from one another and so give consumers a reason to buy. Positioning encompasses two fundamental elements. The first concerns the physical attributes, the functionality and capability that a brand offers, for example, a car's engine specification, its design, and carbon emissions. The second positioning element concerns the way in which a brand is communicated and how consumers perceive the brand relative to other competing brands in the marketplace. This element of communication is vitally important as it is 'not what you do to a product, it is what you do to the mind of a prospect' (Ries and Trout, 1972) that determines how a brand is really positioned in a market.

- Illustrate how the use of perceptual maps can assist the positioning process.

  To illustrate the use of perceptual maps in the positioning process an example of brand management is used. We displayed the differing attributes of a selection of retailing brands on a perceptual map. We discussed how these could illustrate the existing level of differentiation between brands; indicate how our brand and competing brands are perceived in the marketplace; provide insight into how a market operates; and reveal strengths and weaknesses that can assist strategic decisions about how to differentiate the attributes that matter to customers and how to compete more effectively in the market. The perceptual maps and key market drivers for this market are presented.

Visit the **Online Resource Centre** that accompanies this book to read more information about market segmentation and positioning: www.oxfordtextbooks.co.uk/orc/baines/

Review Questions

1 Define market segmentation and explain the STP process.

2 What is the difference between market segmentation and product differentiation?

3 Identify four different ways in which markets can be segmented.

4 How do market segmentation bases differ in business-to-business and consumer markets?

5 How can market segmentation bases be evaluated when target marketing?

6 What are the different approaches to selecting target markets?

7 What is the principle of positioning and why should it be undertaken?

8 What are perceptual maps and what can they reveal?

9 Name and explain three ways in which brands can be positioned.

10 Explain why organizations need to reposition brands.

Discussion Questions

1 Having read the Case Insight at the beginning of this chapter, how would you advise Stagecoach to position their brand to the differing market segments?

2 In a group with other colleagues from your seminar/tutor group discuss answers to the following questions.

(a) Using the information in Table 6.11 on the champagne market, and a suitable calculator, determine what are the most potentially profitable segments in the marketplace.

(b) What other data do we need to determine the size of the market (market potential)?

3 Discuss which market segmentation bases might be most applicable to:

(a) A political party segmenting the electorate for voters.

(b) A commercial radio station specializing in dance music and celebrity news/gossip.

(c) A Swiss chocolate manufacturer supplying multiple retail grocers and confectionery shops across Europe, e.g. Lindt.

Table 6.11
The champagne market

Social class	Quality-conscious (%) AP = £30 F = 3/yr	Price-conscious (%) AP = £15, F = 1.5/yr	Excessive drinkers (%) AP = £18, F = 5/yr	Conservative drinkers (%) AP = £20, F = 0.8/yr
AB (n=8m)	30.4	16.1	17.7	35.8
C1 (n=14m)	30	21.7	23.1	25.1
C2 (n=8m)	21.3	28.3	30.1	20.3
D (n=6m)	22.5	33.1	27.3	17.1
E (n=4m)	13.3	36.3	24.8	25.6

Notes: AP = average price, n = population size, F = no. of bottles purchased/year (all data hypothetical), % segment sizes only from Mintel (2004).

(d) A whisky distiller based in Scotland supplying high-quality single malt, e.g. Glenfiddich.

(e) An Italian sports car manufacturer, e.g. Ferrari, supplying high-performance expensively priced luxury cars through independent dealerships.

4 Write a one-sentence description of the attributes and benefits that are attractive to target consumers for a product with which you are particularly familiar (e.g. Coke in the cola category or Nokia in the mobile phones category), using the statement provided below. Explain how these attributes and benefits are different from those of competitors. Your positioning statement might be as follows:

[Product A] provides [target consumers] with [one or two salient product attributes]. This distinguishes it from [one or two groups of competing product offerings] which offer [attributes/benefits of the competing products].

(a) Briefly describe the target market segment. This should summarize the defining characteristics of the segment (e.g. demographic, psychographic, geographic, or behavioural).

(b) Briefly explain your reasons for believing that the attributes/benefits of your positioning statement are important for your target segment. Draw a perceptual map which summarizes your understanding of the market and shows the relative positions of the most important competing products.

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