

## **Chapter 2**

### **Consumer-Focused Strategy: Segmentation and Positioning**

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#### **Chapter Objectives**

After studying this chapter, you will be able to...

- Objective 1**—Define segmentation, target markets, and positioning, and understand why this process is important to marketers.
- Objective 2**—Explain how society benefits from market segmentation.
- Objective 3**—Describe the factors that influence the determination of a segmentation strategy.
- Objective 4**—Discuss various bases of segmentation.
- Objective 5**—Provide examples of strategies marketers use to position brands after segmentation.

## **Chapter Summary**

One of the most important ways marketers discover and satisfy customer needs and wants efficiently is through a “divide and conquer” process of market segmentation and positioning.

Market segmentation is the process of dividing the large and diverse mass market into subsets of consumers who share common needs, characteristics, or behaviors, and then targeting one or more of those segments with a distinct marketing mix. By identifying groups of highly similar consumers, a marketer is able to develop products and services specifically tailored to that group’s needs that also closely match the capabilities of the organization, thus maximizing the chances of profit and success.

Marketers make two underlying assumptions related to market segmentation: (1) consumer preferences vary, and (2) by tailoring a product or service to a segment’s needs, firms can make the offer so appealing that segment members are willing to pay a price that offsets the higher associated costs.

In addition to these assumptions, four factors influence a company’s market segmentation strategy:

1. Consumer preference heterogeneity (the idea that consumer preferences vary).
2. Majority fallacy (the risk of focusing on large, average segments and neglecting smaller, less typical segments).
3. Sales-cost trade-off (the fact that market segmentation increases sales and costs simultaneously).
4. Potential for cannibalization (when different products offered by the same company are very similar, they compete with each other).

Bases of segmentation include demographic, geographic, psychographic, attributes/benefits, and behavioral. Demographic-based segmentation divides customers according to vital population statistics. In geographic-based segmentation, the market is divided based on the physical location of potential customers. An underlying assumption of this market segmentation base is that consumers located in geographic proximity share similar needs and preferences for some products. Geo-demographic-based segmentation combines geography and demographic segmentation bases. Psychographic-based segmentation centers on customers’ lifestyles. One of the leading lifestyle segmentation systems is the VALS System. Behavioral-based segmentation involves segmenting consumers based on consumer preferences for a particular product attribute or benefit, usage occasion, user status, rate of product usage, and loyalty status.

Positioning is the process of communicating with target market(s) through specifically chosen marketing mix variables to help consumers differentiate a product from its competition and perceive how this product best satisfies their needs. Sometimes marketers use terms like *value proposition* or *The Big Idea* to describe a brand, product, or positioning strategy.

Like the bases of segmentation, companies use several strategies to position their products. The best positioning strategy depends on the characteristics of the product, market segmentation bases used, the competition, and the type of mental associations marketers want consumers to form. If a brand is the pioneer, that should be emphasized in its promotion. If the brand is markedly different on a single, easy-to-communicate, and important dimension, a single core benefit proposition should be used. If the brand is very similar to competitors' offerings or difficult to differentiate by product attribute, then price, usage situation, or user are ways of differentiating it. If competing brands have an exploitable weakness, repositioning is a possible strategy. Finally, marketers use perceptual mapping to measure consumer preferences and develop competitive strategies.

## TEACHING NOTES

### **Teaching Suggestions**

1. Ask students to survey current advertisements from a variety of media: local billboards, Internet sites, TV, radio, consumer magazines, and newspapers. Ask them to identify specific ads representing each positioning strategy discussed in the chapter. Bonus points could be awarded to students who find examples of different positioning strategies for brands in the same product category.
2. To illustrate the usefulness of perceptual mapping, ask students to construct perceptual maps for a product category (e.g., shampoo, coffee, cell phone service). They'll need to determine at least two attributes that are important for consumers in this product category. Then, they should plot brands in the map according to their perceptions of the various brands. Ask students to observe and discuss the implications of brands that are clustered close together. Are there any gaps in the map? If so, do students perceive them as opportunities, infeasibilities, or undesirables?
3. Briefly explain the nature of geo-demographic segmentation. Then, go to the *Claritas* Web site: <http://www.claritas.com/MyBestSegments/Default.jsp?ID=20>. Ask students to provide the ZIP Codes of their home towns or a ZIP Code of a famous location (e.g., Beverly Hills). Type a few select ZIP Codes into Claritas' PRIZM "ZIP Code lookup." The five most common PRIZM segments will emerge. Ask students to evaluate the "names" of these segments and verify the accuracy of the segment descriptions. Class discussion that follows is typically quite lively.

### **Opening Vignette**

The opening vignette describes a supermarket (Jungle Jim's, just north of Cincinnati, Ohio) that marries two unique traits: (1) shopping-as-entertainment and (2) international specialty foods. Through creative positioning, Jungle Jim's has been able to distinguish itself in the fiercely price-competitive grocery market.

### **A Divide and Conquer Strategy**

This section defines market segmentation as dividing mass markets into subsets of consumers who share common needs, characteristics, or behaviors, and then selecting one or more of those segments to serve with a distinct marketing mix. This two-step process is referred to as a "divide and conquer" strategy.

1. Dividing involves disaggregating and aggregating the market into homogeneous subgroups.
2. Conquering involves targeting one or more segments for business.

### **The Benefits of Marketing Segmentation**

1. Firms benefit by more efficiently using their resources, i.e., it's more efficient to target a homogeneous subgroup of consumers than to try and please a mass market. Firms can also avoid direct competition by selecting an underserved market or specializing.
2. Consumers benefit because their unique needs are more likely to be satisfied. In addition, their search costs are reduced.
3. Society benefits because target marketing encourages the development of new and better products and services.

### **Factors Influencing Marketing Segmentation Strategies**

This section describes key factors that influence the way the market is segmented. The fundamental premise of market segmentation is that consumers are not all alike. This begs the question: To what extent do consumers differ in their preferences for products and services?

1. *Preference heterogeneity* is the extent to which consumers differ in their needs and wants. The greater the preference heterogeneity is, the more finely segmented the market can be. The extremes of preference heterogeneity are defined at one end by a mass market and at the other end by a *picomarket*, or individual consumer.
2. *The majority fallacy* describes a situation where marketers focus on larger segments that exhibit “average” preferences and neglect smaller, less typical market segments. The fallacy lies in the assumption that the larger markets will generate more profits. Often, the opposite is true: Smaller, more extreme groups are less crowded and underserved.
  - **Figure 2.1** depicts the majority fallacy with a graph of normally distributed preferences.
3. *Sales/Cost Trade-offs* recognize that as market segmentation increases, sales also increase because a firm's marketing mix is more likely to align with consumers' preferences. On the other hand, costs also increase because multi-product strategies are more expensive to implement. Thus, marketers must carefully evaluate both the costs and benefits of increased segmentation.
4. *Cannibalization* occurs when products offered by the same firm are so similar that they compete among themselves, creating a situation of *oversegmentation*. Here, one brand may “eat away” market share from another brand in the same family (e.g., Diet Pepsi Lime and Diet Pepsi Vanilla).

### **Bases of Segmentation**

This section outlines the four primary bases of segmentation: *demographic, geographic, psychographic, and behavioral*.

- **Table 2.1** lists the four segmentation categories, along with sub-variables and illustrative examples.
- 1. *Demography* refers to the study of populations. Thus, variables based on vital population statistics provide measureable means to segment product markets. Markets segmented this way use data on age, gender, income, education, occupation, marital status, family life cycle, ethnicity, and religion to split mass markets into segments.
- 2. *Geography* refers to the physical location of consumers. Variables such as total population, density, regional differences in culture, and climate can be used to differentiate market segments.
- 3. *Geo-demography* combines geographic and demographic segmentation bases. It is sometimes referred to as ZIP-Code marketing. The basic tenet is “birds of a feather flock together.” PRIZM by Claritas provides 66 distinct segments, combined into 14 broad social groups.
- 4. *Psychography* involves the measurement of lifestyle, often combined with attitudes, beliefs, and personalities. Psychographic segmentation can be summarized with the AIO model (activities, interests, and opinions). Another way to capture psychography is to determine where consumers spend their leisure time and disposable income. The VALS System by SRIC-BI provides a two-dimensional model of psychographic segmentation.
  - **Figure 2.2 and Table 2.2** describe the VALS Segments.
- 5. *Behavioral* segmentation groups consumers based on their preferences for a specific benefit, use occasion, user status, rate of product usage, and loyalty status.
  - Benefit-based segmentation centers on consumers’ preferences for specific attributes or outcomes delivered by a product (e.g., picture resolution or price for a digital camera).
  - **Figure 2.3** describes benefit segmentation based on price.
  - Usage occasion and product usage describes purchasing and consuming products at different times of the day (e.g., drinking orange juice in the morning or evening), different times of the year (taking vacations in the summer vs. winter), at different events (e.g., birthdays), or on different occasions (e.g., holidays).

## **Positioning**

This section defines positioning as the place that a brand occupies in the mind of the consumer, relative to competitors' products. Two important clarifications surround this definition:

1. A firm must position in terms of the competition.
2. Marketing communication (e.g., advertising and promotion) creates positioning—not product design and development.

#### Positioning Strategies

1. *Positioning as a leader* is usually reserved for pioneering brands—those brands first to enter and define a market (e.g., Coke, Xerox, Kleenex, Linoleum).
2. *Positioning as a follower* occurs when a brand creates a new category (e.g., Michelob Ultra), does the “opposite” (e.g., 7-Up), or promotes itself as the underdog (e.g., Avis).
3. *Positioning linked to segmentation* parallels the segmentation bases discussed above (benefit, price, product use situation, product user).

#### Repositioning

Repositioning involves changing how consumers perceive a brand, relative to its competitors.

- Tylenol repositioned as “the brand that won’t upset your stomach.”
- Royal Doulton china changed consumers’ perceptions by repositioning competitor Lenox as a brand from New Jersey.
- Scope repositioned itself as delivering “fresh minty breath.”

#### Perceptual Mapping

This section describes how consumer perceptions can be depicted on graphs, with the x-axis indicating product attributes. A perceptual map tells marketers who their direct competitors are (plotted in nearby Cartesian space) and what brands represent less serious competition. Blank spaces on the maps indicate potential gaps in the market, which could be:

- A true opportunity
- A combination of attributes that nobody wants (undesirables)
- A combination of attributes that is impossible to deliver (infeasibilities)
- **Figure 2.4** depicts a perceptual map of the soft-drink market.

## **Answers to Review and Discussion Questions**

- 1. *Clearly distinguish between the following terms: demographics, psychographic, lifestyle, and positioning.***

Demographic characteristics are vital population statistics, such as age, gender, income, education, occupation, social class, marital status, household size, family life cycle, and culture or ethnicity. Psychographics is the measurement of lifestyle, often combined with measures of attitudes, beliefs, and personalities. Lifestyle, which is simply how we live, is traditionally defined in terms of a person's activities, interests, and opinions.

Positioning is the process of communicating with target market(s) in such a way as to help consumers differentiate the firm's product from other products and understand how the product can specifically satisfy their needs and wants.

- 2. *What are the two underlying assumptions of market segmentation?***

Two key assumptions underlie market segmentation. First, consumer preferences vary. And, by tailoring a product or service to a segment's specific needs, marketers can make the offering so appealing that the members of the segment are willing to pay a price that offsets the costs associated with catering to the specialized needs of the segment.

- 3. *How do the majority fallacy and the potential for cannibalization influence market segmentation decisions?***

The majority fallacy is the assumption that the largest market segment is going to be the most profitable. This may cause a marketer to ignore potentially profitable niche segments. Cannibalization occurs when products offered by the same firm are so similar that they compete among themselves. This may create a case of over-segmentation, where additional products can't be justified.

- 4. *According to the VALS technique, what type of consumer would probably buy a digital video camera? What type of consumer would take a fishing vacation trip? Justify your answer.***

An innovator might buy a digital video camera. Innovators tend to be curious and sophisticated, probably an early adopter of a high-tech, high-price product such as this. A maker might take a fishing trip. They value self-sufficiency and choose "hands-on" activities.

- 5. *Describe how marketers of Tropicana Orange Juice could use usage situation to broaden the product's segment.***

Students may suggest a variety of strategies. For example, the brand could try to expand orange juice beyond morning. They could stress the vitamin C benefits, and encourage people to drink the beverage when they have the cold or flu.

- 6. *Why might the pioneering advantage be even stronger for services than it is for physical products? Give one example.***

Service attributes tend to be more ambiguous than product attributes. Thus, consumers should be even more likely to let a service pioneer serve as the ideal point. Students may give various examples.



**7. *How might a leading brand of personal music players, such as Apple's iPod, best position itself? Give specific examples.***

Examples may vary, but should include a discussion of how this leading product could set a "standard of comparison," or talk about how they "invented" the category.

**8. *What steps might a follower brand of personal music players, such as Sony, do in terms of positioning to increase its chances of success? Give specific examples.***

Examples may vary, but they should include a discussion of how a follower brand could adapt a "do the opposite strategy" or turn the brand's number two position into an advantage, or create a new category. Other examples might draw from positioning on core benefits, price, usage situation, or users.

**9. *Describe when it is best to position using a core benefit proposition. Why?***

It is useful to position by core attributes if the attributes are uniquely advantageous to a brand. If the attribute is easily copied or easily turned against the brand by another firm then it could be a dangerous strategy.

**10. *Describe the three situations that gaps in perceptual maps represent.***

Gaps typically indicate (a) a true opportunity in the market that we might be able to pursue; (b) a combination of attributes that nobody actually needs or wants, which is why there is not competitor there; (c) a combination of attributes that is impossible to deliver to the consumer without the development of new technology.

**Answers to Short Application Exercises and Managerial Application Challenges**

*Student responses, answers, and examples will vary on these open-ended Short Application Exercises and Managerial Application Challenges.*

**Answers to Part 1 Video Questions (Segmentation at Lake, Snell, Perry and Mermin Associates)**

*Student responses, answers, and examples will vary on these open-ended Part Video Questions.*