Lecture 4

- Segmentation and preferences
- International segmentation (variables and processes)
- Targeting strategy
- Positioning

Segmentation

The purpose of **market segmentation** is to identify relatively homogeneous groups of consumers with similar consumption patterns.

A market is divided into subgroups of consumers which exhibit similar behaviour or have similar needs in order to create a marketing strategy which can effectively reach such groups.

After defining the market segments, firms choose the segments they want to target.

The market is homogeneous

The firm approaches markets homogeneously through ***mass marketing***, which regards

- *mass production*
- *mass distribution* of one product for all buyers
- *mass promotion*

The market is **undifferentiated**.

Mass marketing strategy can be very efficient in terms of economies of scale and cost saving. However, the risk lies in the fact that firm does not reach consumers effectively.

The market is segmented (differentiated)

Most companies are turning to **micromarketing** at one of four levels: ***segments***, ***niches***, ***local areas***, and ***individuals***.

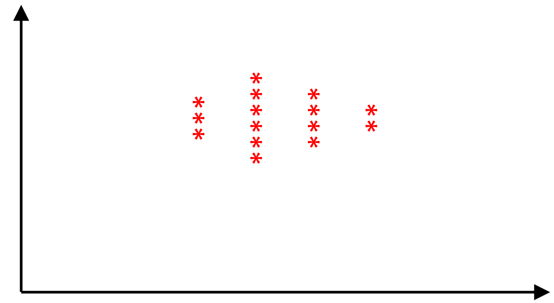
A market segment consists of a group of customers who share a similar set of needs and wants.

Marketers do not create segments;
they identify the segments in a specific market and decide which one(s) to target.

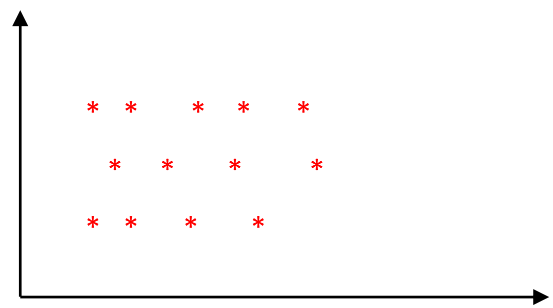
Segmentation through preferences

Market segments can defined through the identification of customer preferences.

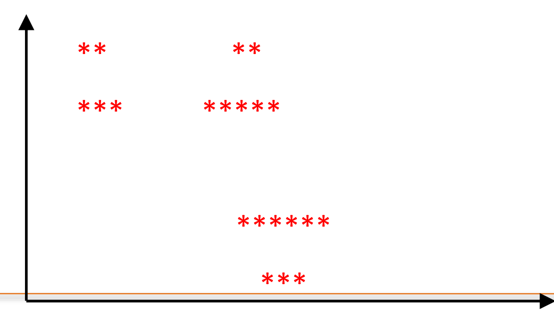
a. **Homogeneous preferences** – consumers have the same preferences; market shows no natural segments.



b. **Diffused preferences** – consumer preferences are spread in the space so they vary greatly their preferences; there are several brands, differences in consumer preferences.



c. **Clustered preference** – the market presents distinctive preference clusters (natural market segments).



Niches

A niche is a more narrowly defined customer group seeking a distinctive mix of benefits.

They usually represent *parts of segments* (*sub-segments*).

In the niche customers have a distinctive set of needs and they are ready to pay to the firm which best satisfies their needs.

Niches are normally *small* and do not attract new competitors.

The firm which decides to place its product within a niche usually seeks economies through specialization (innovation, services, punctual delivery, etc.).

Local Marketing

It is addressed to satisfy the needs and wants of local customer groups (trading areas, neighbourhoods, even individual stores)

e.g. *Citibank* gives a set of banking services depending on neighbourhoods demographics.

e.g. *Kraft* helps supermarkets to identify cheese assortment and shelf positioning that will optimize cheese sales in store with different degree of income and different ethnic neighbourhoods.

The goal is to get closer to customers as much as possible.

Part of local marketing is <u>experiential marketing</u>, which promotes a product not just communicating its features and benefits, but by also connecting it with unique and interesting experiences (*e.g. tourist products*).

'Individual Marketing' - Customerization

A company is customerized when it is able to respond to *individual customers* by customizing its products, services, and messages on a one-to-one basis.

The firm can achieve more precisely and effectively individual needs.

Technology helps companies in reaching the target more effectively through social networks, websites, online customer care, e-commerce.

Customerization may be very difficult to be implemented for complex product (*e.g. automobiles and electronics*) because it can raise the cost of goods by more than the customer is willing to pay.

Features of a market segment

DISTINCTIVENESS - Any segment has to be distinctive (*identifiable*) that means significantly *different* (the choice of segmentation variables has to be relevant to the product) from other segments.

ACCESSIBILITY - A segment has to be accessible, which means that the firm can be connected with it through *distribution* and be able to *communicate/promote* the product.

DEFENDABILITY - It is important to consider whether the organization can develop a sufficiently *strong differential advantage* to defend its presence in that segment against competitive incursions.

TANGIBILITY - A defined segment must be of a sufficient size to make its pursuit worthwhile (*large enough to be profitable*). So, the 'amount' of customers has to be quantitative *measurable*.

Global market segmentation

It is defined as *the process of identifying specific segments, whether they are country groups or across countries comprising potential customers with homogenous attributes who are likely to respond to a company's product/brand in a similar manner* (Ghauri, Cateora, 2014).

International marketers look for an identifiable segment of customers who have the same (or at least mostly similar) needs and wants across several country markets.

It is important to understand similarities and differences within and between cultures in determining whether cross-market similarities can be identified.

Companies tend to use a different approach: **INTERMARKET SEGMENTATION** – they form segments of consumers who have similar needs and buying behaviours even though they are from different countries (e.g. BMW cars, IPhone, Heineken beer).

International consumer segments

Historically, companies considered consumers in different countries as separate segments

- Globalization
- International business growth
- Increased level of education
- Information technology
- Reduction of trade barrier

- Emergence of similar segments across countries for some products
- Consumers are exposed to international stimuli, which reduce cultural differences and increase homogeneous tastes

- Companies can create an unique positioning in the consumers' mind and emphasise their product's differences
- Companies can reduce marketing costs and adaptation costs.
- Companies can create synergies globally and across multiple countries

Selecting international markets

Few companies have either the resources or the will to operate all over the world. Although some large companies, such as Unilever or Sony, sell products in more than 100 countries, most international firms focus on a smaller set.

Companies can segment international markets using one or a combination of several variables:

- *geographic location* – grouping countries, such as western Europe, Middle East or Africa (this does not mean that nations close to one another will have common traits and behaviours, e.g. United States and Canada with Mexico);
- *economic factors* – grouping countries by population income level or by their overall level of economic development (e.g. Group of Eight - USA, United Kingdom, France, Germany, Japan, Canada, Italy and Russia; newly industrialized economies – Malaysia, South Korea, Brazil, China);
- *political and legal factors* – type and stability of government, receptivity towards foreign firms, monetary regulations, bureaucracy.

Variables for market segmentation (I)

Geographic

The market is divided into different geographical areas, such as nations, states, regions, cities or neighbourhoods.

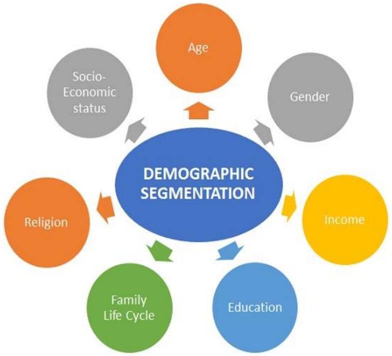
e.g. *Hilton Hotels* customizes rooms and services according to location, while *Best Western Hotels* are more cosmopolitan.

Demographic

The market is divided into groups on the basis of variables such as age, family size, family cycle of life, gender, occupation, education, religion, race, nationality and social class.

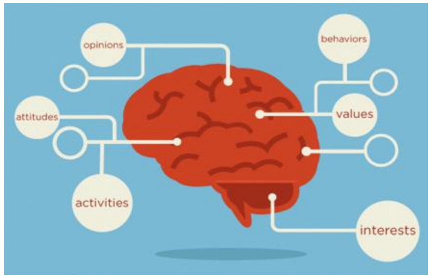
The preference towards a product is often associated with demographic variables.

e.g. toothpaste *Colgate*, diapers *Pampers*, goods for singles, clothing, cosmetics, magazines, luxury goods.



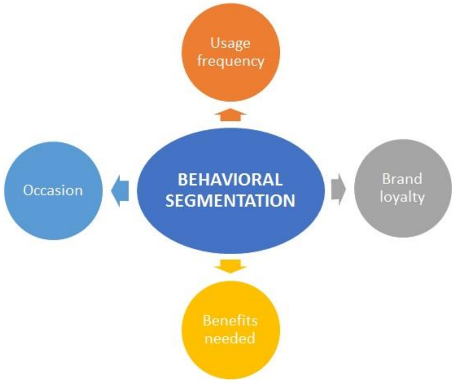
Variables for market segmentation (II)

Psychographics (psychology + demographics = lifestyle segmentation)



Buyers are divided into different groups on the basis of psychological/personality traits, lifestyle, activities, interests, or values. This approach to market segmentation takes into account the attitude of customers to innovation and their resources availability. *(Value-Attitude-Lifestyles_VALS Segmentation System). (e.g. people loving healthy lifestyle)*

Behavioural Segmentation



Buyers are divided into groups on the basis of their knowledge of, attitude toward, use of, or response to a product. *(e.g. decision roles, behavioural variables such as occasions/time of purchase, benefits, first/potential/regular user of a product, attitude, loyalty)*

Targeting

After defining the market segments, firms choose the segments they want to target.

Targeting is the process of evaluating segments and focusing marketing efforts on a country, region or groups of people that have a significant potential to respond to the firm’s products.

Also market size, competition intensity and resources available need to be evaluated because they influence the target choice.

International target market strategy

Undifferentiated targeting (Full market coverage – UNDIFFERENTIATED MARKETING)

To serve all customer groups with all the products they might need. This implies that there are weak segment differences or the product's appeal transcends segments. It is costly. It may be less profitable because larger segments/markets attract heavy competitors. (e.g. Coca-Cola)

Differentiated targeting (Selective-segment specialization – DIFFERENTIATED MARKETING)

Different market segments, separate offers for each. (e.g. Originally Martini products were not marketed separately – homogeneous advertising: "*anytime, anyplace, anywhere*"; now each version of the product such as Martini Rosso, Bianco, Extra Dry is promoted in a differentiated way)

Focused targeting (Product specialization – CONCENTRATED MARKETING)

Single-segment - specialization in production, distribution and promotion; deep knowledge of the group's needs; leadership in the market; risky option.

One product for several different market segments (e.g. a microscope sold to universities, government, and commercial laboratories).

Market positioning

It refers to decisions regarding where and how a firm competes and the appropriate strategy aimed at creating a unique perception of its products in the customer's minds.

Therefore, a firm's positioning strategy must be meaningful to the consumers.

Positioning in international marketing is influenced by differences in culture, institutional framework, regulations and infrastructures in different countries.

Are the product attributes valued in the same way across countries?

Is the brand perceived in the same manner?

Does the competitive structure differ across countries?

Three approaches:

1. **Local consumer culture positioning (ethnocentric approach)**
2. **Foreign consumer culture positioning (polycentric approach)**
3. **Global consumer culture positioning (global approach)**

Approaches to positioning

Positioning strategies are implemented by exploiting certain product benefits or features, emphasising product quality for value, associating the brand with particular user's needs or highlighting the superior aspects of the product relative to competitors' products.

Three approaches can be identified for positioning:

1. **PRODUCT CHARACTERISTICS OR ATTRIBUTES**

(e.g. reliability, durability, benefits to customer)

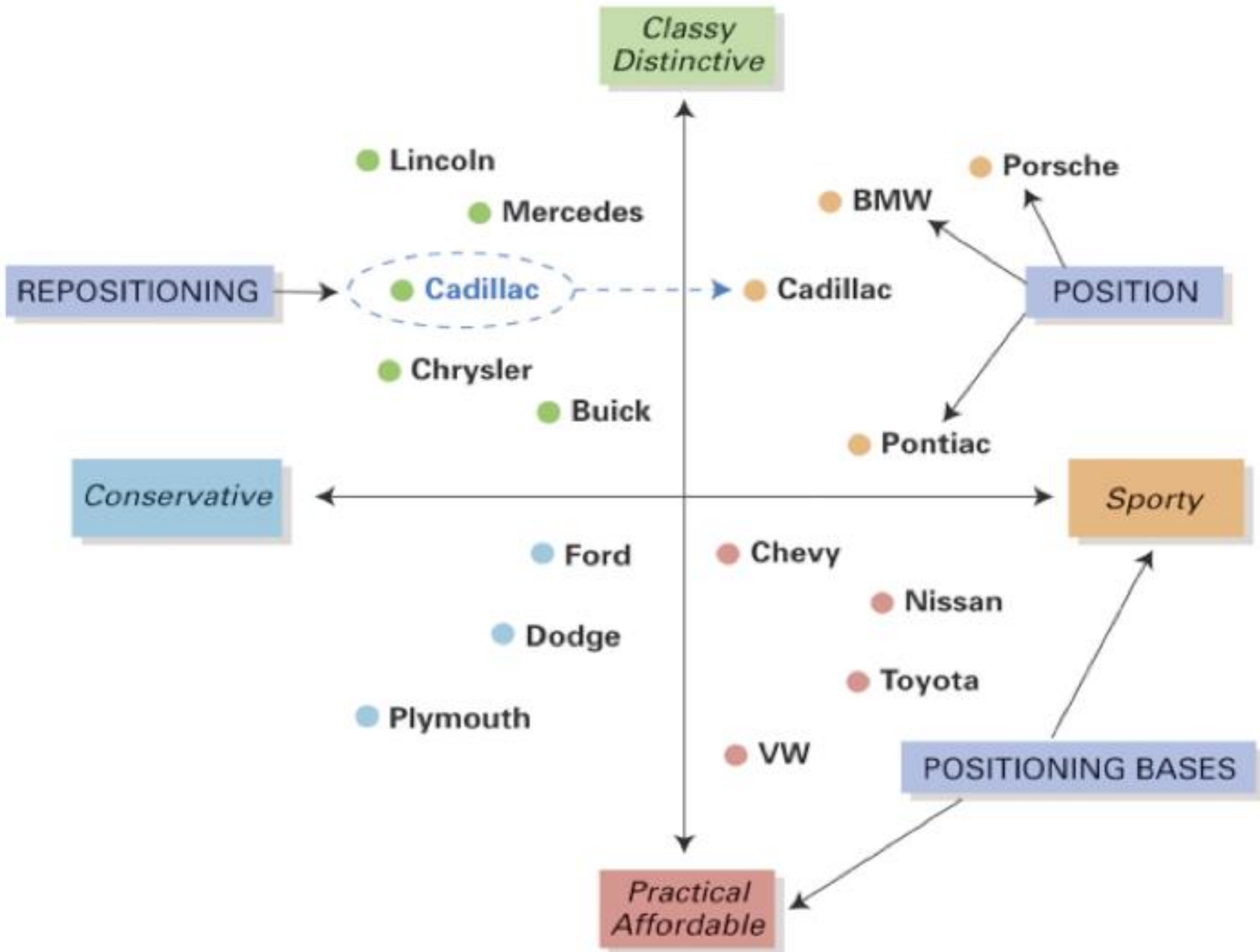
2. **PRICE-QUALITY**

(e.g. relationship between price and quality, emphasis/competitiveness on low price or high quality)

3. **PRODUCT USERS**

(associating the product or the brand with a specific user or user group in order to correlate it with the user image or characteristics, e.g. celebrities or influencers)

A positioning map in *automotive industry*

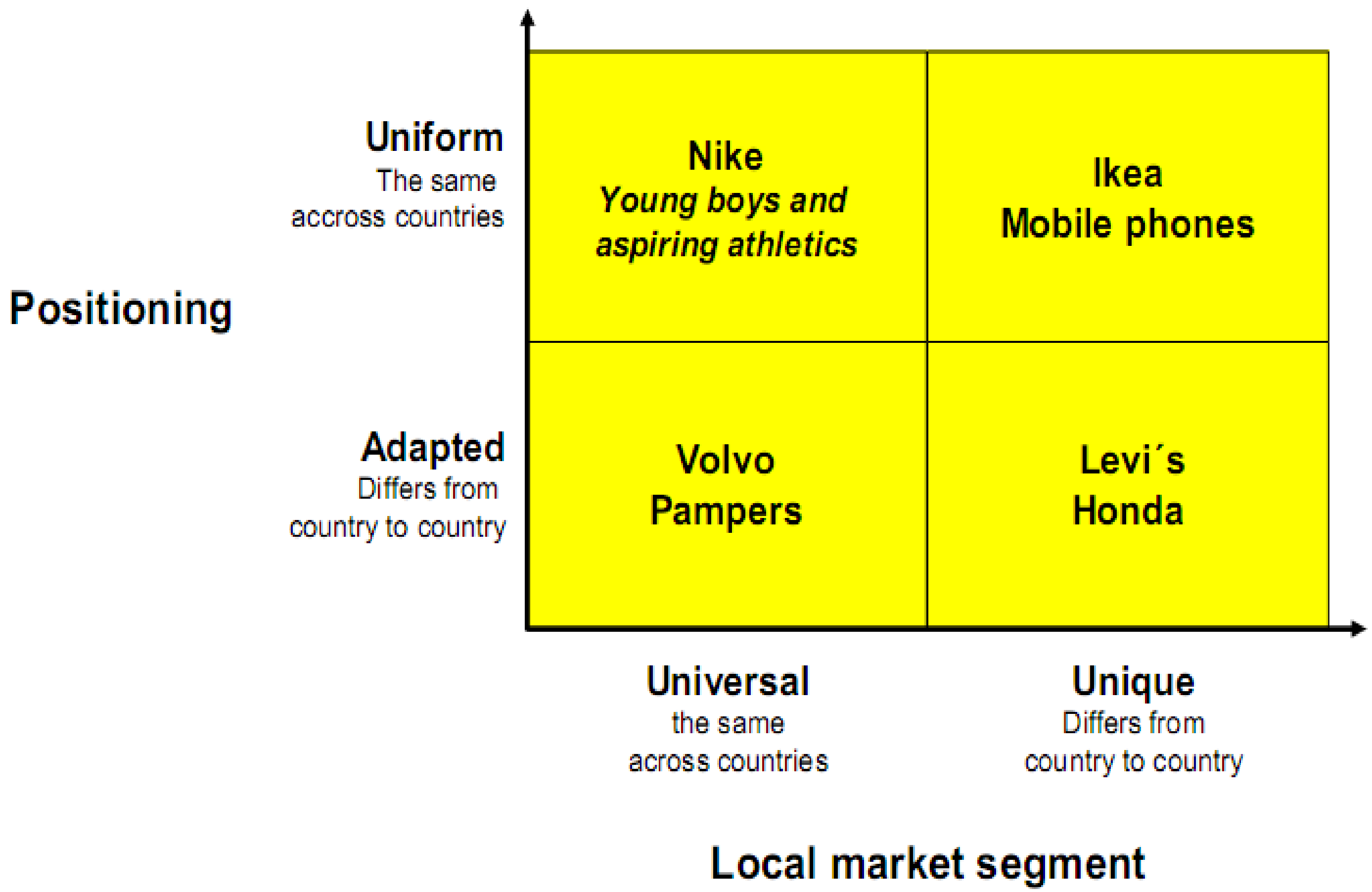


A positioning map in *athletic industry*

A Perceptual Map provides a visual picture of how customers see different competitors

A positioning map in *chocolate industry*

Segmentation and Positioning



Segmentation-Targeting-Positioning (STP)

- **SEGMENTATION**

  Identify meaningful bases for creating customer groups.

- **TARGETING**

  Decide which and how many segments can be served given the segment's potential, competition within the segment and the company's strengths.

- **POSITIONING**

  Decide which position/image the firm needs to create in order to attract the particular segment.

Segmentation-Targeting-Positioning