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Segmentation, Target Marketing, Positioning, and CRM

Chapter Questions

- What are the different levels of market segmentation?
- How can a company divide a market into segments?
- What are the requirements for effective segmentation?
- How should business markets be segmented?
- How should a company choose the most attractive target markets?

Effective Targeting Requires…

- Identify and profile distinct groups of buyers who differ in their needs and preferences
- Select one or more market segments to enter
- Establish and communicate the distinctive benefits of the market offering

Market segmentation, targeting, differentiation and positioning

- Market Segmentation
  - Identify bases for segmenting the market
  - Develop segment profiles
- Target Marketing
  - Develop measure of segment attractiveness
  - Select target segments
- Differentiation
  - Differentiate the market offering to create superior customer value
- Market Positioning
  - Develop positioning for target segments
  - Develop a marketing mix for each segment

Definitions

- Market Segmentation:
  - Dividing a market into smaller groups of buyers with distinct needs, characteristics, or behavior who might require separate products or marketing mixes.
- Target Marketing
  - The process of evaluating each market segment's attractiveness and selecting one or more segments to enter.
- Market Positioning
  - Arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers.

Segmenting Consumer Markets

- There is no single way to segment a market. A marketer has to try different segmentation variables, alone and in combination, to find the best way to view the market structure. The major segmentation bases are:

a) *Geographic segmentation*: dividing a market into different geographical units such as nations, states, regions, counties, cities, or neighborhoods.

b) *Demographic segmentation*: dividing the market into groups based on demographic variables such as age, sex, family size, family life cycle, income, occupation, education, religion, race, and nationality. Demographic factors are the most popular bases for segmenting customer groups.

c) *Psychographic segmentation*: dividing a market into different groups based on social class, lifestyle, or personality characteristics.

d) *Behavioral segmentation*: dividing a market into groups based on consumer knowledge, attitude, use, or response to a product.

- *Occasion segmentation*: dividing the market into groups according to occasions when buyers get the idea to buy, actually make their purchase, or use the purchased item.
- *Benefit segmentation*: dividing the market into groups according to the different benefits that consumers seek from the product.

Geographic Segmentation

Geographic segmentation divides the market into geographical units such as nations, states, regions, counties, cities, or neighborhoods. The company can operate in one or a few areas, or it can operate in all but pay attention to local variations. In that way it can tailor marketing programs to the needs and wants of local customer groups in trading areas, neighborhoods, even individual stores.

Geographic Segmentation Variables

- World or country region
- U.S. region
- State
- City
- Neighborhood
- City or metro size
- Density
- Climate

Demographic Segmentation

- In demographic segmentation, we divide the market on variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality, and social class.
- One reason demographic variables are so popular with marketers is that they're often associated with consumer needs and wants. Another is that they're easy to measure.
- Even when we describe the target market in non-demographic terms (say, by personality type), we may need the link back to demographic characteristics in order to estimate the size of the market and the media we should use to reach it efficiently.

Demographic Segmentation Variables

- Age
- Gender
- Family size
- Family life cycle
- Income
- Occupation
- Education
- Religion
- Race
- Generation
- Nationality

Age and Lifecycle Stage

Consumer wants and abilities change with age. People in the same part of the life cycle may still differ in their life stage. Life stage defines a person's major concern, such as going through a divorce, going into a second marriage, taking care of an older parent, deciding to cohabit with another person, deciding to buy a new home, and so on. These life stages present opportunities for marketers who can help people cope with their major concerns

Gender and Income

Men and women have different attitudes and behave differently, based partly on genetic makeup and partly on socialization. Women tend to be more communal-minded and men more self-expressive and goal-directed; women tend to take in more of the data in their immediate environment and men to focus on the part of the environment that helps them achieve a goal. A research study examining how men and women shop found that men often need to be invited to touch a product, whereas women are likely to pick it up without prompting. Men often like to read product information; women may relate to a product on a more personal level.

Victoria's Secret studied women and learned that while women need underwear, they want lingerie. It went on to develop the retail chain very successfully based on this insight.

Income segmentation is a long-standing practice in such categories as automobiles, clothing, cosmetics, financial services, and travel. However, income does not always predict the best customers for a given product. Blue-collar workers were among the first purchasers of color television sets; it was cheaper for them to buy these sets than to go to movies and restaurants.

Generational Influences

Each generation or cohort is profoundly influenced by the times in which it grows up—the music, movies, politics, and defining events of that period. Members share the same major cultural, political, and economic experiences and have similar outlooks and values. Marketers often advertise to a cohort by using the icons and images prominent in its experiences.

Millennials are also known as the Echo Boomers, these consumers have been "wired" almost from birth— playing computer games, navigating the Web, downloading music, connecting with friends via instant messaging and mobile phones. They have a sense of entitlement and abundance from growing up during the economic boom and being pampered by their boomer parents. Yet they are highly socially conscious and concerned about environmental issues. They are selective, confident, and impatient.

Gen Xers feel self-sufficiency and the ability to handle any circumstance are key. Technology is an enabler for them, not a barrier. Unlike the more optimistic, team oriented Gen Yers, Gen Xers are more pragmatic and individualistic.

With many baby boomers moving into their 60s and even the last and youngest wave bearing down on 50, demand has exploded for products to turn back the hands of time. According to one survey, nearly one in five boomers was actively resisting the aging process, driven by the mantra, "Fifty is the new thirty."

Race and Culture

Multicultural marketing is an approach recognizing that different ethnic and cultural segments have sufficiently different needs and wants to require targeted marketing activities, and that a mass market approach is not refined enough for the diversity of the marketplace. The Hispanic American, African American, and Asian American markets are all growing at two to three times the rate of nonmulticultural populations, with numerous submarkets, and their buying power is expanding. Multicultural markets also vary in whether they are first and second (or more) generation, and whether they are immigrants or born and raised in the United States. The norms, language nuances, buying habits, and business practices of multicultural markets need to be factored into the initial formulation of a marketing strategy, rather than added as an afterthought.

State Farm decided to make its Hispanic American marketing a priority in 2008. The firm sponsored local Latino community events, soccer matches, the Latin Music Awards, and Univision's highly rated Saturday night variety show, Sabádo Gigante. Perhaps State Farm's most original marketing activity, however, was the support and sponsorship of a new band. Los Felinos de la Noche (The Felines of the Night), as the six men (primarily Hispanic immigrants) are called, play the percussion heavy pop-rock sound of Norteño or Northern Mexico regional music. With State Farm's support, the band recorded singles, shot music videos, and played live concerts to make a name for themselves.

Psychographic Segmentation and The VALS Framework

Psychographics is the science of using psychology and demographics to better understand consumers. In psychographic segmentation, buyers are divided into different groups on the basis of psychological/personality traits, lifestyle, or values. People within the same demographic group can exhibit very different psychographic profiles. One of the most popular commercially available classification systems based on psychographic measurements is Strategic Business Insight's (SBI) VALS™ framework. VALS, signifying values and lifestyles, classifies U.S. adults into eight primary groups

1. Innovators—Successful, sophisticated, active, "take-charge" people with high self-esteem.
2. Thinkers—Mature, satisfied, and reflective people motivated by ideals and who value order, knowledge, and responsibility. They seek durability, functionality, and value in products.
3. Achievers—Successful, goal-oriented people who focus on career and family. They favor premium products that demonstrate success to their peers.
4. Experiencers—Young, enthusiastic, impulsive people who seek variety and excitement. They spend a comparatively high proportion of income on fashion, entertainment, and socializing.
5. Believers—Conservative, conventional, and traditional people with concrete beliefs. They prefer familiar, U.S.-made products and are loyal to established brands.
6. Strivers—Trendy and fun-loving people who are resource-constrained. They favor stylish products that emulate the purchases of those with greater material wealth.
7. Makers—Practical, down-to-earth, self-sufficient people who like to work with their hands. They seek U.S.-made products with a practical or functional purpose.
8. Survivors—Elderly, passive people concerned about change and loyal to their favorite brands

Behavioral Segmentation Based on Needs and Benefits

Needs-based or benefit-based segmentation is a widely used approach because it identifies distinct market segments with clear marketing implications. Constellation Wines identified six different benefit segments in the U.S. premium wine market ($5.50 a bottle and up).

- Enthusiast (12 percent of the market). Skewing female, their average income is about $76,000 a year. About 3 percent are "luxury enthusiasts" who skew more male with a higher income.
- Image Seekers (20 percent). The only segment that skews male, with an average age of 35. They use wine basically as a badge to say who they are, and they're willing to pay more to make sure they're getting the right bottle.
- Savvy Shoppers (15 percent). They love to shop and believe they don't have to spend a lot to get a good bottle of wine. Happy to use the bargain bin.
- Traditionalist (16 percent). With very traditional values, they like to buy brands they've heard of and from wineries that have been around a long time. Their average age is 50 and they are 68 percent female.
- Satisfied Sippers (14 percent). Not knowing much about wine, they tend to buy the same brands. About half of what they drink is white zinfandel.
- Overwhelmed (23 percent). A potentially attractive target market, they find purchasing wine confusing.

Behavioral Segmentation: Decision Roles

- Initiator
- Influencer
- Decider
- Buyer
- User

People play five roles in a buying decision: Initiator, Influencer, Decider, Buyer, and User. For example, assume a wife initiates a purchase by requesting a new treadmill for her birthday. The husband may then seek information from many sources, including his best friend who has a treadmill and is a key influencer in what models to consider. After presenting the alternative choices to his wife, he purchases her preferred model, which ends up being used by the entire family.

Behavioral Segmentation Variables

- Occasions (i.e. when buyers get the idea to buy, actually make their purchase, or use the purchased item)
- Benefits
- User Status: nonusers, ex-users, potential users, first-time users, regular users.
- User Rates: light, medium, heavy product users.
- Loyalty Status

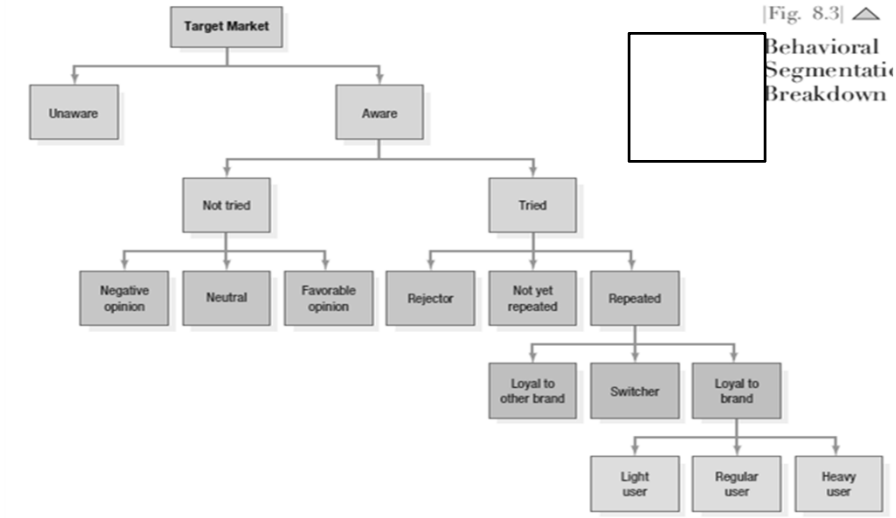
Behavioral Segmentation: Behavioral Variables

Many marketers believe variables related to various aspects of users or their are good starting points for constructing market segments. Occasions mark a time of day, week, month, year, or other well-defined temporal aspects of a consumer's life. We can distinguish buyers according to the occasions when they develop a need, purchase a product, or use a product. Every product has its nonusers, ex-users, potential users, first-time users, and regular users. We can segment markets into light, medium, and heavy product users. Heavy users are often a small slice but account for a high percentage of total consumption. Some people are unaware of the product, some are aware, some are informed, some are interested, some desire the product, and some intend to buy. Marketers usually envision four groups based on brand loyalty status. Five consumer attitudes about products are: enthusiastic, positive, indifferent, negative, and hostile.

Loyalty Status

- Loyalty Status Marketers usually envision four groups based on brand loyalty status:
- 1. Hard-core loyals—Consumers who buy only one brand all the time
- 2. Split loyals—Consumers who are loyal to two or three brands
- 3. Shifting loyals—Consumers who shift loyalty from one brand to another
- 4. Switchers—Consumers who show no loyalty to any brand
- A company can learn a great deal by analyzing degrees of brand loyalty: Hard-core loyals can help identify the products' strengths; split loyals can show the firm which brands are most competitive with its own; and by looking at customers dropping its brand, the company can learn about its marketing weaknesses and attempt to correct them. One caution: What appear to be brand-loyal purchase patterns may reflect habit, indifference, a low price, a high switching cost, or the unavailability of other brands.
- People tend to be loyal to their favorite soda brand but less so to airline brands.

Figure 1: Behavioral Segmentation Breakdown



Segmenting for Business Markets

- Demographic segmentation
  - Industry, company size, location
- Operating variables
  - Technology, usage status, customer capabilities
- Purchasing approaches
- Situational factors
  - Urgency, specific application, size of order
- Personal characteristics
  - Buyer-seller similarity, attitudes toward risk, loyalty
- We can segment business markets with some of the same variables we use in consumer markets, such as geography, benefits sought, and usage rate, but business marketers also use other variables. The demographic variables are the most important, followed by the operating variables—down to the personal characteristics of the buyer.

Steps in Segmentation Process

- Need-based segmentation
- Segment identification
- Segment attractiveness
- Segment profitability
- Segment positioning
- Segment acid test
- Market mix strategy
- There are many statistical techniques for developing market segments. Once the firm has identified its market-segment opportunities, it must decide how many and which ones to target. Marketers are increasingly combining several variables in an effort to identify smaller, better-defined target groups. Thus, a bank may not only identify a group of wealthy retired adults but within that group distinguish several segments depending on current income, assets, savings, and risk preferences.

Effective Segmentation Criteria

- To be useful, market segments must rate favorably on five key criteria:
- Measurable
  - Size, purchasing power, and profile of segment can be measured.
- Accessible
  - The segments are large and profitable enough to serve. A segment should be the largest possible homogeneous group worth going after with a tailored marketing program
- Substantial
  - Large and profitable enough to serve
- Differentiable
  - The segments are conceptually distinguishable and respond differently to different marketing-mix elements and programs. If married and unmarried women respond similarly to a sale on perfume, they do not constitute separate segments.
- Actionable
  - Effective programs can be developed for attracting and serving the segments.

Evaluating market segments

- Market segmentation reveals the firm's market segment opportunities. The firm now has to evaluate the various segments and decide how many and which segments it can serve best.
- Evaluating Market Segments
  - Segment size and growth
  - Segment structural attractiveness
    - Level of competition
    - Substitute products
    - Power of buyers
    - Powerful suppliers
  - Company objectives and resources

Target Marketing

- **Target Market**
  - Consists of a set of buyers who share common needs or characteristics that the company decides to serve.
- Selecting Target Market Segments
  - **Undifferentiated (mass) marketing**: a market-coverage strategy in which a firm decides to ignore market segment differences and go after the whole market with one offer.
  - **Differentiated (segmented) marketing**: a market-coverage strategy in which a firm decides to target several market segments and designs separate offers for each.
  - **Concentrated (niche) marketing**: a market-coverage strategy in which a firm goes after a large share of one or a few segments or niches.
  - **Micromarketing** (local or individual) is the practice of tailoring products and marketing programs to the needs and wants of specific individuals and local customer groups – includes local marketing and individual marketing.
    - *Local marketing* involves tailoring brands and promotions to the needs and wants of local customer groups – cities, neighborhoods, and specific stores.
    - *Individual marketing* involves tailoring products and marketing programs to the needs and preferences of individual customers – also labeled "markets-of-one marketing", "customized marketing", and "one-to-one marketing."

Choosing a Target Marketing Strategy

- Companies need to consider many factors when choosing a target-marketing strategy:
  - Company resources
  - The degree of product variability
  - Product's life-cycle stage
  - Market variability
  - Competitors' marketing strategies

Positioning for competitive advantage

- Positioning:
  - The place the product occupies in consumers' minds relative to competing products.
  - Typically defined by consumers on the basis of important attributes.
  - Involves implanting the brand's unique benefits and differentiation in the customer's mind.
  - Positioning maps that plot perceptions of brands are commonly used.
- *Competitive advantage*: to build profitable relationships with target consumers, marketers must understand customer needs better than competitors do and deliver more value. To the extent that a company can position itself as providing superior value, it gains competitive advantage.
  - An advantage over competitors gained by offering consumers greater value, either through lower prices or by providing more benefits that justify higher prices.

Choosing the right competitive advantage

- How many differences to promote?
  - Unique selling proposition (i.e. low prices)
  - Several benefits
- Which differences to promote? Criteria include:
  - Important
  - Distinctive
  - Superior
  - Communicable
  - Preemptive (competitors cannot easily copy the difference)
  - Affordable
  - Profitable

Choosing a positioning strategy

- Value propositions represent the full positioning of the brand – that is the full mix of benefits upon which it is positioned. They represent the whole cluster of benefits the company promises to deliver. The value proposition is thus a promise about the experience customers can expect from the company's market offering and their relationship with the supplier.
- Possible value propositions:
  - More for More
  - More for the Same
  - More for Less
  - The Same for Less
  - Less for Much Less

Developing a Positioning Statement

- Company and brand positioning should be summed up in a *positioning statement*, that takes the follow form:
  - EXAMPLE: To (target segment and need) our (brand) is (concept) that (point-of-difference)
  - "To busy professionals who need to stay organized, Palm is an electronic organizer that allows you to backup files on your PC more easily and reliably than competitive products."

❖ *Communicating the positioning*

- Companies must be certain to DELIVER their value propositions.
- Positions must be monitored and adapted over time.

What is Customer Relationship Management?

CRM is the process of carefully managing detailed information about individual customers and all customer touch points to maximize customer loyalty.

Framework for CRM

1. *Identify your prospects and customers.* Don't go after everyone. Build, maintain, and mine a rich customer database with information from all the channels and customer touch points.
2. *Differentiate customers in terms of (1) their needs and (2) their value to your company.* Spend proportionately more effort on the most valuable customers (MVCs). Apply activity-based costing and calculate customer lifetime value. Estimate net present value of all future profits from purchases, margin levels, and referrals, less customer-specific servicing costs.
3. *Interact with individual customers to improve your knowledge about their individual needs and to build stronger relationships.* Formulate customized offerings you can communicate in a personalized way.
4. *Customize products, services, and messages to each customer.* Facilitate customer interaction through the company contact center and Web site.

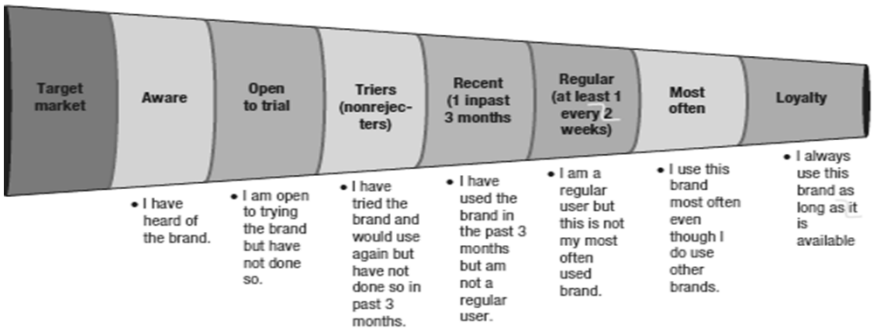
Attracting and Retaining Customers

- Reduce the rate of defection
- Increase longevity
- Enhance share of wallet
- Terminate low-profit customers
- Focus more effort on high-profit customers

❖ Retaining customers is critical. Consider these facts:

- ➢ *Acquisition of customers can cost five times more than retaining current customers.*
- ➢ *The average business loses 10% of its customers each year.*
- ➢ *A 5% reduction to the customer defection rate can increase profits by 25% to 85%.*
- ➢ *The customer profit rate increases over the life of a retained customer.*

Figure 2: The Marketing Funnel

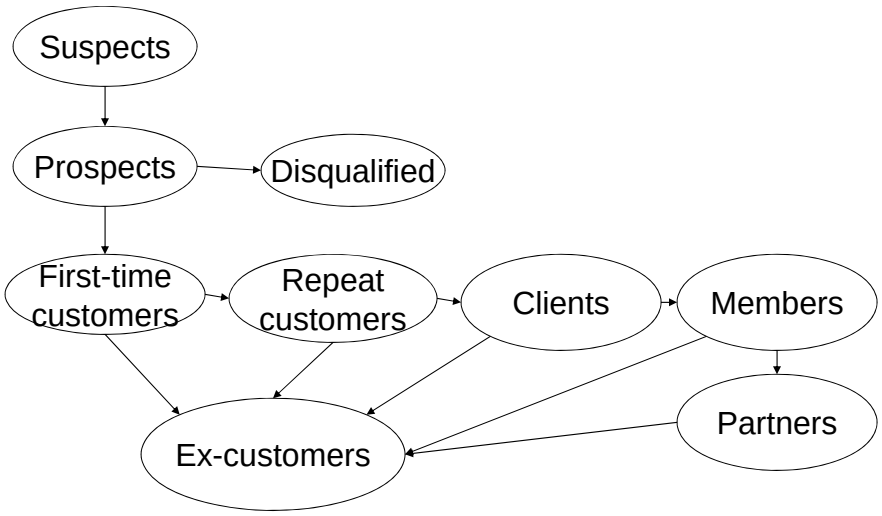


The figure above, shows the main steps in attracting and retaining customers in terms of a funnel. The *marketing funnel* identifies the percentage of the potential target market at each stage in the decision process, from merely aware to highly loyal. Consumers must move through each stage before becoming loyal customers. Some marketers extend the funnel to include loyal customers who are brand advocates or even partners with the firm.

Loyalty Programs

Frequency programs (FPs) are designed to reward customers who buy frequently and in substantial amounts. They can help build long-term loyalty with high CLV customers, creating cross-selling opportunities in the process. Pioneered by the airlines, hotels, and credit card companies, FPs now exist in many other industries. Most supermarket chains offer price club cards that grant discounts on certain items. Club membership programs can be open to everyone who purchases a product or service, or limited to an affinity group or those willing to pay a small fee.

The Customer Development Process



❖ **REVIEW QUESTIONS:**

1. List and briefly explain the major bases for segmenting consumer markets.
2. List and briefly explain the requirements for effective segmentation?