Marketing Segmentation, Targeting, and Positioning

Chapter Objectives

1. Identify the essential components of a market.
2. Outline the role of market segmentation in developing a marketing strategy.
3. Describe the criteria necessary for effective segmentation.
4. Explain the geographic, domestic, and psychographic approaches to segmenting consumer markets.
5. Describe product-related segmentation.
6. Identify the steps in the market segmentation process.
7. Discuss the four basic strategies for reaching target markets.
8. Summarize the types of positioning strategies, and explain the reasons for positioning and repositioning products.
• **Market** Group of people with sufficient purchasing power, authority, and willingness to buy.
  
  • An individual’s lifestyle, income, geographic location, age, and other factors all contribute to the likelihood that person will buy certain products.

• **Target market** Group of people to whom a firm decides to direct its marketing efforts and ultimately its goods and services.
  
  • Allows firms to develop more efficient and effective marketing strategies.
  
  • Marketers must study a market to segment and communicate with it effectively.
TYPES OF MARKETS

- **Consumer products** Products bought by ultimate consumers for personal use.

- **Business products** Goods and services purchased for use either directly or indirectly in the production of other goods and services for resale.

- A product can be either, depending on its use.
  - Example: Tires, which can be purchased by consumers for the family car or by General Motors for its production line.
  - Example: Line of professional cookware for restaurants may be adapted for home use.
• With 6.5 billion people in the world and 300 million in U.S., too many potential customers to attract with a single marketing mix.

• Market segmentation Division of the total market into __________, relatively homogenous groups.

CRITERIA FOR EFFECTIVE SEGMENTATION

• ______ basic criteria determine the effectiveness of marketing segmentation:
  • First, segment must have measurable size and __________ _________.
    • Example: Female customers account for 85 percent of all consumer purchases.
**Womens Buying Power**

- Home Furnishings: 94%
- OTC Pharmaceuticals: 93%
- Food: 93%
- Vacations: 92%
- New Homes: 91%
- Bank Accounts: 89%
- Auto Purchases: 85%
- Riding Lawn Mowers: 81%
- Healthcare: 80%
- PCs: 66%
- Consumer Electronics: 57%
• Second, marketers must find a way to promote effectively to and serve the market segment.
  • Examples: Ads featuring working mothers by T-Mobile and Blackberry.
• Third, segment must be sufficiently large to offer good profit potential.
  • Example: Women spend $55 billion in electronics purchases each year.
• Fourth, firm must aim for segments that match its marketing capabilities.
  • Smaller firms often stick with a target market.
  • Example: An electronics company that installs a supervised play area for children while their mothers shop.
SEGMENTING CONSUMER MARKETS

• Attempt to isolate the traits that distinguish a certain group of consumers from the overall market.

• Group characteristics—such as age, gender, geographic location, income, and buying patterns—are key.

• Four common bases for segmenting consumer markets:
  • ____________ segmentation.
  • ____________ segmentation.
  • ____________ segmentation.
  • ____________ segmentation.
GEOGRAPHIC SEGMENTATION

- **Geographic segmentation** Division of an overall market into homogeneous groups based on their locations.

- Marketers look at both total population to determine market size.

- Also pay close attention to areas with quickly growing populations to plan for the future.

- Worldwide, China and India have the world’s largest populations, followed by the U.S.

- Businesses must also consider economic variables and may combine their marketing efforts in countries that share similar characteristics.

- Other useful geographic indicators include job growth and migration patterns.
Figure 9.2
The Ten Largest Cities and Ten Most Populous States in the United States

• With post-World War II growth of suburbs, traditional city boundaries have lost meaning for marketers.

• Government now classifies urban data in several categories:
  
  • Core based statistical area (CBSA) metropolitan areas (those with at least 50,000) and micropolitan areas (those between 10,000 and 50,000).
  
  • Metropolitan statistical area (MSA)—area with an urban center of at least 50,000 and total metropolitan area of at least 100,000.
  
  • Micropolitan statistical area—area with between 10,000 and 49,999 residents with proportionately few commuting outside the area.
  
  • Consolidated metropolitan statistical area (CMSA)—includes two or more primary metropolitan statistical areas.
  
  • Primary metropolitan statistical area (PMSA)—urbanized areas with populations more than 1 million.
Figure 9.3
The Ten Largest Metropolitan Areas in the United States

USING GEOGRAPHIC SEGMENTATION

• Marketers focus on core regions, those from which they draw 40 to 80 percent of sales.

• Residence within region—urban core vs. suburb—is often an important variable.

• Provides useful distinctions for regional differences.

GEOGRAPHIC INFORMATION SYSTEMS (GISs)

• Computer systems that assemble, store, manipulate, and display data by location.

• Allows firms to overlay data about customers over a map and make decision about location, delivery routes, and other issues.

  • Example: Google Earth, which allows users to view different parts of the country close up.
DEMOGRAPHIC SEGMENTATION

- **Demographic segmentation** Division of an overall market into homogenous groups based on variables such as ______, _____, income, occupation, education, sexual orientation, __________ size, and stage in the family life cycle; also called ______________ segmentation.

- Primary source of data is U.S. Census Bureau.

SEGMENTING BY GENDER

- Lines ____________ in recent years.
  - Example: Men buying skin-care products and women buying power tools and trucks.
  - Working women who regularly use the Internet make _____ of the decisions about retail items, healthcare goods and services, and fitness products.

  - Understanding this can help marketers develop more effective messages.
SEGMENTING BY AGE

• As with gender, distinctions among age groups blur as consumers change and as age distribution shifts.
  • Example: *St. Joseph’s baby aspirin* now marketed to adults to help prevent heart disease.

The Cohort Effect

• Tendency of members of a generation to be influenced and bound together by significant events in their formative year, ages 17 to 22.
  • Example: Older baby boomer and the Vietnam War.

• Formative experiences help form long-term beliefs and goals and influence buying habits.

School-Age Children

• Have significant influence over family purchases.
Tweens and Teens

- Spend $159 billion annually on everything from snacks to clothing to electronics.
- Also influence billions of dollars of family purchases.
- Three-quarters of U.S. teens 15 to 17 years old have cell phones.
- Companies that target this group can have significant success.
  - Example: Retailers such as Hot Topic, American Eagle Outfitters, and Aeropostale.

Generation X

- Born between 1966 and 1981, numbers 44 million.
- Family-oriented, well educated, and optimistic.
Baby Boomers

- Born between 1946 and 1965, numbers approximately 77 million.
- Influenced by Vietnam War and careerism that followed.
- Lucrative segment.
  - Example: Boomers over 50 will have $1 trillion in disposable income.
- Diverse segment that generally tends to value health and quality of life.

Seniors

- 36 million Americans are more than 65 years old.
- Heads of households more than 55 years old control about three-quarters of the country’s total assets.
- Account for 40 percent of new-car sales and most of the travel dollars.
SEGMENTING BY ETHNIC GROUP

• Three fastest-growing ethnic groups in U.S. are Hispanics, African Americans and Asian Americans.

Hispanics and African Americans

• Are the largest ethnic/minority groups in the United States.
• Hispanic population growing more quickly than African American.
• Hispanics’ disposable income is rapidly increasing.
• African Americans make more than $1 trillion in purchases each year.
• Hispanics and African Americans are not homogenous groups, and marketers must reach different segments.
  • Example: TV One serves 30 million African American households.
Asian Americans

• Second-fastest growing segment of the U.S. population.
• Expected to grow to 23 million by 2020.
• Concentrated in fewer geographic areas than other ethnic groups.
• Very diverse group that represents more than 15 cultures.

Native Americans

• Currently numbers roughly 2.8 million, and an additional 11 million Americans claim some heritage or ancestry.
• Population growing at double the rate of the national population.
• Native American businesses have revenue of $34 billion annually.
• Rez Biz encourages entrepreneurship and economic development.
PEOPLE OF MIXED RACE

• The ability to select more than one racial category on census forms has been recently introduced.

• Makes statistics more accurate but comparing the new statistics with past data can be difficult.

SEGMENTING BY FAMILY LIFE CYCLE STAGES

• Family life cycle—the process of family formation and dissolution.

• Life stage, not age, is primary concern of marketer.

  • Example: Young childless couples may spend more on entertainment, while couples with young a young child may buy cribs, children’s clothing, and other children’s items.

• Empty nesters may have higher disposable incomes than previously and spend more on luxury items.
SEGMENTING BY HOUSEHOLD TYPE

• Average household size in U.S. has decreased from 5.8 in 1790 to less than three today.

• Households vary by lifestage and the presence or absence of children.

• Growing number of same-sex couples who share households.
  • 22 percent of gay couples and 34 percent of lesbian couples are raising children.
SEGMENTING BY INCOME AND EXPENDITURE PATTERNS

Engel’s Laws

• As household income increases:
  • A smaller percentage of expenditures goes for food.
  • The percentage spent on housing, household operations, and clothing remains constant.
  • The percentage spent on other items (such as recreation and education) increases.
• Helps marketers target consumers at all income levels.
DEMOGRAPHIC SEGMENTATION ABROAD

• Demographic data can be more difficult to get than in the U.S.

• Government census data may include different information than U.S. census.
  
  • Canada includes religious affiliation, which U.S. census does not.

  • Great Britain, Japan, and other countries do not collect income data.

• International Programs Center provides some international demographic data, as does the United Nations.
PSYCHOGRAPHIC SEGMENTATION

WHAT IS PSYCHOGRAPHIC SEGMENTATION?

- **Psychographic segmentation** Division of a population into groups that have similar psychological characteristics, __________, and lifestyles.

- Common research method is a large-scale survey asking for agreement or disagreement with statements about activities, interests, and opinions.

- A psychographic __________ system developed 25 years ago and today owned and managed by SRI Consulting Business Intelligence.

- Based on concepts of resources and motivation.
<table>
<thead>
<tr>
<th>Actualizers</th>
<th>High Resources</th>
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<tbody>
<tr>
<td>Self-confident.</td>
<td>Receptive to new products and technologies.</td>
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<tr>
<td>Enjoy the “finer things.”</td>
<td>Skeptical of advertising.</td>
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<td>Frequent readers of a wide variety of publications.</td>
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<tr>
<th>Principle-Motivated</th>
<th>Achievement-Motivated</th>
<th>Action-Motivated</th>
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<tr>
<td><strong>Thinkers</strong></td>
<td><strong>Achievers</strong></td>
<td><strong>Experiencers</strong></td>
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<tr>
<td>Little interest in image or prestige.</td>
<td>Relatively affluent.</td>
<td>Follow fashion and fads.</td>
</tr>
<tr>
<td>Like educational and public affairs programming.</td>
<td>Attracted to premium products.</td>
<td>Spend much of disposable income on socializing.</td>
</tr>
<tr>
<td>Read widely and often.</td>
<td>Average TV watchers.</td>
<td>Buy on impulse.</td>
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<tr>
<th><strong>Believers</strong></th>
<th><strong>Strivers</strong></th>
<th><strong>Makers</strong></th>
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<tbody>
<tr>
<td>Traditional.</td>
<td>Image-conscious.</td>
<td>Self-sufficient, hands on.</td>
</tr>
<tr>
<td>Family-oriented.</td>
<td>Limited discretionary incomes, but carry credit balances.</td>
<td>Shop for comfort, durability, value.</td>
</tr>
<tr>
<td>Buy American.</td>
<td>Spend on clothing and personal-care products.</td>
<td>Unimpressed by luxuries.</td>
</tr>
<tr>
<td>Slow to change habits.</td>
<td>Prefer TV to reading.</td>
<td>Read auto, home mechanics, fishing magazines.</td>
</tr>
<tr>
<td>Look for bargains.</td>
<td>Watch TV more than average.</td>
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<tr>
<th><strong>Survivors</strong></th>
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<tbody>
<tr>
<td>Restricted consumption.</td>
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<tr>
<td>Concerned with security and safety.</td>
</tr>
<tr>
<td>Brand loyal.</td>
</tr>
<tr>
<td>Trust advertising.</td>
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<td>Watch TV often.</td>
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<th>Low Resources</th>
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<tr>
<td>Restrictive.</td>
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<tr>
<td>Careful buyers.</td>
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<tr>
<td>Beware of expensive products.</td>
</tr>
<tr>
<td>Shop around.</td>
</tr>
<tr>
<td>Watch TV often.</td>
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PSYCHOGRAPHIC SEGMENTATION OF GLOBAL MARKETS

- RoperASW identified six psychographic consumer segments that exist in 35 countries studied.
  - Strivers—value professional and material goals more than the other groups.
  - Devouts—value duty and tradition.
  - Altruists—emphasize social issues and societal well-being.
  - Intimates—value family and personal relationships.
  - Fun seekers—focus on personal enjoyment and pleasurable experiences.
  - Creatives—seek education, technology, and knowledge.
USING PSYCHOGRAPHIC SEGMENTATION

• Can help marketers more effectively create goods and services for a target market.

• Identifying which psychographic segments are most prevalent in certain markets helps marketers plan and promote more effectively.

• Generally acts as a good supplement to geographic and demographic segmenting.
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PRODUCT-RELATED SEGMENTATION

- **Product-related segmentation** Division of a population into homogeneous groups based on their relationships to the product.

SEGMENTING BY BENEFITS SOUGHT

- Focuses on the benefits people expect from using the product.
  - Example: Starbucks customers was more than coffee; they want a pleasant experience that makes them feel appreciated.

SEGMENTING BY USAGE RATES

- 80/20 principle—large percentage of revenue comes from a small, loyal percentage of customers.
- Marketers may target heavy, moderate, light users or nonusers.
SEGMENTING BY BRAND LOYALTY

• Grouping customers according to the strength of their product loyalty.
  • Example: Frequent purchaser programs.

• Customers develop loyalty for a variety of reasons.

USING MULTIPLE SEGMENTATION BASES

• Flexibility helps marketers increase their accuracy in reaching the right markets.

• Goal is getting to know potential customers better and satisfying their needs with appropriate goods and services.
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THE MARKET SEGMENTATION PROCESS

DEVELOP A RELEVANT PROFILE FOR EACH SEGMENT

• In-depth analysis that helps managers accurately match buyers’ needs with the firm’s offerings.

FORECAST MARKET POTENTIAL

• Sets upper limit on potential demand and maximum sales potential.

FORECAST PROBABLE MARKET SHARE

• Comes from analysis of competitors’ market position and development of marketing strategy.

SELECT SPECIFIC MARKET SEGMENTS

• Use demand forecasts and cost projections to determine return on investment from each segment.

• Assesses nonfinancial factors such as firm’s ability to launch product.
STRATEGIES FOR REACHING TARGET MARKETS

UNDIFFERENTIATED MARKETING

- **Undifferentiated marketing** Strategy that focuses on producing a single product and marketing it to all customers; also called *mass marketing*.
- More common in the past than today.

DIFFERENTIATED MARKETING

- **Differentiated marketing** Strategy that focuses on producing several products and pricing, promoting, and distributing them with different marketing mixes designed to satisfy smaller segments.
- Generally raises production and promotion costs but also can increase satisfaction among individual segments, leading to higher overall sales.
CONCENTRATED MARKETING

• **Concentrated marketing** Focusing marketing efforts on satisfying a single market segment; also called *niche marketing*.

• Approach can appeal to small firms or to firms that offer highly specialized goods and services.
  
  • Example: **Peanut Butter & Co.**, which appeals to peanut butter lovers.

• Can backfire if competitors target the same niche or if market decreases.

MICROMARKETING

• **Micromarketing** Targeting potential customers at very narrow, basic levels, such as by ZIP code, specific occupation, or lifestyle—possibly even individuals themselves.

• Internet makes micromarketing more effective.

• Firms can suffer if market is too small to be profitable.
SELECTING AND EXECUTING A STRATEGY

• Basic determinants of marketing strategy:
  • Company resources.
  • Product homogeneity.
  • Stage in the product lifestyle.
  • Competitors’ strategies.

• Positioning Placing a product at a certain point or location within a market in the minds of prospective buyers.
  • Distinguishes firm’s offerings from its competitors’.
• May develop a positioning map and reposition product as necessary.