



Chapter 5: IDENTIFYING AND TARGETING ATTRACTIVE MARKET SEGMENTS



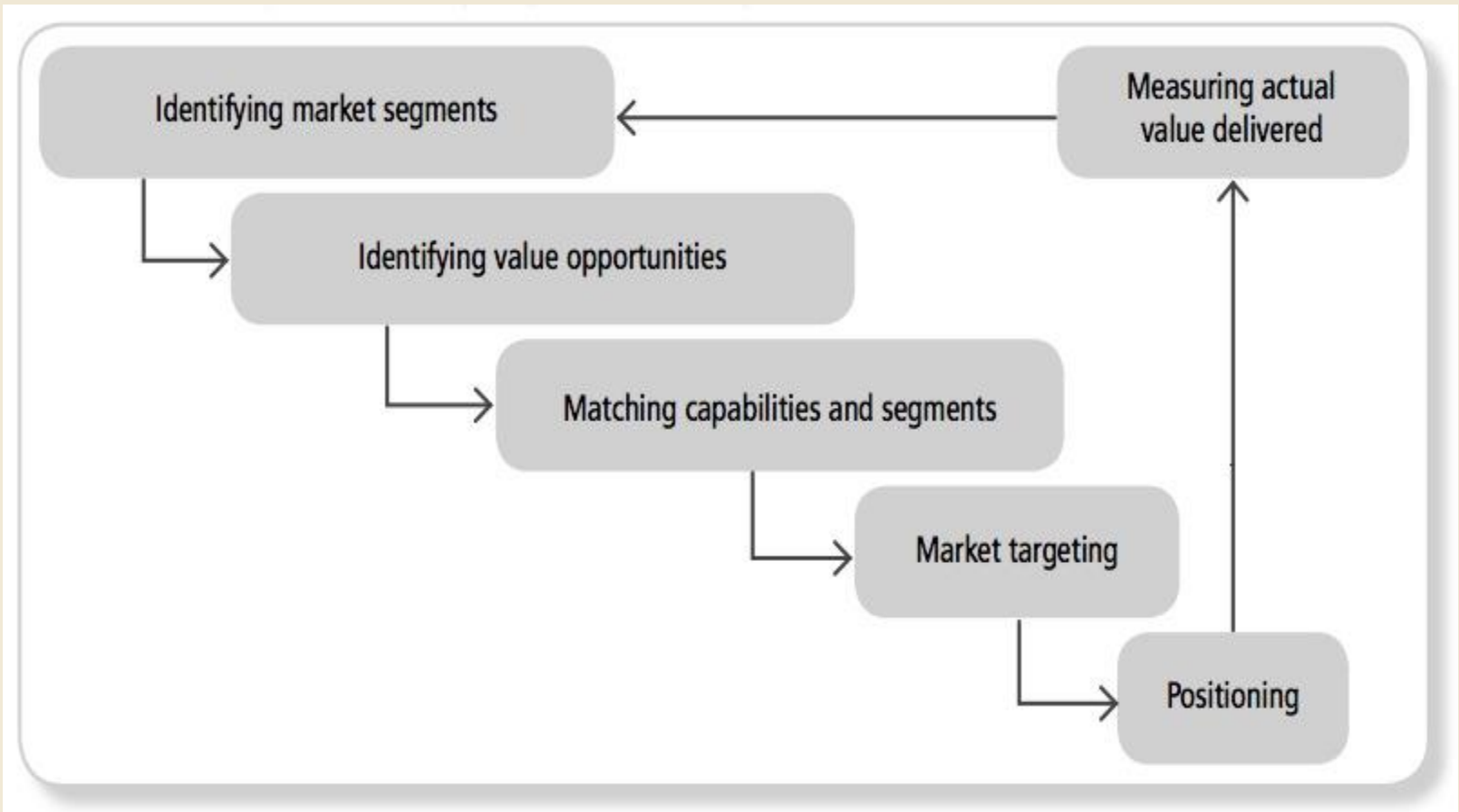
Learning outcomes

After reading this chapter, you should be able to:

- Explain the importance of segmentation, targeting and positioning
- Differentiate between the different approaches to market segmentation
- Evaluate and make recommendations with regards to segmentation, targeting and positioning decisions.



Segmentation, targeting, and positioning (STP) as a process



Source: Cravens & Piercy (2006)



What is a “good” market segmentation?

- It identifies the product-market segments that are most worthwhile to pursue
- It recognises the dynamic nature of markets
- It helps the organization to figure out what products to place before the consumers most likely to purchase it.



Types of market segmentation

- Needs-based segmentation
- Demographic segmentation
- Geographic segmentation
- Segmentation by product, service or channel
- Psychographic segmentation
- Behaviouristic segmentation.



Business market segmentation

Kind of relationship	<ul style="list-style-type: none">• Loyalty (weak → strong)• Sourcing strategy (single → multiple vendors)• Relationship distance ('arm's length' → close)• Reciprocity (none → complete)
Type of customer	<ul style="list-style-type: none">• Manufacturer, government, retailer, not-for-profit, military
Demographics	<ul style="list-style-type: none">• Geographical location• Size of the business (number of employees, turnover)• Primary industry or type of business• Number of facilities (e.g. branches)
Product uses	<ul style="list-style-type: none">• Installations, components, accessories, raw materials, supplies, professional services
Type of buying situation	<ul style="list-style-type: none">• Centralised → decentralised• Single buyer → multiple buying influences• Straight rebuy → modified rebuy → new task buying
Purchasing methods	<ul style="list-style-type: none">• Vendor analysis, purchasing specifications, Internet bids, negotiated contracts, long-term contracts, e-commerce web sites

Source: Perreault & McCarthy (2005)



The market segmentation process

- Defining the market and scope of segmentation
- Deciding on an approach to segmentation
 - *A priori*
 - Hypothesised segmentation
 - Bottom-up segmentation
- Identifying and profiling segments.

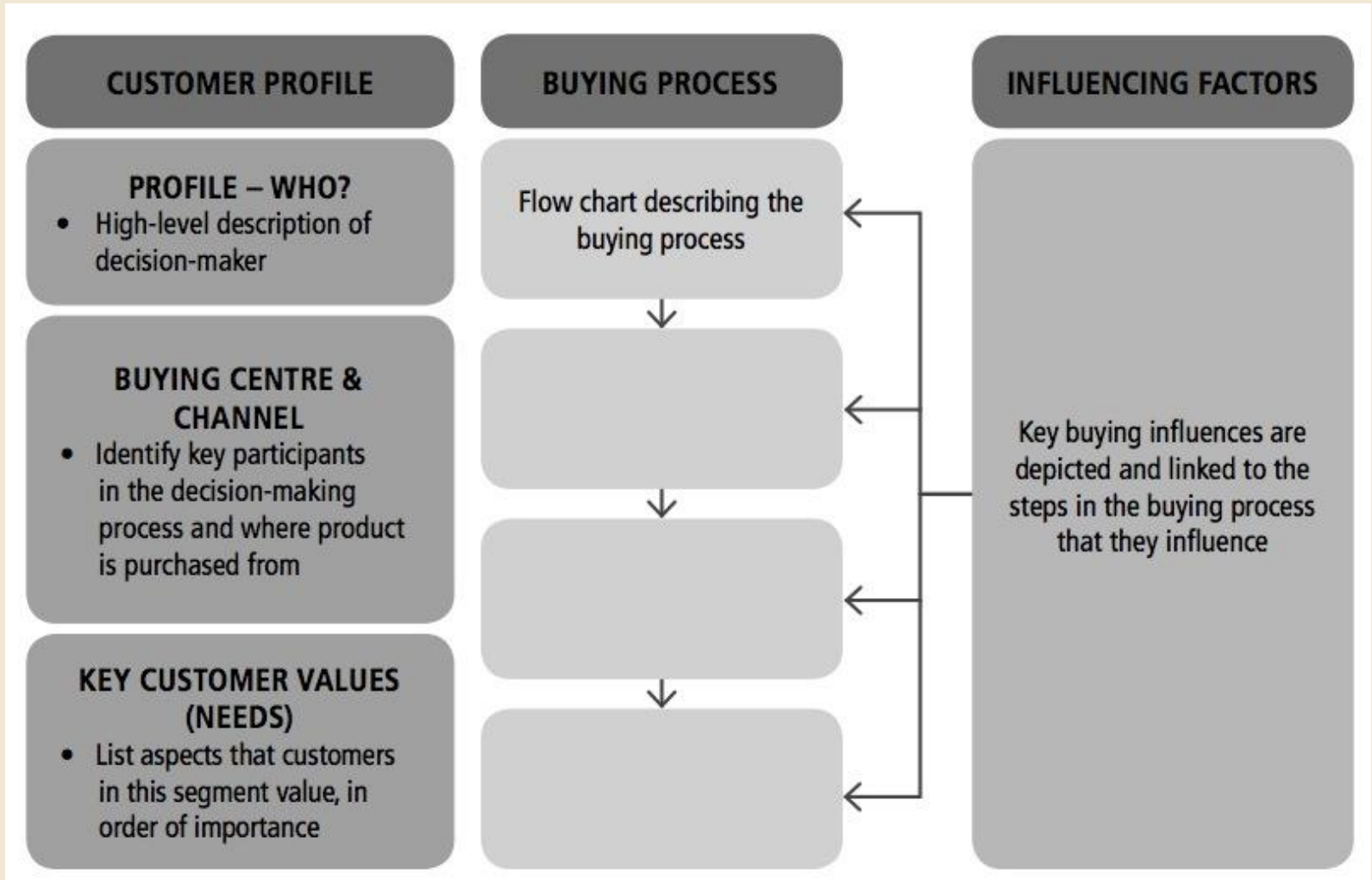


Identifying and profiling market segments

- Internal knowledge
- Qualitative research
- Quantitative research.



An example of a segment buying pro forma





Business buying centre role players

- Gatekeepers
- Influencers
- Deciders
- Buyers.



Barriers to segmentation

- Infrastructure barriers
- Process barriers
- Implementation barriers
- Conceptual reasons
 - Excessive focus on customers' identities
 - Too little focus on customer behaviour
 - An obsession with technical detail of segmentation.



Developing a targeting strategy

- Assessing segment attractiveness
 - Identify segment attractiveness factors (SAFs)
 - Weight SAFs
 - Define SAF evaluation parameters
 - Rate segments
- Assessing relative competitive positioning
 - Identify critical success factors (CSFs)
 - Weight CSFs
 - Rate segment competitors on CSFs
- Determining market targets.

Assessing segment attractiveness – an example

SAF	Weight	Soccer moms (rating)	Soccer moms (weighted average)	Lone riders (rating)	Lone riders (weighted average)	Eco-warriors (rating)	Eco-warriors (weighted average)	First-time buyers (rating)	First-time buyers (weighted average)
Market growth	0,4	4	1,6	2	0,8	9	3,6	6	2,4
Profit potential	0,3	3	0,9	6	1,8	9	2,7	4	1,2
Barriers to entry	0,3	8	2,4	6	1,8	9	2,7	3	0,9
Total	1,0	15	4,9	14	4,4	27	9,0	13	4,5

Assessing relative competitive positioning – an example

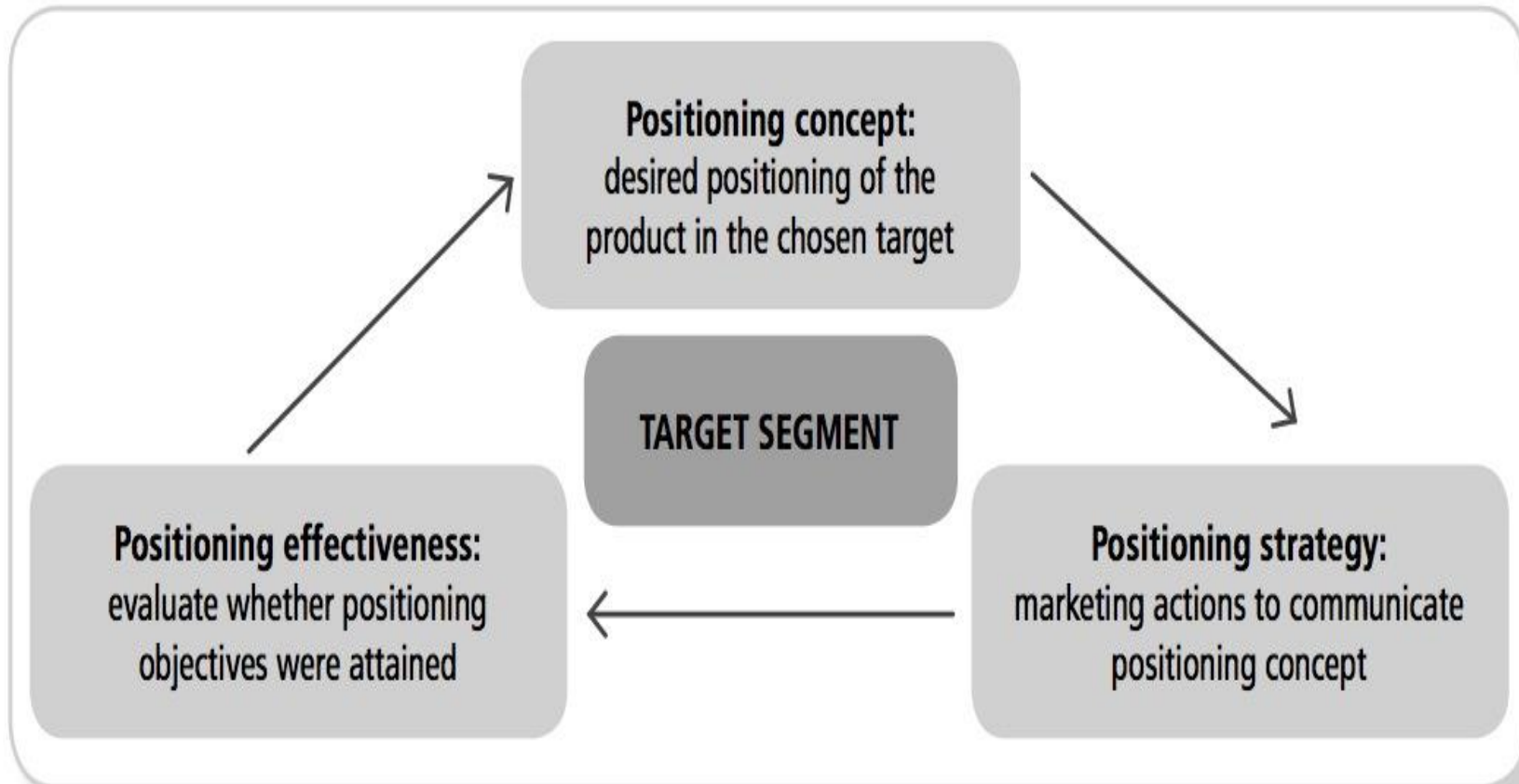
CSF	Weight	E-voive Compact		New car (under R150 000)		Motorcycle		Used car (under R150 000)	
		Rating	W x R	Rating	W x R	Rating	W x R	Rating	W x R
Running costs	0,3	9	2,7	5	1,5	3	0,9	9	2,7
Safety	0,2	4	0,8	8	1,6	5	1,0	1	0,2
Reliability	0,2	3	0,6	10	2,0	6	1,2	6	1,2
Initial cost	0,2	4	0,8	4	0,8	7	1,4	9	1,8
Brand	0,1	1	0,1	9	0,9	6	0,6	6	0,6
Total	1,0		5,0		6,8		5,1		6,5

Selecting segment strategies

SEGMENT ATTRACTIVENESS	HIGH	<p>Build selectively:</p> <ul style="list-style-type: none"> • Specialise around limited strengths • Seek ways to overcome weaknesses • Withdraw if indications of sustainable growth are lacking 	<p>DESIRABLE POTENTIAL TARGET</p> <p>Invest to build:</p> <ul style="list-style-type: none"> • Challenge for leadership • Build selectively on strengths • Reinforce vulnerabilities 	<p>DESIRABLE POTENTIAL TARGET</p> <p>Protect position:</p> <ul style="list-style-type: none"> • Invest to grow at maximum desirable rate • Concentrate on maintaining strengths
	MEDIUM	<p>Limited expansion or harvest:</p> <ul style="list-style-type: none"> • Look for ways to expand without high risk, otherwise minimise investment and focus operations 	<p>Manage for earnings:</p> <ul style="list-style-type: none"> • Protect existing strengths • Invest to improve position only in areas where risk is low 	<p>DESIRABLE POTENTIAL TARGET</p> <p>Build selectively:</p> <ul style="list-style-type: none"> • Emphasise profitability by increasing productivity • Build up ability to counter competition
	LOW	<p>Divest:</p> <ul style="list-style-type: none"> • Sell when possible to maximise cash value • In the interim, cut fixed costs and avoid further investment 	<p>Manage for earnings:</p> <ul style="list-style-type: none"> • Protect position • Minimise investment 	<p>Protect and refocus:</p> <ul style="list-style-type: none"> • Defend strengths • Seek ways to increase earnings without accelerating market decline
		LOW	MEDIUM	STRONG
RELATIVE COMPETITIVE POSITION				



Developing positioning strategy





Positioning dimensions

- Product features
- Product benefits
- Parentage or heritage
- Manufacturing process
- Ingredients
- Endorsements by customers, intermediaries or celebrities
- Competitive comparisons
- Environmental friendliness
- Price or quality.

Positioning strategy

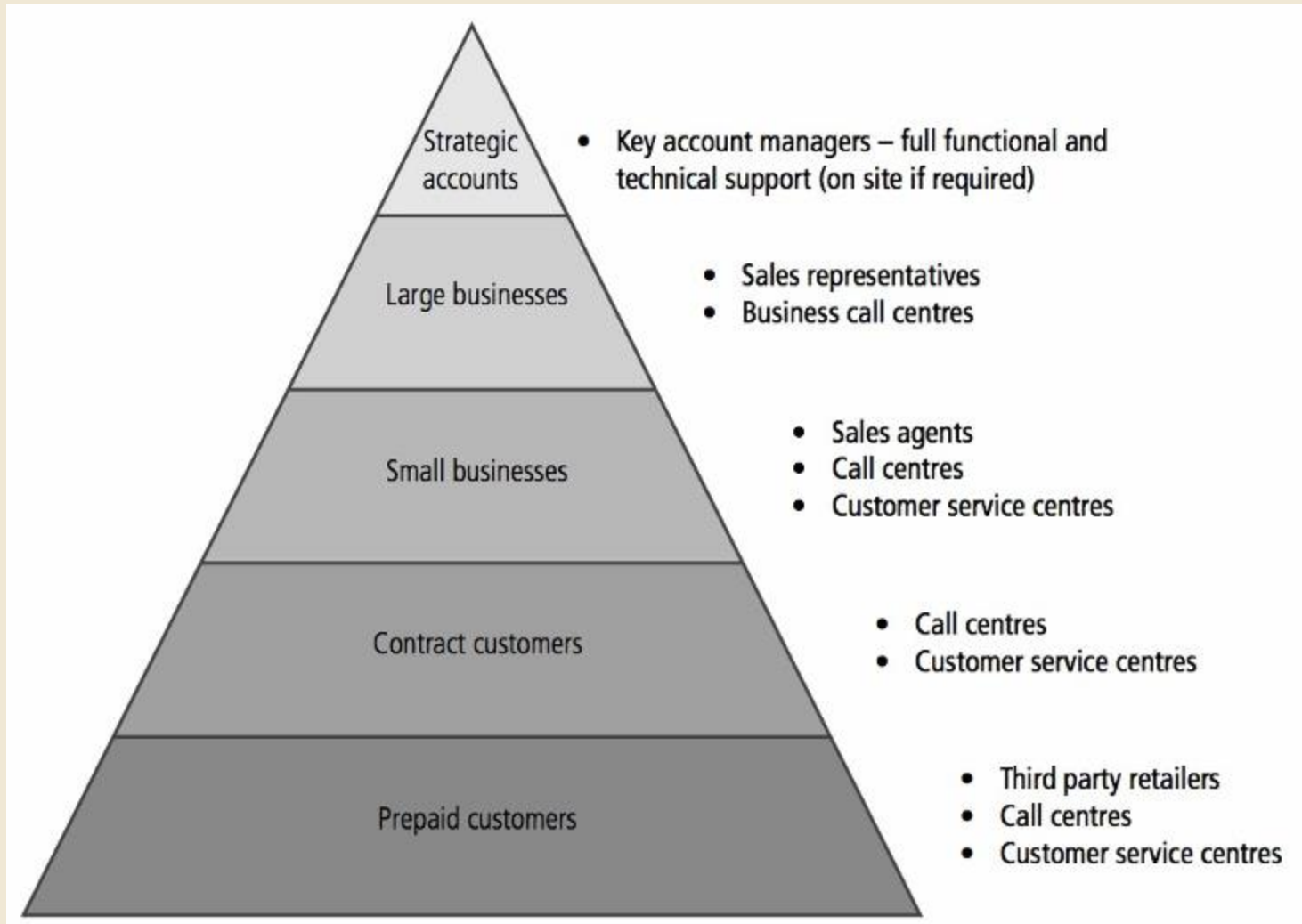
- Product and brand management strategies
 - Product range
 - New products and services
 - Product and service mix and bundling
 - Product packaging
 - Branding
- Channel management strategies
 - Mix of channels to use
 - Location
 - Design of channels
 - Design of value chain



Positioning strategy (cont.)

- Promotional strategy
 - Above-the-line
 - Below-the-line
 - Through-the-line
- Pricing strategy
 - Fixed price
 - Price range
 - Variable pricing
- Customer relationship management strategies.

CRM strategies for different segments – an example





Perceptual mapping

- Step 1: Determine the product-market segment
- Step 2: Design perceptual map
- Step 3: Identify competing products or brands
- Step 4: Plot all competitors on the map.

Perceptual mapping (cont.)

