

**Exhibit 4-9**  
Possible Segmenting Dimensions for Business/Organizational Markets

Kind of relationship	Weak loyalty → strong loyalty to vendor Single source → multiple vendors "Arm's length" dealings → close partnership
Type of customer	Manufacturer, service producer, government agency, military, nonprofit, wholesaler or retailer (when end user), and so on
Demographics	Geographic location (region of world, country, region within country, urban → rural); Size (number of employees, sales volume); Primary business or industry (North American Industry Classification System); Number of facilities
How customer will use product	Installations, components, accessories, raw materials, supplies, professional services
Type of buying situation	Decentralized → centralized Buyer → multiple buying influence Straight rebuy → modified rebuy → new-task buying
Purchasing methods	Vendor analysis, purchasing specifications, Internet bids, negotiated contracts, long-term contracts, e-commerce websites

Note: Terms used in this table are explained in detail later in the text.

**Qualifying dimensions are important too**

The qualifying dimensions help identify the "core benefits" that must be offered to everyone in a product-market. For example, people won't choose General Mills' one-handed snacks unless they qualify as being tasty. Qualifying and determining dimensions work together in marketing strategy planning.

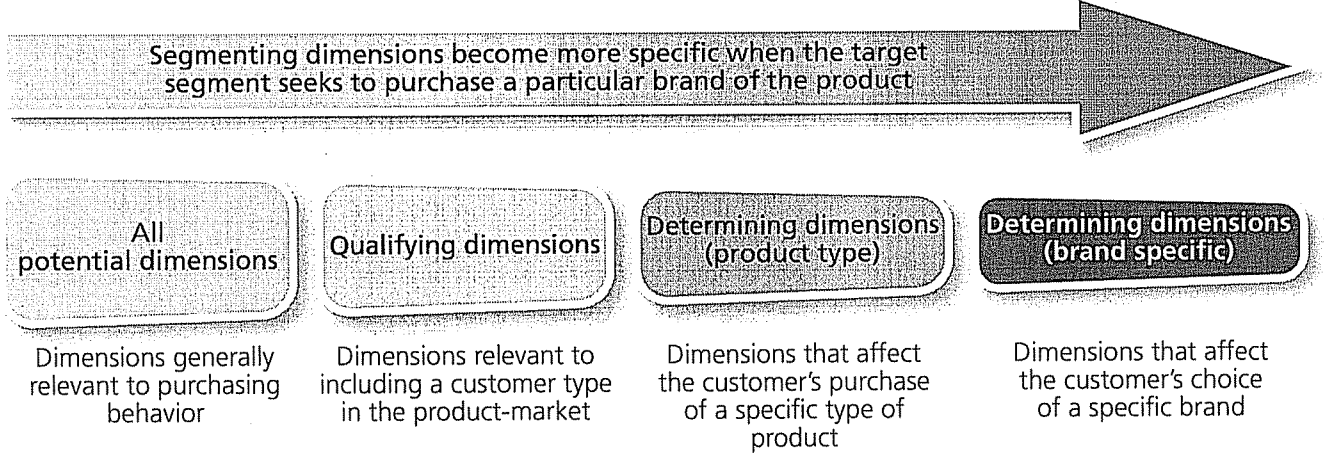
**Different dimensions needed for different submarkets**

Note that each different submarket within a broad product-market may be motivated by a different set of dimensions. In the snack food market, for example, health food enthusiasts are interested in nutrition, dieters worry about calories, and economical shoppers with lots of kids may want volume to "fill them up."

**Ethical issues in selecting segmenting dimensions**

Marketing managers sometimes face ethical decisions when selecting segmenting dimensions. Problems may arise if a firm targets customers who are somehow at a disadvantage in dealing with the firm or who are unlikely to see the negative effects of their own choices. For example, some people criticize shoe companies for targeting poor, inner-city kids who see

**Exhibit 4-10 Finding the Relevant Segmenting Dimensions**



expensive athletic shoes as an important status symbol. Many firms, including producers of infant formula, have been criticized for targeting consumers in less-developed nations. Some nutritionists criticize firms that market soft drinks, candy, and snack foods to children.

Sometimes a marketing manager must decide whether a firm should serve customers it really doesn't want to serve. For example, banks sometimes offer marketing mixes that are attractive to wealthy customers but drive off low-income consumers.

People often disagree about what segmenting dimensions are ethical in a given situation. A marketing manager needs to consider not only his or her own view but also the views of other groups in society. Even when there is no clear "right" answer, negative publicity may be very damaging. This is what Amazon.com encountered when it was revealed that it was charging some regular customers higher prices than new customers at its site.<sup>10</sup>

### Ethics Question

My Favorite is a popular cereal brand that makes mostly sugary breakfast cereals aimed at young children. It created a suite of online games that prominently feature cartoon characters associated with its different cereal brands. A consumer group criticized My Favorite for its use of the online advergames—games that contain advertising—because they target children. The group suggests that advergames are worse for kids than TV advertising because 6- to 11-year-olds actively seek out these games and spend an average of 30 minutes per day playing the games. My Favorite countered that the games contain no explicit promotion of its cereal brands; only the characters are featured. Further, the site is closely monitored and offers a free place for kids to have good clean fun. Because My Favorite's internal research indicates that users of its site and their parents have more favorable opinions of its brand than nonusers, it is reluctant to stop. What do you think of this marketing activity? If you were the marketing manager for My Favorite, would you use advergames? Why or why not?<sup>11</sup>

### International marketing requires even more segmenting

Success in international marketing requires even more attention to segmenting. There are over 192 nations with their own unique cultures! And they differ greatly in language, customs (including business ethics), beliefs, religions, race, and income distribution patterns. (We discuss some of these differences in Chapters 3 and 5.) These additional differences can complicate the segmenting process. Even worse, critical data is often less available—and less dependable—as firms move into international markets. This is one reason why some firms insist that local operations and decisions be handled by natives. They, at least, have a feel for their markets.

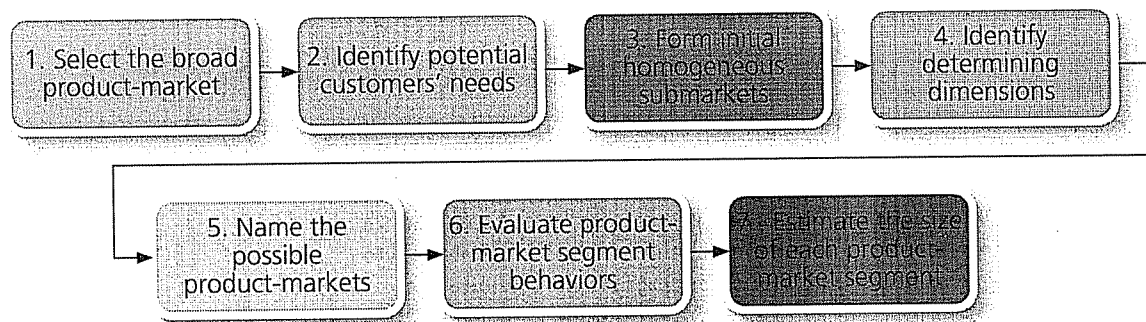
Segmenting international markets may require more dimensions. But one practical method adds just one step to the approach discussed earlier. First, marketers segment by country or region—looking at demographic, cultural, and other characteristics, including stage of economic development. This may help them find regional or national submarkets that are fairly similar. Then—depending on whether the firm is aiming at final consumers or business markets—they apply the same basic approaches presented before.

## A Best Practice Approach to Segmenting Product-Markets

LO 4.5

Most marketing managers embrace the idea of using market segmentation to narrow down from a broad set of opportunities to a specific target market and marketing strategy (review Exhibit 2-9). There are also hundreds of books and articles about different approaches and tools for market segmentation that a manager might consider. Yet many managers don't do a good job with market segmentation. One reason is that they are often unclear where to start or how to fit the ideas together. So that *you* don't have this knowledge gap, here we introduce a logical seven-step approach to market segmentation. Later

## Exhibit 4-11 A Best Practice Approach for Segmenting Product-Markets



in Chapter 8 you'll learn more about how marketing research can help to fine-tune some of the decisions made with this approach. But even without additional research, *this approach works*—and it has led to successful strategies. It is especially useful for finding the determining dimensions for product types. However, when you want to find dimensions for specific brands—especially when there are several competing brands—you may need more sophisticated techniques.

Exhibit 4-11 provides an overview of the seven-step approach, which ties together the concepts we have been discussing. To be sure you understand this approach, we will review each step separately and use an ongoing example to show how each step works. The example concerns people who need a place to stay—in particular, the market for motel guests in a big urban area.

### 1: Select the broad product-market

First, decide what broad product-market the firm wants to be in. This may be stated in the firm's objectives. Or if the firm is already successful in some product-market, its current position might be a good starting point. Try to build on the firm's strengths and avoid its weaknesses and competitors' strengths. Available resources, both human and financial, will limit the possibilities—especially if the firm is just getting started.

#### Example

A firm has been building small motels around the edges of a large city and renting rooms to travelers. A narrow view—considering only the firm's current products and markets—might lead the firm to think only of more small motels. A bigger view might see such motels as only a small part of the larger “overnight lodging needs” market in the firm's geographic area. Taking an even bigger view, the firm could consider expanding to other geographic areas—or moving into other kinds of products (like apartment buildings, retirement centers, or even parks for people who travel in their own recreational vehicles).

There has to be some balance between naming the product-market too narrowly (same old product, same old market) and naming it too broadly (the whole world and all its needs). Here the firm decides on the whole market of motel users in one city—because this is a city where the number of visitors is growing and where the firm has some experience.

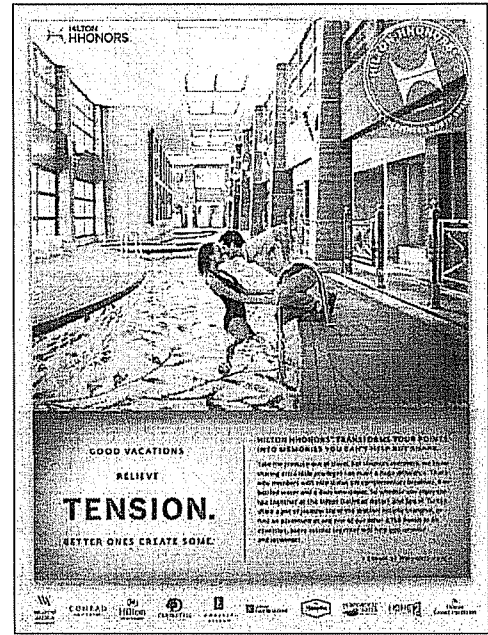
### 2: Identify potential customers' needs

Identify and write down as many relevant needs as you can—considering all of the potential customers in the broad product-market. This is a brainstorming step. The list doesn't have to be complete yet, but it should provide enough input to help stimulate your thinking in the next steps. To see possible needs, think about *why* some people buy the present offerings in this broad product-market. At this point, focus on the basic needs—but begin to consider what a company could offer to meet those needs.

#### Example

In the broad motel guest market, you can easily list some possible needs: privacy (including a private room and furnishings), safety and security (security guards, lighted parking lots with video coverage), comfort (a good bed and nice furnishings), space for

It is better for promotion to focus on what customer needs are satisfied by products rather than on the product characteristics themselves.



activities (exercise, work, socializing), entertainment (TV, radio, video games), convenience (registration, check-out, reservations, access to highways), economy (costs), communicating (phone, messages, fax, voice mail, wireless Internet), and the like.

### 3: Form homogeneous submarkets—narrow product-markets

Assuming that some people have (or emphasize) different needs than others, form different submarkets based on each submarket's specific needs. Start by forming one submarket around some typical type of customer (perhaps even yourself), and then aggregate similar people into this segment as long as they can be satisfied by the same marketing mix. Write down the important need dimensions and customer-related characteristics (including demographic characteristics) of each submarket to help you decide whether each new customer type should be included in the first segment. This will also help later—when you name the submarkets.

For example, if the people in one market are young families looking for a good place to stay on vacation, this will help you understand what they want and why—and will help you name the market (perhaps as “family vacationers”).

Put people who are not homogeneous—who don't fit in the first segment—in a new submarket. List their different need dimensions on another line. Continue this classifying until three or more submarkets emerge.

#### Example

A young family on a vacation probably wants a motel to provide a clean room large enough for adults and children, convenient parking, a location near tourist attractions, a pool for recreation with a lifeguard for safety, entertainment in the room (a TV, video games, and movies on demand), and perhaps a refrigerator or vending machine for snacks. A traveling executive, on the other hand, has quite different interests—a room with a desk, but *also* a nice restaurant, fast transportation to and from an airport, more services (room service, dry cleaning, a way to send and receive a fax, and fast check-in)—without distracting noise from children. See Exhibit 4-12.

### 4: Identify the determining dimensions

Review the list of need dimensions for each possible segment and identify the determining dimensions (perhaps by putting an asterisk beside them). Although the qualifying dimensions are important—perhaps reflecting “core needs” that should be satisfied—they are not the *determining* dimensions we are seeking now.

## Exhibit 4-12 Segmenting the Broad Product-Market for Motel Guests in a Large Urban Area

Nickname of Product-Market	Need Dimensions (benefits sought)	Customer-Related Characteristics
1 Family vacationers	Comfort, security, privacy, <i>family fun, recreation (playground, pool), entertainment (video games, movies), child care, and snacks</i>	Couples and single parents with children who want a fun family experience: young, active, and energetic.
2 Upscale executives	Comfort, security, privacy, <i>distinctive furnishings, attentive staff, prestige status, easy access to airport and business meetings, express check-in and check-out, quality dining, business services (copying, fax, Wi-Fi Internet)</i>	Senior business executives with a big expense account who want to be pampered with "very important person" service and accommodations; often repeat guests.
3 Budget-oriented travelers	Comfort, security, privacy, <i>economy, (no extras that increase cost), convenience (to low-cost restaurants, highways), free parking</i>	Young people, retirees, and salespeople who travel by car, pay their own expenses, and want a simple place for one night—before moving on.
4 Long-stay guests	Comfort, security, privacy, <i>homelike amenities (kitchenette, separate living room), laundry and exercise facilities, pleasant grounds, entertainment, staying "connected" (e-mail, etc.)</i>	Businesspeople, out-of-town visitors, and others who stay in the same motel for a week or more; want many of the comforts they have at home.
5 Event-centered visitors	Comfort, security, privacy, <i>socializing (lounges and public areas), conference facilities (including catering of group meals), message and transportation services</i>	Individuals who are attending events scheduled at the motel (a business meeting or conference, family reunion, wedding, etc.) often for several days.
6 Resort seekers	Comfort, security, privacy, <i>relaxation (golf, whirlpool bath), pleasure (fine dining, nice views), fun, variety information (arrangements for theater, activities)</i>	Sophisticated couples with leisure time to relax and have "adult" fun; they want to show their individuality and have discretionary income to spend.

Note: Comfort, security, and privacy are core qualifying needs. Determining dimensions for each segment are in italic.

To help identify the determining dimensions, think carefully about the needs and attitudes of the people in each possible segment. They may not seem very different from market to market, but if they are determining to those people then they *are* determining!

### Example

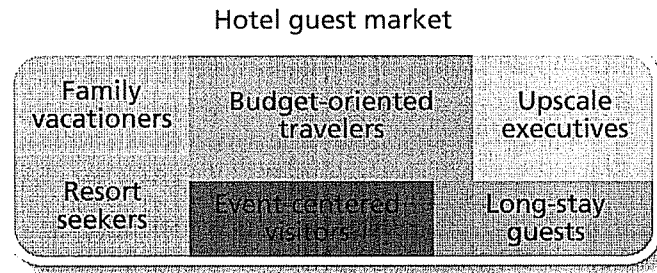
With our motel customers, basic comfort needs (heating and cooling, a good bed, a clean bathroom), a telephone for communicating, and safety and security are probably not determining. Everyone has these qualifying needs. Looking beyond these common needs helps you see the determining dimensions—such as different needs with respect to recreation, restaurant facilities, services, and so on. See the needs highlighted in italic in Exhibit 4-12.

### 5: Name (nickname) the possible product-markets

Review the determining dimensions—market by market—and name (nickname) each one based on the relative importance of the determining dimensions (and aided by your description of the customer types). A market grid is a good way to help visualize this broad product-market and its narrow product-markets.

Draw the market grid as a rectangle, with boxes inside representing smaller, more homogeneous segments. See Exhibit 4-13. Think of the whole grid as representing the broad product-market and each of the boxes as a different (narrower) product-market. Since the markets within a broad product-market usually require very different segmenting dimensions, don't try to use the same dimensions to name every submarket. Then label each segment with its nickname.

**Exhibit 4-13**  
Market Grid Diagram  
for Hotel Guest  
Market with Product  
Markets



**Example**

Exhibit 4-13 identifies the following overnight guest submarkets: (1) family vacationers, (2) upscale executives, (3) budget-oriented travelers, (4) long-stay guests, (5) event-centered visitors, and (6) resort seekers. Note that each segment has a different set of determining dimensions (benefits sought) that follow directly from customer type and needs.

6: Evaluate why product-market segments behave as they do

After naming the markets as we did in step 5, think about what else you know about each segment to see how and why these markets behave the way they do. Different segments may have similar, but slightly different, needs. This may explain why some competitive offerings are more successful than others. It can also mean you have to split and rename some segments.

**Example**

The resort seekers might have been treated as family vacationers in step 5 because the “family” characteristic did not seem important. But with more thought, we see that while some of the resort seekers are interested in the same sort of fun and recreation as the family vacationers, resort seekers focus on adult fun—not activities with children. For them, getting away from the family vacationer’s children may be part of the escape they want. Further, although the resort seekers are a higher-income group who are similar to the upscale executives, they have different needs than the executives and probably should be treated as a separate market. The point is that you might discover these market differences only in step 6. At this step you would name the “resort seekers” market—and create a related row in the grid to describe the new segment.

7: Make a rough estimate of the size of each product-market segment

Remember, we are looking for profitable opportunities. So now we must try to tie our product-markets to demographic data—or other customer-related characteristics—to make it easier to estimate the size of these markets. We aren’t trying to estimate our likely sales yet. Sales depend on the competition as well as the particulars of the marketing mix. Now we only want to provide a basis for later forecasting and marketing mix planning. The more we know about possible target markets, the easier those jobs are.

Fortunately, we can obtain a lot of data on the size of markets—especially demographic data. And bringing in demographics adds a note of economic reality. Some possible product-markets may have almost no market potential. Without hard facts, we risk aiming at such markets.

To refine the market grid, you might want to change the height of the rows so that they give a better idea of the size of the various segments. This will help highlight the larger, and perhaps more attractive, opportunities. Remember, the relative sizes of the markets might vary depending on what geographic areas you consider. The market sizes might vary from city to city or from one country to another.

**Example**

We can tie the family vacationers to demographic data. Most of them are between 21 and 45. The U.S. Census Bureau publishes detailed data by age, family size, and related information. Moreover, a state tourist bureau or city Chamber of Commerce might be

able to provide estimates of how many families vacation in a specific city during a year and how long they stay. Given this information, it's easy to estimate the total number of nights family vacationers will need motel rooms in a certain city.

Market dimensions suggest a good mix

Once we follow all seven steps, we should be able to outline the kinds of marketing mixes that would appeal to the various markets. For example, based on the determining dimensions (benefits sought) in Exhibit 4-12, a motel designed to appeal to the upscale executives might offer rooms with quality furniture (including a desk and chair for reading and an extra comfortable bed with special luxury sheets and pillows), a high-quality restaurant with all-hours room service, special business services (copying, fax, wireless Internet) on an extra-cost basis, limousine pickup at the airport, someone to help with travel problems, and precleared check-in and check-out. The motel might also provide a quiet bar and exercise room and extras such as thick bath towels and a valet service for free shoe shines. It might also offer a business library for after-hours reading and a free copy of *The Wall Street Journal* delivered every morning. Of course, the price could be high to pay for this special treatment. It's also useful to think about what the executives would *not* want: noisy facilities shared by families with young children!

### Internet Exercise

The Intercontinental Hotel Group owns a number of different hotel brands including Holiday Inn, Holiday Inn Express, Crowne Plaza, and Staybridge Suites. Go to the Holiday Inn website ([www.holidayinn.com](http://www.holidayinn.com)) and click on the link for "IHG brands" at the bottom of the screen (or search for "IHG brands" on Google). Click through to each of the hotel brands. In which of the product-markets in Exhibit 4-12 does each brand compete? Why? Why not?

While the discussion above focuses on the upscale executives, profitable marketing mixes can be developed for the other segments as well. For example, Super 8 has done very well by targeting budget-oriented travelers. Similarly, Residence Inns cater to the needs of long-stay guests with kitchens and grocery shopping services, fireplaces, and convenient recreation areas. Courtyard by Marriott has been successful with facilities designed for event-centered visitors. During the week, many of its customers are there for business conferences, but on the weekend the focus often shifts to family events—such as meals and receptions related to a wedding or family reunion.<sup>12</sup>

Improve the marketing mix for current customers

Our motel example highlights an approach to identify new target market and marketing mix opportunities. However, the same approaches provide a basis for identifying new ways to serve existing customers and strengthen the relationship with them. Too often, firms let their strategies get stagnant. For example, special business services related to the determining needs of upscale executives (like voice mail) might initially help a motel win this business with superior customer value. However, the motel loses its competitive edge if other motels start to offer the same benefits. Or the benefit might disappear if customer needs change; executives who carry a cell phone don't need voice mail at the motel. Then the determining dimensions change. To retain the base of customers it has built or attract new ones, the motel needs to find new and better ways to meet the executives' needs. Reevaluating the need dimensions and customer-related characteristics, perhaps in greater detail, may point to new opportunities. For example, our motel might offer more personalized services.

Targeting a segment of one

Many luxury hotel chains, for example, try to appeal to the needs of a "segment of one" by adapting a marketing mix to an individual customer. The first time a new guest reserves a room at the Mandarin Oriental, she's asked about her personal preferences, which are saved in a database for future visits. On her second arrival at the exclusive hotel, this guest finds the room thermostat set to her preferred temperature, the phone's color touch screen shows the weather back home, and the three down feather pillows she enjoys already on the bed. While this guest has many of the same basic needs as the broader segment of "upscale executives" in Exhibit 4-12, the personalized attention she receives ensures a unique experience. From a practical perspective, this extreme segmentation still involves the seven-step process, with fine-tuning operating at the level of individual customers within a larger segment.

# More Sophisticated Techniques May Help in Segmenting

LO 4.6

Marketing researchers and managers often turn to computer-aided methods for help with the segmenting job. A detailed review of the possibilities is beyond the scope of this book. But a brief discussion will give you a flavor of how computer-aided methods work. In addition, the computer-aided problem for this chapter (4, Segmenting Customers) on the text website gives you a hands-on feel for how managers use them.

Clustering usually requires a computer

**Clustering techniques** try to find similar patterns within sets of data. Clustering groups customers who are similar on their segmenting dimensions into homogeneous segments. Clustering approaches use computers to do what previously was done with much intuition and judgment.

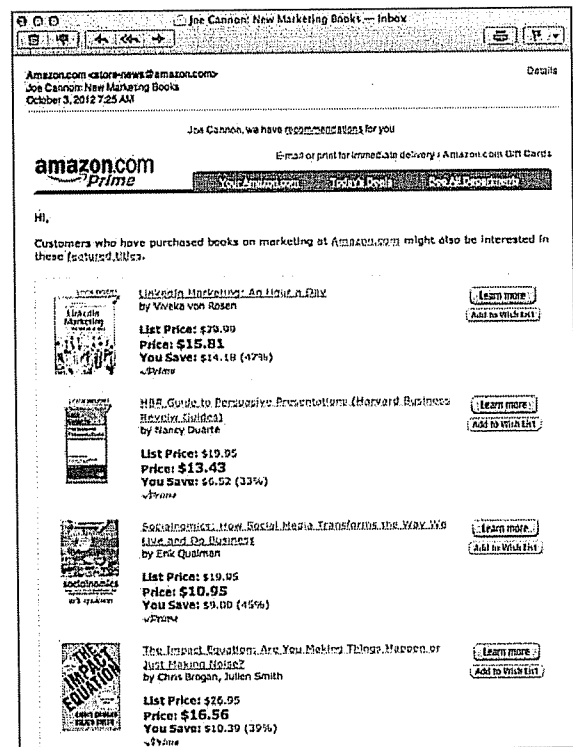
The data to be clustered might include such dimensions as demographic characteristics, the importance of different needs, attitudes toward the product, and past buying behavior. The computer searches all the data for homogeneous groups of people. When it finds them, marketers study the dimensions of the people in the groups to see why the computer clustered them together. The results sometimes suggest new, or at least better, marketing strategies.<sup>13</sup>

A cluster analysis of the toothpaste market, for example, might show that some people buy toothpaste because it tastes good (the sensory segment), while others are concerned with the effect of clean teeth and fresh breath on their social image (the sociables). Still others worry about decay or gum disease (the worriers), and some are just interested in the best value for their money (the value seekers). Each of these market segments calls for a different marketing mix—although some of the four Ps may be similar.

Customer database can focus the effort

A variation of the clustering approach is based on customer relationship management methods. With **customer relationship management (CRM)**, the seller fine-tunes the marketing effort with information from a detailed customer database. This usually includes data on a customer's past purchases as well as other segmenting information. For example, an auto-repair garage that keeps a database of customer oil changes can send a reminder postcard when it's time for the next oil change. Similarly, a florist that keeps a database of customers who have ordered flowers for Mother's Day or Valentine's Day can call them in advance with a special offer. Firms that operate over the Internet may have a special advantage with these database-focused approaches. They are able to communicate with customers via a website or e-mail, which means that the whole effort is not only targeted but also very inexpensive. Further, it's fast and easy for a customer to reply.<sup>14</sup>

Amazon.com takes this idea further. When a customer orders a book, the Amazon CRM system at the website recommends related books that have been purchased by other customers who bought that book.



Amazon.com sends e-mails to customers with recommendations based on their past purchases. Many customers find these messages, which inform them of new toys, books, music, or movies that actually match their interests, useful.

## Target reads its customers minds?

A few years ago a man walked into a Target store outside Minneapolis demanding to see a manager. The man was upset that Target was sending his teenage daughter coupons for baby clothes and cribs. "Are you trying to encourage her to get pregnant?" he asked the manager. The store manager promised to look into it, but a few days later the father called back and sheepishly admitted that there was more going on in his house than he knew about. His daughter was due in August. How did Target know? Why would Target care?

Consumers' shopping habits are hard to break. Once customers start shopping at a particular store for groceries, DVDs, or greeting cards, they get into a habit and don't even consider shopping at other stores. It turns out that a few major life events—new job, marriage and yes, new baby—significantly weaken those ties, at least for a short time. At those vulnerable moments, a competing store has an opportunity to steal a customer away—perhaps encouraging a switch with some well-timed promotions—and maybe help them develop a new shopping habit.

So how does a retail store like Target segment its market and target pregnant shoppers? Target's marketing managers wondered if their customer relationship management (CRM) database might hold an answer. The database includes information on the shopping behavior of customers who sign up for the store's loyalty card or use a credit card. Along with additional data Target purchases from third parties, the database offers a detailed profile of millions of Target customers.

Some of these customers already told Target they were pregnant by signing up for the store's baby registry; though only a small fraction of Target's pregnant customers make it that easy. Target's statisticians used data from the customers they knew were pregnant and "mined" their CRM data to try to determine how their shopping behavior changed during pregnancy.

The statisticians discovered 25 products that were purchased more frequently during pregnancy. For example, while many people buy lotions, about six months before their due date purchases of unscented lotions bumped up. Around that same time pregnant women stocked up on supplements like calcium, magnesium, and zinc. A few months later there was an uptick in purchases of scent-free soap, extra-large bags of cotton balls, hand sanitizers, and washcloths.

The statisticians used this information to develop a prediction score for each customer in Target's CRM database—predicting if each was pregnant and when they would deliver. Customers with high scores receive customized direct mailings with coupons for a new crib or disposable diapers. Target wants these customers to start buying groceries and other products at Target, too. So they make sure the mailings also include other products these customers didn't yet buy at Target. Many of these customers were soon making Target their primary shopping location. So the next time you open a promotion for something you are thinking about buying, the store may be reading your mind—via their CRM database.<sup>15</sup>

## Differentiation and Positioning Take the Customer Point of View

LO 4.7

Differentiate the marketing mix—to serve customers better

As we've emphasized throughout, the reason for focusing on a specific target market—by using marketing segmentation approaches or tools such as cluster analysis or CRM—is so that you can fine-tune the whole marketing mix to provide some group of potential customers with superior value. By *differentiating* the marketing mix to do a better job meeting customers' needs, the firm builds a competitive advantage. When this happens, target customers view the firm's position in the market as uniquely suited to their preferences and needs. Further, because everyone in the firm is clear about what position it wants to achieve with customers, the Product, Promotion, and other marketing mix decisions can be blended better to achieve the desired objectives.

Although the marketing manager may want customers to see the firm's offering as unique, that is not always possible. Me-too imitators may come along and copy the firm's strategy. Further, even if a firm's marketing mix is different, consumers may not know or

care. They're busy and, simply put, the firm's product may not be that important in their lives. This is where another important concept, *positioning*, comes in.

Positioning is based on customers' views

**Positioning** refers to how customers think about proposed or present brands in a market. Without a realistic view of how customers think about offerings in the market, it's hard for the marketing manager to differentiate. At the same time, the manager should know how he or she *wants* target customers to think about the firm's marketing mix. Positioning issues are especially important when competitors in a market appear to be very similar. For example, many people think that there isn't much difference between one provider of home owner's insurance and another. But State Farm Insurance uses advertising to emphasize the value of the service and personal attention from its agents, who live right in the customer's neighborhood. Low-price insurers who sell from websites or toll-free numbers can't make that claim.

Once you know what customers think, then you can decide whether to leave the product (and marketing mix) alone or reposition it. This may mean *physical changes in the product* or simply *image changes based on promotion*. For example, most cola drinkers can't pick out their favorite brand in a blind test—so physical changes might not be necessary (and might not even work) to reposition a cola.

### Internet Exercise

The Brand Tags website ([www.brandtags.net](http://www.brandtags.net)) asks visitors to type the first word or phrase (a "tag") that comes to mind when a logo or brand name appears on the screen. Go to this site and tag a few brands. Then, select "Explore Brands" and see how others tagged the brand (this may require registration on the site). Note that the larger the font, the more frequently that word or phrase has been used. How could a marketing manager use this information to better understand her brand? A competitor's brand?

Use your phone like you do at home.  
 AT&T's new, more affordable international data packages make it easier to use your phone abroad. [att.com/global](http://att.com/global)

Rethink Possible

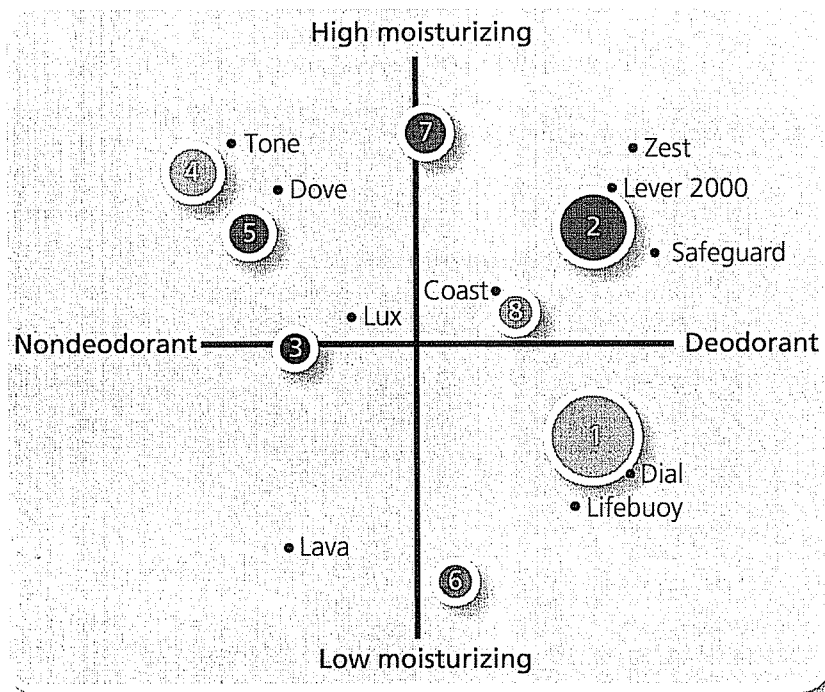
AT&T's cell phones have more coverage around the world as compared with its competition. Its advertising campaign tells customers about this point of differentiation.

Figuring out what customers really think about competing products isn't easy, but there are approaches that help. Most of them require some formal marketing research. The results are usually plotted on graphs to help show how consumers view the competing products. Usually, the products' positions are related to two or three product features that are important to the target customers.

Managers make the graphs for positioning decisions by asking consumers to make judgments about different brands—including their "ideal" brand—and then use computer programs to summarize the ratings and plot the results. The details of positioning techniques—sometimes called *perceptual mapping*—are beyond the scope of this text. But Exhibit 4-14 shows the possibilities.<sup>16</sup>

Exhibit 4-14 shows the "product space" for different brands of bar soap using two dimensions—the extent to which consumers think the soaps moisturize and deodorize their skin. For example, consumers see Dove as quite high on moisturizing but low on deodorizing. Dove and Tone are close together—implying that consumers think of them as similar on these characteristics. Dial is viewed as different from Dove and Tone and at a distance from them on the graph. Remember that positioning maps are based on *customers' perceptions*—the actual characteristics of the products (as determined by a chemical test) might be different!

**Exhibit 4-14**  
 "Product Space"  
 Representing  
 Consumers'  
 Perceptions for  
 Different Brands of  
 Bar Soap



Each segment may have its own preferences

The circles in Exhibit 4-14 show different sets (submarkets) of consumers clustered near their ideal soap preferences. Groups of respondents with a similar ideal product are circled to show apparent customer concentrations. In this graph, the size of the circles suggests the size of the segments for the different ideals.

Ideal clusters 1 and 2 are the largest and are close to two popular brands—Dial and Lever 2000. It appears that customers in cluster 2 want more moisturizing than they see in Dial. However, exactly what this brand should do about this isn't clear. Perhaps Dial should leave its physical product alone—but emphasize moisturizing more in its promotion to make a stronger appeal to those who want moisturizers. A marketing manager talking about this approach might simply refer to it as "positioning the brand as a good moisturizer." Of course, whether the effort is successful depends on whether the whole marketing mix delivers on the promise of the positioning communication.

Note that ideal cluster 7 is not near any of the present brands. This may suggest an opportunity for introducing a new product—a strong moisturizer with some deodorizers. A firm that chooses to follow this approach would be making a segmenting effort.

### Combining versus segmenting

Positioning analysis may lead a firm to combining—rather than segmenting—if managers think they can make several general appeals to different parts of a "combined" market. For example, by varying its promotion, Coast might try to appeal to segments 8, 1, and 2 with one product. These segments are all quite similar (close together) in what they want in an ideal brand. On the other hand, there may be clearly defined submarkets—and some parts of the market may be "owned" by one product or brand. In this case, segmenting efforts may be practical—moving the firm's own product into another segment of the general market area where competition is weaker.

Positioning as part of broader analysis

A positioning analysis helps managers understand how customers see their market. It is a visual aid to understanding a product-market. The first time such an analysis is done, managers may be shocked to see how much customers' perceptions of a market differ from their own. For this reason alone, positioning analysis may be crucial. But a positioning analysis usually focuses on specific product features and brands that are close

competitors in the product-market. Thus, it is a product-oriented approach. Important *customer*-related dimensions—including needs and attitudes—may be overlooked.

Premature emphasis on product features is dangerous in other ways as well. As our bar soap example shows, starting with a product-oriented definition of a market and how bar soaps compete against other bar soaps can make a firm miss more basic shifts in markets. For example, bars have lost popularity to liquid soaps. Other products, like bath oils or body washes for use in the shower, are now part of the relevant competition also. Managers wouldn't see these shifts if they looked only at alternative bar soap brands—the focus is just too narrow.

It's also important to realize that the way consumers look at a product isn't just a matter of chance. Let's return to our bar soap example. While many consumers do think about soap in terms of moisturizing and deodorizing, other needs shouldn't be overlooked. For example, some consumers are especially concerned about wiping out germs. Marketers for Dial soap recognized this need and developed ads that positioned Dial as "the choice" for these target customers. This helped Dial win new customers, including those who switched from Lifebuoy—which was otherwise similar to Dial (see Exhibit 4-14). In fact, what happened to Lifebuoy highlights what happens if managers don't update their marketing strategy as customer needs and competition change. Lifebuoy was the first deodorant soap on the market; it was a leading brand for over 100 years. But it gradually lost sales to competitors with stronger marketing mixes (clearer differentiation, better positioning, and superior customer value) until sales declined and Lever stopped selling it.

### Positioning statement provides direction for marketing strategy

Sometimes marketing managers use a positioning statement to provide focus for a marketing mix. A *positioning statement* concisely identifies the firm's desired target market, product type, primary benefit or point of differentiation, and the main reasons a buyer should believe the firm's claims. The one or two benefits highlighted in the statement should be those most important to the target market—and unique to the brand. It's important that everyone involved in planning the marketing strategy agree with the positioning statement because it helps narrow options and guide the selection of a marketing mix.

Some firms use a template like the following to aid in preparation of a positioning statement:

For (*our target market*), (*our brand*) of all (*product type*) delivers (*key benefit or point of differentiation*) because (*our brand*) is (*reasons to believe*).

A few years ago, marketing managers for Mountain Dew used this template to develop the following positioning statement:

For 16 to 24-year-old males, who embrace excitement, adventure, and fun, Mountain Dew of all carbonated soft drinks, delivers great taste that exhilarates like no other because Mountain Dew is energizing, thirst-quenching, and has a one-of-a-kind citrus flavor.

The positioning statement provided Mountain Dew's advertising agency with a direction to follow that led to a series of television commercials that reinforced this positioning. The statement guided decisions about packaging, point-of-purchase promotion, sponsorships, the look and feel of a website, and new flavors. The marketing strategy based on this positioning helped Mountain Dew gain market share with this target market.<sup>17</sup>

As we emphasize throughout the text, you must understand potential needs and attitudes when planning marketing strategies. If customers treat different products as substitutes, then a firm has to position itself against those products too. Customers won't always be conscious of all of the detailed ways that a firm's marketing mix might be different, but careful positioning can help highlight a unifying theme or benefits that relate to the determining dimensions of the target market. Thus, it's useful to think of positioning as part of the broader strategy planning process—because the purpose is to ensure that the whole marketing mix is positioned for competitive advantage.

## CONCLUSION

Chapters 2 and 3 introduced a framework for strategy planning that starts with analysis of the broad market and then narrows down to a specific target market and marketing mix. The basic purpose of this chapter is to show how marketing managers use market segmentation and positioning to guide that narrowing-down process.

Now that you've read this chapter you should understand how to carefully define generic markets and product-markets and how that can help in identifying and evaluating opportunities. We stressed the shortcomings of a too narrow, product-oriented view of markets and explained why it's better to take a broader view that also includes consideration of customer needs, the product type, the customer type, and the geographic area.

We also discussed approaches for market segmentation—the process of naming and then segmenting broad product-markets to find potentially attractive target markets. Some people try to segment markets by starting with the mass market and then dividing it into smaller submarkets based on a few demographic characteristics. But this can lead to poor results. Instead, market segmentation should first focus on a broad product-market and then group similar customers into homogeneous submarkets. The more similar the potential customers are, the larger the submarkets can be. Four criteria for evaluating possible product-market segments were presented.

Once a broad product-market is segmented, marketing managers can use one of three approaches to market-oriented strategy planning: (1) the single target market approach, (2) the multiple target market approach, or (3) the combined target market approach. In general, we encourage marketers to be segmenters rather than combiners.

We also offer a logical seven-step approach for segmentation that will help you understand and apply concepts from this chapter. Then we cover computer-aided approaches such as clustering techniques, CRM, and positioning. We emphasize the role of positioning in providing a focus or theme to the various elements of a differentiated marketing mix that fits the preferences of target customers.

In summary, good marketers should be experts on markets and likely segmenting dimensions. By creatively segmenting markets, they may spot opportunities—even breakthrough opportunities—and help their firms succeed against aggressive competitors offering similar products. Segmenting is basic to target marketing. And the more you practice segmenting, the more meaningful market segments you will see. In Chapters 5 and 6 you'll learn more about the buying behavior of final consumers and organizational customers. As you enrich your understanding of customers and how they behave, you will develop command of a broader set of dimensions that are important for segmentation and positioning.

## KEY TERMS

LO 4.3

market, 89	single target market approach, 96	qualifying dimensions, 99
generic market, 89	multiple target market approach, 96	determining dimensions, 99
product-market, 89	combined target market approach, 96	clustering techniques, 108
market segmentation, 92	combiners, 96	customer relationship management (CRM), 108
segmenting, 94	segmenters, 97	positioning, 110
market segment, 94		

## QUESTIONS AND PROBLEMS

1. Distinguish between a generic market and a product-market. Illustrate your answer.
2. Explain what market segmentation is.
3. List the types of potential segmenting dimensions, and explain which you would try to apply first, second, and third in a particular situation. If the nature of the situation would affect your answer, explain how.
4. Explain why segmentation efforts based on attempts to divide the mass market using a few demographic dimensions may be very disappointing.
5. Illustrate the concept that segmenting is an aggregating process by referring to the admissions policies of your own college and a nearby college or university.
6. Review the types of segmenting dimensions listed in Exhibits 4-8 and 4-9, and select the ones you think

should be combined to fully explain the market segment you personally would be in if you were planning to buy a new watch today. List several dimensions and try to develop a shorthand name, like "fashion-oriented," to describe your own personal market segment. Then try to estimate what proportion of the total watch market would be in your market segment. Next, explain if there are any offerings that come close to meeting the needs of your market. If not, what sort of a marketing mix is needed? Would it be economically attractive for anyone to try to satisfy your market segment? Why or why not?

7. Identify the determining dimension or dimensions that explain why you bought the specific brand you did in your most recent purchase of a (a) soft drink, (b) shampoo, (c) shirt or blouse, and (d) larger, more

expensive item, such as a bicycle, camera, or boat. Try to express the determining dimension(s) in terms of your own personal characteristics rather than the product's characteristics. Estimate what share of the market would probably be motivated by the same determining dimension(s).

8. Consider the market for off-campus apartments in your city. Identify some submarkets that have different needs and determining dimensions. Then evaluate how well the needs in these market segments are being met in your geographic area. Is there an obvious breakthrough opportunity waiting for someone?
9. Explain how positioning analysis can help a marketing manager identify target market opportunities.

## CREATING MARKETING PLANS

The Marketing Plan Coach software on the text website includes a sample marketing plan for Hillside Veterinary Clinic. Look through the "Customers" section.

- a. How does the marketing plan segment the market?
- b. Can you think of other segmentation dimensions that could be used?
- c. What do you think of the approach Hillside used to determine target markets? Are they using a single target market, multiple target market, or combined target market approach?
- d. How does Hillside plan to differentiate and position its offering?

## SUGGESTED CASES

- |                               |                                 |
|-------------------------------|---------------------------------|
| 3. NOCO United Soccer Academy | Video Case 2. Bass Pro Shops    |
| 7. Omarama Mountain Lodge     | Video Case 4. Potbelly Sandwich |
| 10. Cooper's Ice Center       | Video Case 7. Invacare          |
| 30. Walker-Winkle Mills, Ltd. | Video Case 8. Segway            |

## COMPUTER-AIDED PROBLEM

### 4. SEGMENTING CUSTOMERS

The marketing manager for Audiotronics Software Company is seeking new market opportunities. He is focusing on the voice recognition market and has narrowed down to three segments: the Fearful Typists, the Power Users, and the Professional Specialists. The Fearful Typists don't know much about computers—they just want a fast way to create e-mail messages, letters, and simple reports without errors. They don't need a lot of special features. They want simple instructions and a program that's easy to learn. The Power Users know a lot about computers,

use them often, and want a voice recognition program with many special features. All computer programs seem easy to them—so they aren't worried about learning to use the various features. The Professional Specialists have jobs that require a lot of writing. They don't know much about computers but are willing to learn. They want special features needed for their work—but only if they aren't too hard to learn and use.

The marketing manager prepared a table summarizing the importance of each of three key needs in the three segments (see table that follows).

Market Segment	Importance of Need (1 = not important; 10 = very important)		
	Features	Easy to Use	Easy to Learn
Fearful typists	3	8	9
Power users	9	2	2
Professional specialists	7	5	6

Audiotronics' sales staff conducted interviews with seven potential customers who were asked to rate how important each of these three needs were in their work. The manager prepared a spreadsheet to help him cluster (aggregate) each person into one of the segments—along with other similar people. Each person's ratings are entered in the spreadsheet, and the clustering procedure computes a similarity score that indicates how similar (a low score) or dissimilar (a high score) the person is to the typical person in each of the segments. The manager can then "aggregate" potential customers into the segment that is most similar (that is, the one with the lowest similarity score).

- a. The ratings for a potential customer appear on the first spreadsheet. Into which segment would you aggregate this person?
- b. The responses for seven potential customers who were interviewed are listed in the following table.

Enter the ratings for a customer in the spreadsheet and then write down the similarity score for each segment. Repeat the process for each customer. Based on your analysis, indicate the segment into which you would aggregate each customer. Indicate the size (number of customers) of each segment.

- c. In the interview, each potential customer was also asked what type of computer he or she would be using. The responses are shown in the table along with the ratings. Group the responses based on the customer's segment. If you were targeting the Fearful Typists segment, what type of computer would you focus on when developing your software?
- d. Based on your analysis, which customer would you say is least like any of the segments? Briefly explain the reason for your choice.

Potential Customer	Importance of Need (1 = not important; 10 = very important)			Type of Computer
	Features	Easy to Use	Easy to Learn	
A.	8	1	2	Dell laptop
B.	6	6	5	HP desktop
C.	4	9	8	Apple
D.	2	6	7	Apple
E.	5	6	5	HP desktop
F.	8	3	1	Dell laptop
G.	4	6	8	Apple