

Market Segmentation Study Guide

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Understanding the Segmentation, Targeting, Positioning (STP) Process

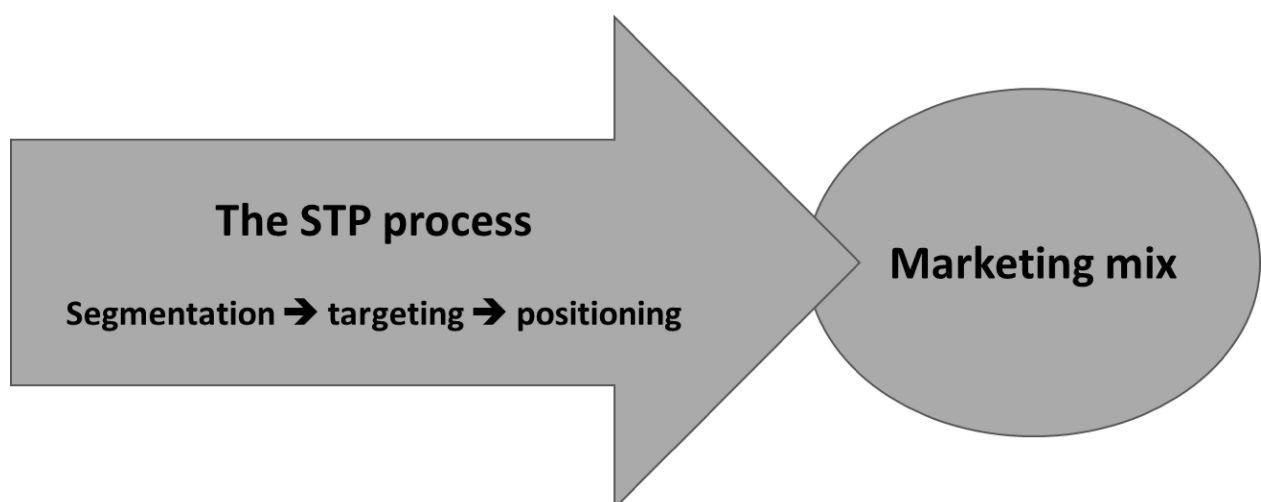
Most textbooks present the concept of market segmentation structured around the STP model (or sometimes also referred to as a process), where S stands for (market) segmentation, T stands for targeting and P stands for (product) positioning.

Having an understanding of the STP model is an important foundation for university students to be able to connect the relationship between market segmentation, target market selection, and product positioning, (as these concepts are interrelated and are connected to the organization's marketing strategy).

What is the STP process?

The STP process is an important concept in the study and application of marketing. The letters STP stand for segmentation, targeting, and positioning.

The STP process demonstrates the links between an overall market and how a company chooses to compete in that market. It is sometimes referred to as a process, with segmentation being conducted first, then the selection of one or more target markets and then finally the implementation of positioning. The goal of the STP process is to guide the organization to the development and implementation of an appropriate marketing mix, as highlighted in the following diagram.



Definitions of segmentation, targeting and positioning

Market segmentation can be defined as:

The process of splitting a market into smaller groups with similar product needs or identifiable characteristics, for the purpose of selecting appropriate target markets.

Targeting (or target market selection) refers to:

An organization's proactive selection of a suitable market segment (or segments) with the intention of heavily focusing the firm's marketing offers and activities towards this group of related consumers.

And positioning (which is sometimes referred to as product positioning) is:

Positioning is the target market's perception of the product's key benefits and features, relative to the offerings of competitive products.

STP models

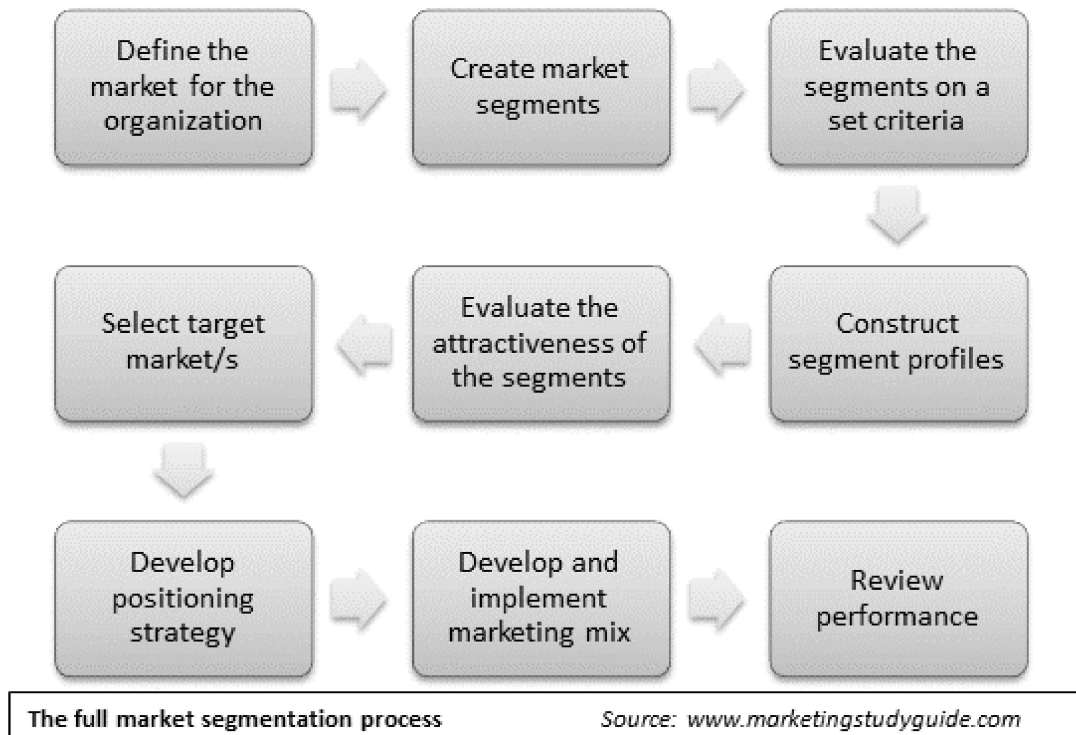
There are two alternate models that help marketing students understand the STP process.

The introductory model simply uses the three letters of STP to highlight the core elements of the process, namely segmentation, targeting and positioning.

This approach is shown in the following diagram and discussed in the Basic STP Process section.



While this basic model is a good starting point for understanding the overall process, there are a number of smaller steps that should also be understood, which are outlined in the following diagram and discussed in the Full STP Process. By reviewing this more detailed approach, students will gain a much greater understanding of this important marketing concept.



Understanding the Basic STP model

In marketing, STP stands for market segmentation, targeting (or target market selection) and product positioning.

Most marketing textbooks will show the STP as three broad steps. In the following diagram, the three foundation stages of segmentation, targeting and positioning are shown, along with a final implementation stage of marketing mix development.

It is important to understand that the STP process (the first three stages) is always followed by the development and implementation of a marketing mix.

A good way to think about the STP process is that it is an analytical approach that helps the firm make important 'where' (target market selection) and 'how' (product positioning) to compete marketing strategy decisions.

Therefore, the additional of the fourth stage in the diagram simply highlights the need to effectively execute these strategic decisions.

You should note the use of the arrow in the model, which indicates that STP is a sequential process. The starting point is always market segmentation, which allows the marketer to view different consumer needs and categories in the overall market. Typically a marketer would look between three to ten market segments when dividing up one particular market. The marketer can then assess which segments best fit with the firm's strategy and resources, as well as assessing the current and future attractiveness of each segment. (Please see 'how target markets are selected'.)



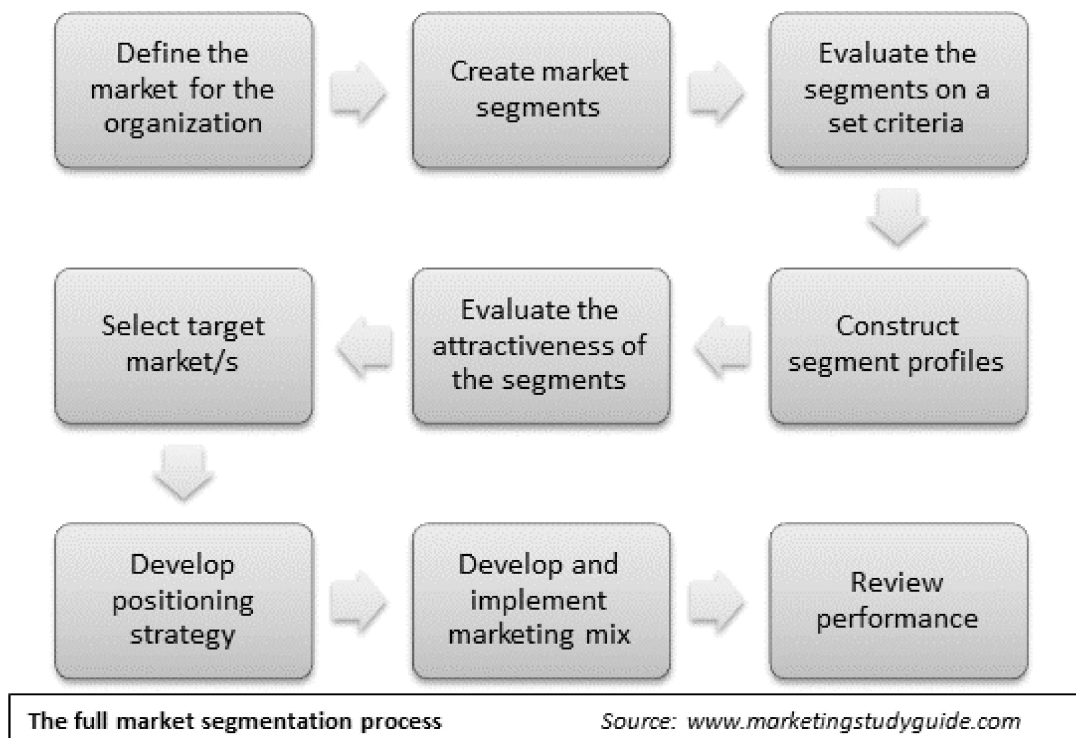
Based on this market segment analysis and evaluation, the firm will select one or more of the market segments to form part of their marketing program. The market segment that they select is then referred to as a target market. Therefore, a target market is simply one of the many market segments available to the company that the firm has deliberately selected for the purposes of their marketing programs.

After selecting a target market, the organization needs to consider how it will construct its marketing program to achieve success. There are two parts to this as shown in the diagram above. The first is positioning, which is how the firm wants its products to be perceived (understood) by consumers in that particular market. (For more details, please refer to What is positioning?). Once the desired positioning has been determined an appropriate and supportive marketing mix then needs to be developed and implemented by the firm.

The Full STP Process

The market segmentation, targeting and positioning (STP) process is a fundamental concept in understanding marketing and the strategies of firms. In most marketing textbooks, the STP approach is presented as a simple three step process. While that approach provides a good introduction to this marketing concept, it fails to adequately highlight the smaller steps of the STP process that should also be understood.

The following diagram highlights the overall STP process in nine steps:



The following is a quick discussion of the full market segmentation, targeting and positioning (STP) process, as shown above.

Step One – Define the market

In the first step in this more detailed model is to clearly define the market that the firm is interested in. This may sound relatively straightforward but it is an important consideration. For example, when Coca-Cola looks at market segmentation they would be unlikely to look at the beverage market overall. Instead they would look at what is known as a sub-market (a more product-market definition).

A possible market definition that Coca-Cola could use might be diet cola soft drinks in South America. It is this more precise market definition that is segmented, not the overall beverage market, as it is far too generic and has too many diverse market segments.

Step Two – Create market segments

Once the market has been defined, the next step is to segment the market, using a variety of different segmentation bases/variables in order to construct groups of consumer. In other words, allocate the consumers in the defined market to similar groups (based on market needs, behavior or other characteristics).

Step Three – Evaluate the segments for viability

After market segments have been developed they are then evaluated using a set criteria to ensure that they are useable and logical. This requires the segments to be assessed against a checklist of factors, such as: are the segments reachable, do they have different groups of needs, are they large enough, and so on.

Step Four – Construct segment profiles

Once viable market segments have been determined, segment profiles are then developed. Segment profiles are detailed descriptions of the consumers in the segments - describing their needs, behaviors, preferences, demographics, shopping styles, and so on. Often a segment is given a descriptive nickname by the organization. This is much in the same way that the age cohorts of Baby Boomers, Generation X and Generation Y have a name.

Step Five – Evaluate the attractiveness of each segment

Available market data and consumer research findings are then added to the description of the segments (the profiles), such as segment size, growth rates, price sensitivity, brand loyalty, and so on. Using this combined information, the firm will then evaluate each market segment on its overall attractiveness. Some form of scoring model will probably be used for this task, resulting in numerical and qualitative scores for each market segment.

Step Six – Select target market/s

With detailed information on each of the segments now available, the firm then decides which ones are the most appropriate ones to be selected as target markets. There are many factors to consider when choosing a target market. These factors include: firms strategy, the attractiveness of the segment, the competitive rivalry of the segment, the firm's ability to successfully compete and so on.

Step Seven – Develop positioning strategy

The next step is to work out how to best compete in the selected target market. Firms need to identify how to position their products/brands in the target market. As it is likely that there are already competitive offerings in the market, the firm needs to work out how they can win market share from established players. Typically this is achieved by being perceived by consumers as being different, unique, superior, or as providing greater value.

Step Eight – Develop and implement the marketing mix

Once a positioning strategy has been developed, the firm moves to implementation. This is the development of a marketing mix that will support the positioning in the marketplace. This requires suitable products need to be designed and developed, at a suitable price, with suitable distribution channels, and an effective promotional program.

Step Nine – Review performance

After a period of time, and on a regular basis, the firm needs to revisit the performance of various products and may review their segmentation process in order to reassess their view of the market and to look for new opportunities.

What is market segmentation?

So what is market segmentation? Market segmentation is the process of dividing an overall market (as defined by the firm; please see the section on how to define a market) into sets of consumers that have similar needs or similar characteristics. In simple terms, market segmentation means categorizing consumers into similar sets, where each group consists of consumers who are similar to each other in some way.

Each of these groups of consumers is then referred to as a market segment, or a piece of the market. Please note that, at this stage, the firm has not evaluated nor selected which market segments that they will target (or market to). Once a firm selects specific market segments for their marketing and strategy purposes, these chosen market segments will then be referred to as target markets.

Therefore, there should always be more market segments than target markets, as firms will typically choose to focus their efforts on a few specific market segments only. There are many reasons for adopting this focused approach, which are explored in the section discussing concentrated or differentiated marketing.

Definitions of market segmentation

The concept of market segmentation was first identified by Smith back in the 1950s. He was one of the first to recognize the importance of market segmentation, as shown in the following quote:

“Market segmentation is based upon developments on the demand side of the market and represents a rational and more precise adjustment of product and marketing effort to consumer or user requirements.” (Smith, 1956)

To clarify this statement in simple language, he basically saw market segmentation being an important tool to enable marketers to better meet customer needs. Since that time, market segmentation has become a widely accepted and used marketing approach. Here are some more recent definitions of market segmentation:

“Market segmentation is the process of splitting customers, or potential customers, in a market into different groups, or segments, within which customers share a similar level of interest in the same, or comparable, set of needs satisfied by a distinct marketing proposition” (McDonald & Dunbar, 2004)

“Market segmentation involves aggregating prospective buyers into groups that (1) have common needs and (2) will respond similarly to a market action.” (Kerin, 2011)

Both of these definitions highlight that market segmentation is designed to split customers into similar groups. They also indicate that market segmentation is simply a step in the process of identifying and evaluating potential target markets, which is best achieved by breaking the overall market into smaller, related groups of consumers. Therefore, an alternate definition provided by this market segmentation study guide is:

Market segmentation is the process of splitting a market into smaller groups with similar product needs or identifiable characteristics, for the purpose of selecting appropriate target markets.

Reasons why firms segment markets

Reasons why market segmentation is used	Rationale/discussion
Target markets	Obviously the main reason is to help identify potential target markets
Market understanding	Splitting the overall market into smaller groups helps managers have a much greater understanding of the marketplace, as they gain knowledge of differing consumer needs within the same market
Marketing mix	It is then easier to develop a marketing mix is based upon the needs of a precise market
Competitive position	It can be easier to compete against existing firms by focusing upon a smaller, more defined, group of consumers
New opportunities	Creative approaches to market segmentation may generate new opportunities
Avoid mass-marketing	In today's environment, it is generally quite difficult to be successful as a mass-marketer
More offerings	Firms are better able to position multiple products in the same overall market by defining and understanding multiple segments
Niche marketing	Some firms find success as niche marketers (pursuing very narrowly defined segments) and this specialized approach becomes their basis of their competition advantage

The criteria for effective segmentation

Following the development of market segments by the firm, they then need to be evaluated against a set criterion. Essentially, this review is a checkpoint in the overall market segmentation, targeting and positioning process (known as the STP model/process). This analytical ensures that the resultant market segments are valid and usable for the firm's purposes.

The main criteria for evaluating market segments

The main goal of this stage of the STP process is to ensure that the market segments that have been constructed by the firm meet with basic requirements and guidelines, which will make them usable segments and potential target markets. The best way to think about this step of the STP model is to think about it a review checkpoint.

The following table outlines the main requirements/criteria for a market segment.

Evaluation Criteria	What is it?	Why is it important?
Homogeneous	This means that the consumers allocated to each segment should be similar in some relevant way	This is the basis of market segmentation - that the consumers in each segment are similar in terms of needs and/or characteristics
Heterogeneous	Each segment of consumers should be relatively unique, as compared to the other segments that have been constructed	This demonstrates that the consumers in the overall market have been effectively divided into sets of differing needs
Measurable	Some form of data should be available to measure the size of the market segment	Measurements are very important to be able to evaluate the overall attractiveness of each segment
Substantial	The market segment should be large enough, in terms of sales and profitability, to warrant the firm's possible attention	Each firm will have minimum requirements for the financial return from their investment in a market, so it is necessary to only consider segments that are substantial enough to be of interest

Accessible	The market segment should be reachable, particularly in terms of distribution and communication	Each segment needs to be able to be reached and communicated with on an efficient basis
Actionable/practical	The firm needs to be able to implement a distinctive marketing mix for each market segment	The range of segments identified generally need to be defined for the capabilities and resources of the organization, so very specialized segments may not be appropriate
Responsive	Each market segment should respond better to a distinct marketing mix, rather than a generic offering	The key outcome of the STP process is to develop a unique marketing mix for a specified target market, if the segment will not be more responsive to a distinct offering, then the segment can probably be combined with another similar segment

Market segmentation evaluation criteria example

In the following example, we have considered two different furniture manufacturers. Both of these firms have conducted a market segmentation exercise and have created four market segments. As you will see, the first example will generally meet the criteria for effective segmentation. However, the second set of market segments fails the evaluation test on a number of points. Therefore, the second furniture manufacturer will need to revisit their market segmentation process

Defined market segments for firm one	
First homers <i>Young couples establishing their first home, looking for a range of low-priced furniture</i>	Simply the best <i>Consumers that are very focused on their homes as a display of status, and prefer expensive and high prestige brands</i>
Busy families <i>Families with children at home, needing furniture that is durable, functional and safe</i>	Design focused <i>Consumers who are very attracted by the look and style of furniture - may be attracted to both expensive and budget furniture</i>

Defined market segments for firm two	
Heavy users <i>Consumers who regularly upgrade and change their furniture</i>	Retirees <i>Looking for either budget furniture (because of limited income) or expensive furniture to enjoy their retirement years</i>
Light users <i>Consumers who only buy furniture every few years</i>	Rural people <i>People who live out of the city regions</i>

To identify why firm one's segmentation outcomes are more appropriate than firm two's approach, let's work through the segments against an evaluation criteria as shown in the table:

Evaluation Criteria	Firm One's Segments	Firm Two's Segments
Homogeneous	Seems to meet this evaluation test quite well, as each segment appears to have been grouped around similar needs.	Does not meet this first test. For example, in their retirees market, they have described the consumers as either being budget conscious or possibly the opposite. Therefore this segment does not contain consumers with similar needs.
Heterogeneous	Looks good here as well, with each defined segment appearing to be significantly different in furniture needs.	This test is a major concern as well. For example, the 'rural people' segment could also be allocated to any of the other segments, so there are insufficient differences between the segments.
Measurable	Would probably meet this test of being measurable.	Would probably meet this test of being measurable.
Substantial	Most of these segments would probably be substantial enough.	Most of these segments would probably be substantial enough.
Accessible	Would probably be able to utilize different media and distribution channels to access these different segments.	This may be of concern. For example, it would not be clear how you could directly access heavy users as opposed to light users.

Actionable/practical	We may assume this to be the case, as we do not know much about the firms – typically we would assess this point against the firm’s capabilities.	We may assume this to be the case, as we do not know much about the firms – typically we would assess this point against the firm’s capabilities.
Responsive	Given the needs of each segment appear to be distinct, then different styles of furniture products (and supporting marketing mix) could be developed that would be more/less attractive to each of the segments.	This would also be a concern as some of the segments have been defined quite generically, such as rural people, so it is unclear whether they would respond to a distinct marketing mix offering

As demonstrated in the discussion in the above table, firm one's market segment development appears to meet all the necessary criteria. This means that the segments are valid and the process of evaluating the segments and then selecting target market can continue.

However firm two’s approach has failed a number of evaluation tests, particularly in regards to be homogeneous (generally similar in need) and being heterogeneous (each segment having distinctive needs). In this case firm two would need to repeat their market segment development process in order to find a more suitable set of segments for their consideration.

How is market segmentation actually undertaken?

There are two main approaches to market segmentation in practical use. If an organization has access to sufficient market research and database information, then they can use a statistical technique known as cluster analysis. Otherwise, the marketers involved will need to divide the market based on their knowledge and understanding using what is known as a segmentation tree.

Definitions of cluster analysis and segmentation trees

Cluster analysis is a statistical technique that is available with software programs such as SPSS, which is commonly used in universities around the world. It can be defined as:

An analysis designed to categorize objects to a pre-defined number of different groups, with each group being relatively similar on a range of selected attributes. The resultant groups are referred to as clusters.

A suitable definition of a segmentation tree would be:

A segmentation tree is a variation of a decision tree, which visually shows the division of a market into smaller possible market segments.

Understanding cluster analysis and segmentation trees

As noted in the introduction, there are two main approaches to the practical application of market segmentation. As a university student, unless you have been given the results of a market research survey (where you may have the opportunity to utilize cluster analysis), you will be more likely using a segmentation tree to help develop your segments. Fortunately, the segmentation tree approach is quite simple to understand and use, even without a lot of industry/market knowledge.

Cluster analysis

Let's start by looking at cluster analysis. If a firm has conducted a suitable market research study they will have suitable data about the overall market. Using this data they can use a statistical analysis known as cluster analysis. As the name suggests, this statistical tool 'clusters' the consumers into related sets, based upon the variables in the data.

When using cluster analysis, the marketer (or analyst) will experiment with the data looking for suitable segments. While using the software, the marketer/analyst can select how many segments they want the statistical program to identify, as well as specifying the particular variables (that is, the questions from the survey) that should be considered.

For example, let's assume that a range of image questions were asked in the survey. If it was a survey in the airline industry, then some of the image questions might be asked respondents to rate a number of airlines on a range of attributes including: service, reliability, value, friendliness, convenience, professionalism, and so on. The analyst could then select some of these variables to be included in the cluster analysis and, say, three segments/clusters to be created. The software would then produce an output where each individual responded is allocated to one of these for groups.

A potential output might be the first two lines of the table below, where the three groups produced are listed with which respondents have been allocated to each segment/cluster. The analyst would then have to further review the data and identify why the software has allocated these respondents to the same group (that is, what do they have in common?)

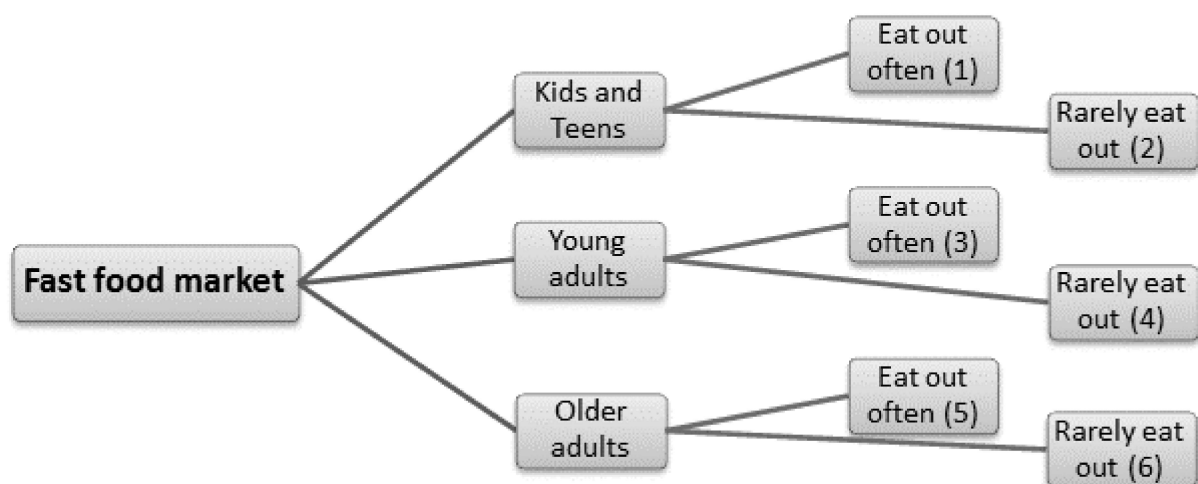
The third line, the segment's similarity, would be determined by the analyst who would describe or name each segment/cluster. As you can see, in this case we have three segments, the first being value based, the second being service oriented and the third being having the need for reliability. Therefore, we have constructed three segments using a benefits sought segmentation base.

Cluster A	Cluster B	Cluster C
Respondents	Respondents	Respondents
1, 2, 6	3, 5, 8, 10	4, 9, 7
Appears to be value based	Combination of service and friendliness	A mix of reliability and professionalism

If the marketer/analyst is not satisfied that the segments produced are logical, then they simply repeat the process using different variables or different numbers of segments/clusters. This process of looking at the output from different variables continues until the marketer has a segmentation which helps provide a useful way of looking at the market for the firm.

Segmentation trees

The second main approach to segmentation is by using a segmentation tree. This approach is helpful when valid statistical or research data is not available. The following diagram is a simple example for a segmentation tree.



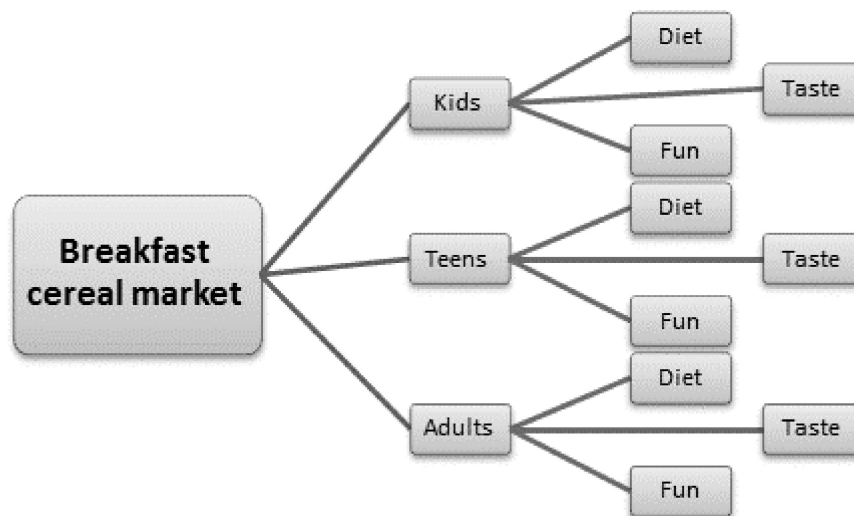
Segmentation Tree example

Source: www.marketingstudyguide.com

As you can see, in this approach the overall market branches out like a tree. If you have studied finance or economics, you may have also constructed a decision tree, this is a similar concept.

The overall market forms the tree trunk, which then branches off into the first level of segmentation (in this case, a demographic segmentation using three age groups). Then these main branches are segmented into a behavioral segmentation base (frequency of eating out). The end result is that the overall market, in this case for fast food, has been segmented into six groups (as numbered).

The following is another example of a segmentation tree:



Segmentation Tree example - Cereals

Source: www.marketingstudyguide.com

For the breakfast cereal market example above, it has been initially segmented by a demographic variable (that is, broad age groups), it then has been segmented by a benefit, (that is, whether the consumer is seeking the benefit from cereal of health/diet, or looking for something great tasting, or looking for cereal and has fun shapes come, colors and packaging). In this example a total of nine different market segments have been constructed.

Most university students should be able to develop their own segmentation tree relatively quickly. By starting with a well-defined market, then selecting from the list of segmentation bases/variables and then simply splitting the market into branches as demonstrated in the examples above. It is advisable to experiment with different segmentation bases and to develop several different trees initially to in order to determine the segmentation tree most appropriate for your task.

How many market segments should be created?

Each market segment needs to be assessed on a number of factors (please refer to the criteria for evaluating segments). Provided the defined market segments are still attractive (profit/size considerations) and are unique in their behavior any number is fine.

As a starting exercise for a firm, typically at least three to four different market segments would be identified and potentially looking at up to 10-12 segments. You will sometimes hear of large firms that have 25 or more target markets, but they typically operate in multiple markets and countries.

Why do firms define markets?

Reasons to Define Markets	Rationale
Business definition	Most businesses prefer to have a clear understanding of what business they are in. Defining the scope of their markets provides a framework for their operations
Strategy development	The long-term success of an organization is highly dependent upon their business strategy and its effective implementation. Clear market descriptions and boundaries provides significant guidance in their strategy and planning process
Search for opportunities	Clearly mapping out the range of markets they are pursuing may help identify opportunities and unmet needs
Define competitors	Defining markets will enable the firm to more effectively identify its direct and indirect competitors
Focus resources	Clear market definitions will ensure that management and other resources are continually focused on the identified market/s, rather than considering a range of other potential opportunities
Market segmentation	Organizations need to define markets as the first step in their market segmentation process

What are the main approaches to defining a market?

A market can be effectively defined in a number of ways, with the most common ones being:

By industry classification (as with the categories used in government statistics)
By product category (for example, cars, food, retailing, publishing, professional services)
By country (or other major geographic area)
By Yellow Pages directory listings

Why is defining a product-market important?

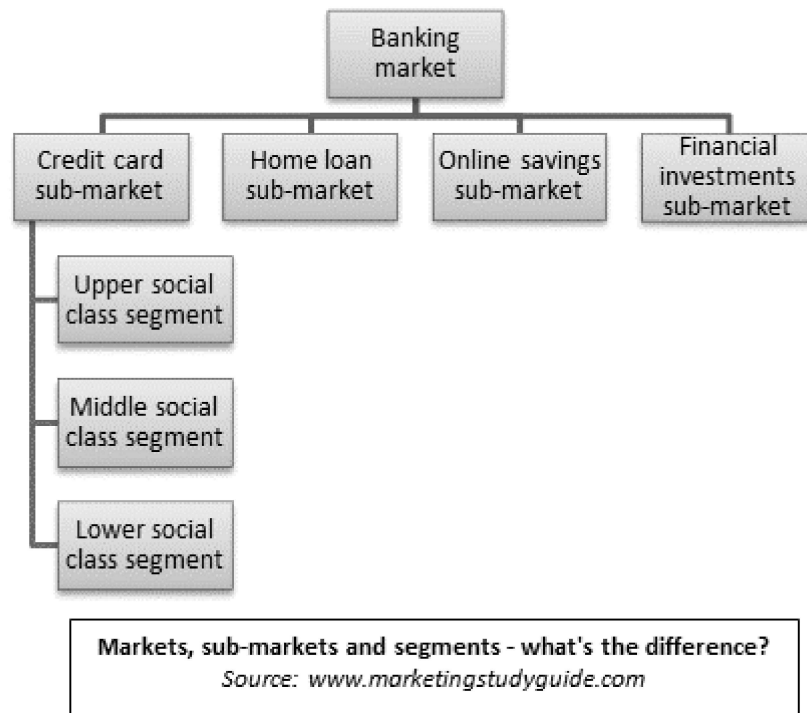
A firm needs to define their scope of operations – both current and future.

The firm's definition of the markets and in which product categories that they will compete in is a key market strategy decision. Essentially it answers the key strategy question of 'where to compete?'

Understanding markets

It is important to have an understanding of markets and sub-markets (and the firm's product-market definition) at the starting point of the market segmentation process. This is because it is a common mistake to 'segment' a market based on products, rather than segmenting by consumer group. This mistake usually happens by confusing a sub-market with a market segment.

The best way to explain the differences is through a simple example, as shown below:



As shown in the diagram, the overall market of interest is the banking market. This overall market could be easily categorized into a number of sub-markets. Then, using the credit card sub-market as a further example, this smaller market could then be segmented using a variety of segmentation bases (or variables).

In this example, the psychographic segmentation base of social class has been applied (but other segmentation bases could also be effectively utilized). (Remember that the main purpose of this diagram is to outline the distinction between markets, sub-markets and market segments.)

As highlighted in the definition above, sub-markets usually have some unique market aspects. For example, in the credit card sub-market, there are some large specialist competitors, such as American Express and Diners' Club. These are significant players in this sub-market, but do not tend to significantly compete in the broader banking market. Credit cards are often successfully sold via direct mail, direct response TV advertising, in shopping center intercepts (direct selling), and through retail store partners (such as department stores).

It would be quite unusual for the other banking sub-markets (such as home loans) to effectively use these particular distribution channels or promotional techniques.

What are markets, sub-markets and product-markets?

A market is the overall set of buyers (consumers) and sellers (firms) for a broad market need, such as the banking market, or the education market, or the ready-to-eat food market.

A sub-market forms part of an overall market, but tends to have some unique operating characteristics. For example, the banking market could be split into the sub-markets of credit cards, home loans, online savings, and so on. Large financial institutions would probably operate in all these sub-markets, whereas smaller and specialist players may only operate in one or two sub-markets. This means that in each sub-market there would be a different competitive set and market structure.

Unfortunately, the terminology used in this area is somewhat confusing across different textbooks. Between them they sometimes use the terms 'market', 'sub-market', 'market segment' and 'product-market' interchangeably. Hopefully the following discussion will help clarify the terms.

Definitions of markets, sub-markets and product-markets

What is a market?

Traditionally, the term market has been defined in economic terms, as per the following examples:

"It is usually understood as an organized process by which buyers and sellers exchange goods and services for money." (Chin & Guan, 1996)

"... we use the term (market) to refer to exchanges between buyers and sellers who communicate with each other about the quality and quantity of the product, what buyers are willing and able to pay for a product, and what the sellers must receive in order to produce or sell a product." (Mukherjee, 2005)

You will notice that the first definition is quite straightforward and tightly defined as it defines a market simply in terms of the exchange between buyers and sellers. However, the second definition is much broader and is more reflective of a market from a marketing perspective. This second definition also includes the elements of communication (which is marketing promotion), price and profit incentive. Therefore, this second definition is more appropriate for us in the study of marketing.

What is a sub-market?

Sometimes the term sub-market is utilized in marketing textbooks, particularly those relating to strategy and positioning. As suggested by its name, a sub-market is a smaller part of an overall larger market. Perhaps surprisingly, it is a little difficult to find an accepted definition for a sub-market. This is because the term has slightly different meanings across marketing, economics, law and even real estate.

The formal recognition of sub-markets came from a legal case, known as the “The Brown Shoe case” [Brown Shoe Co. v. U.S. 1962], where a sub-market was referred to as ‘a relevant market within a relevant market’. As part of their deliberations, they indicated that sub-markets were likely to have products with unique characteristics, distinct customers, distinct pricing, and even specialized retailers.

Therefore, a suitable definition for our purposes as students of marketing:

A smaller and more defined sector of an overall market, which has a number of differing marketing and structural features, which may include distinct distribution channels, price elasticity, competitive sets, and effective promotional methods.

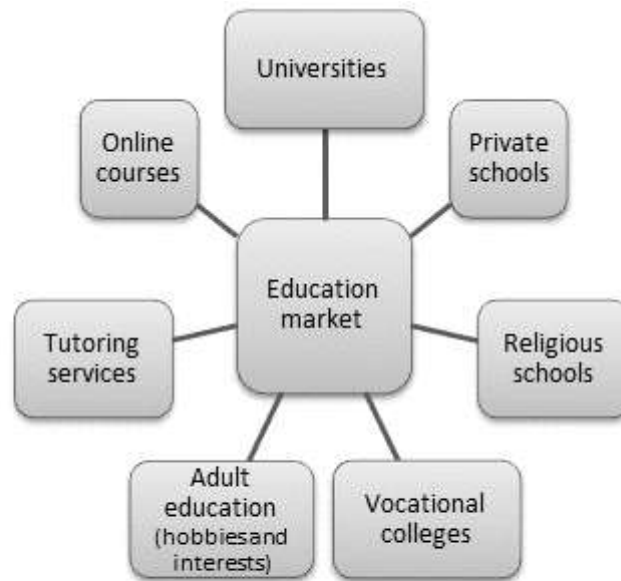
What is a product-market?

As part of a firm’s marketing strategy development, they are likely to define the markets and/or sub-markets that they choose to operate in. This is sometimes referred to as ‘where to compete?’ Some companies will map out their business scope on a product/market grid, which identifies which products they wish to offer in which markets or sub-markets.

Each organization is likely to have a relatively unique view for their product-market definition.

Markets, sub-markets and product-markets examples

To help explain this concept of different markets, let's look an example relating to the overall education market. In the diagram below, the overall education market has been into seven **different sub-markets**. Each of these sub-markets would have different sizes, operates quite differently, have different profitability and growth measures - yet they still form part of the overall education market.



The education market and its sub-markets

Source: www.marketingstudyguide.com

Players in each sub-market would probably see other organizations within the same sub-market as their direct competitors, and would probably view the organizations in the other sub markets as indirect competitors.

You should note that an individual consumer could easily enter the most of the sub-markets during the course of their educational lifetime. For example, he/she could be a student at a private school and receive tutoring at night, then later that same person could attend university, use online education, attend an adult evening course, and so on.

For an example of how a firm could potentially define its **product-market**, let's look at an example for Coca-Cola, as show in the following diagram:



Possible Product-Market Definition for Coca-Cola Source: www.marketingstudyguide.com

As can be seen in this example, starting with a large generic market (the beverage market), a series of sub-markets can be identified (water, juice, and so on). Then Coca-Cola could further define by major geographic regions. This helps them identify a series of defined product-markets, such as the juice market in South America.

It is then this more defined product-market that is segmented in the STP process – not the overall generic market. As you could imagine, trying to construct market segments for the worldwide beverage market would be impractical, especially for a university assignment.

How to segment a market

A step-by-step guide on how to construct market segments is provided below. However, there are a number of relevant topic discussions on the marketing study guide which may be beneficial for you. These topics are included in the side bar menu and in related topics at the bottom of this page.

Depending upon your segmentation task you may need just to complete steps one to three below, or you may need steps one to six – so check what is required first.

(Note: The full nine steps of segmentation, targeting and positioning are discussed in the STP process section if further information is required.)

Step One – Define the market

The first step in creating market segments is to clearly define the market of interest. As discussed in the markets, sub-markets and product-markets section, it is important not to define a market too broadly.

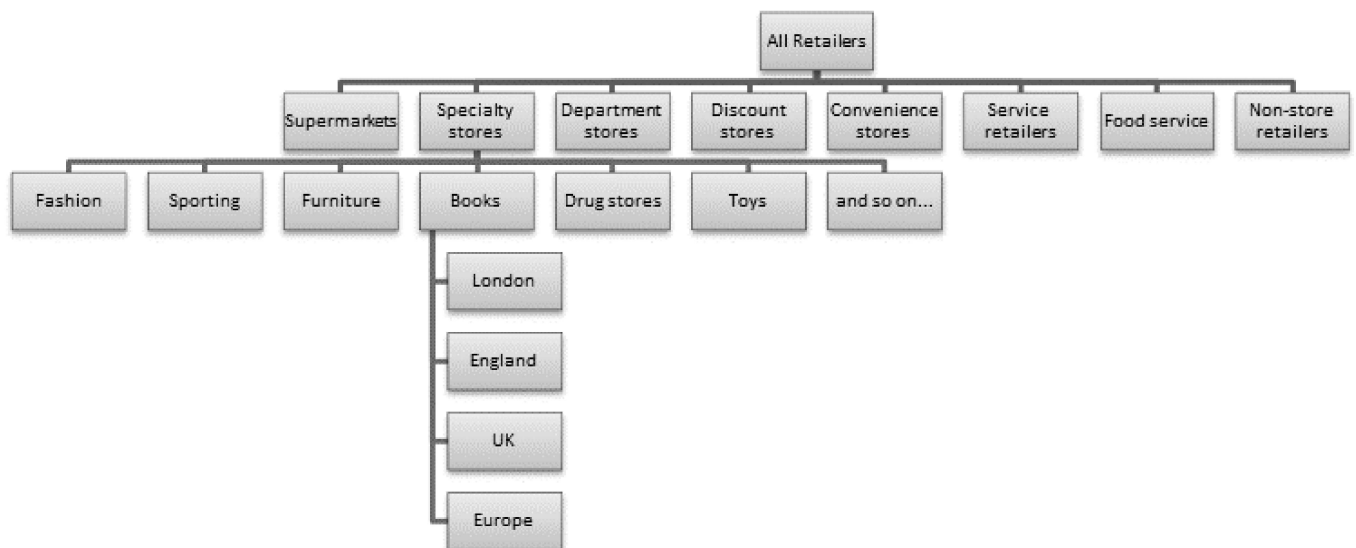
For instance, let's assume that you are looking to segment the market for a firm that operates a chain of book stores. It would be too top-level and too awkward to define the market as all retailing consumers, as it is unlikely to lead to any meaningful segmentation.

As shown in the following diagram, we need to split out the overall broad market (retailing) into its various sub-markets (such as, supermarkets, specialty stores and so on).

We can also further define some of these sub-markets (if they are still too broad) as is shown for specialty stores below.

And finally, we need to determine the market's geographic boundaries. In this case a list of possibilities has been provided in the figure.

Let's pick the UK; so our defined product/market is book retailers in the UK.



Defining a product/market: book retailing Source: www.marketingstudyguide.com

Step Two – Create market segments

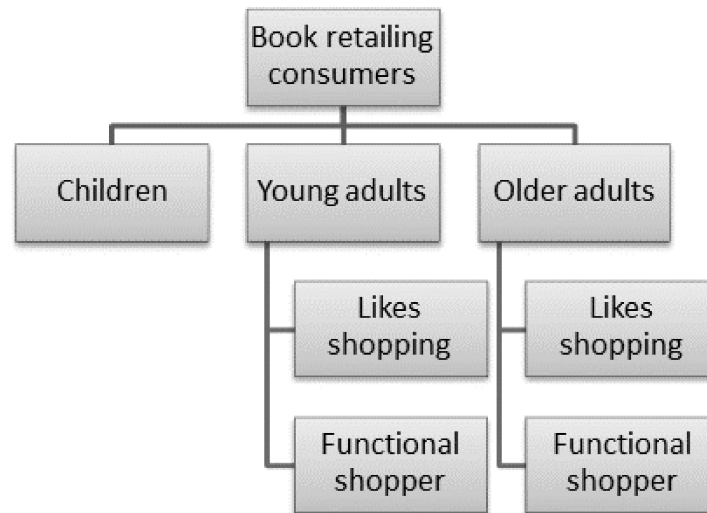
Now that we have defined the product/market clearly (which we will refer to as ‘the market’ from this point on), we need to determine what types (segments) of different consumers form that overall market. To do this, we need to review the list of segmentation bases/variables and choose two or three of those variables that we think (or know from market research) affect the purchasing behavior of book consumers.

Note: When segmenting a business market, please see segmentation bases for business markets.

For this market, let’s pick three different variables from the list, as per the following table. These particular segmentation variables have been chosen as they are likely to influence the purchasing behavior of books and, therefore, should lead to the identification of interesting segments.

Main Category	Segmentation Base	Example/s
Demographic	Age group	Pre-teens, teens, young adults, older adults
Behavioral	Shopping style	Enjoys shopping, functional, avoids

Now we have chosen the segmentation variables, we can use a segmentation tree structure to help map out the segments, as shown below. Other examples for segmentation trees can be found in how is market segmentation actually undertaken.



Segmentation tree: book retailing Source: www.marketingstudyguide.com

As you can see, five different segments have been created by applying these segmentation variables. In the first stage, a broad demographic split has been used (to create children, young adults and older adults segment). The two adult segments then have a behavior variable applied to them (whether they enjoy shopping or just like to get in and out quickly).

Remember that there are many ways to segment the same market. Provided that the segmentation variables have some logic to them, most outcomes should be quite acceptable.

Therefore, our five market segments in this example are:

- Children
- Young adults (18-40 years), who enjoy the shopping experience
- Young adults (18-40 years), who are functional/convenience shoppers
- Older adults (40+ years), who enjoy the shopping experience
- Older adults (40+ years), who are functional/convenience shoppers

Step Three – Evaluate the proposed market segments for viability

Now that we have developed some market segments we may be required to evaluate them to ensure that they are useable and logical. This would happen in a real-life firm, but it may not form part of your particular task.

To do this, you need to quickly assess the segments against a checklist of factors. This is discussed in more detail in [criteria for effective segmentation](#). Basically, all that is required is to list the evaluation criteria and to provide a supporting comment, as is demonstrated in the following table.

If, on occasion, the segments that you have created don't appear to meet the evaluation criteria, then simply revisit step two and change the segmentation variables that you have selected.

Evaluation Criteria	Our assessment
Homogeneous	Segments should be similar in needs
Heterogeneous	Assumes that age groups vary in needs, which is likely in this market
Measurable	Market research data can be utilized
Substantial	Given the segments are relatively broad, they should be individually substantial
Accessible	Various merchandising techniques can be used to promote and reach each of these segments
Actionable/practical	The firm has the capabilities to market to each segment, if required
Responsive	Each market segment should respond better to a distinct marketing mix, rather than a generic offering

Step Four – Construct segment profiles

You may be required to describe the segments (develop a segment profile). The following is a checklist of factors that you might consider. For some of these items below you may not know actually – in that case either make a logical assumption or do not include the factor in the segment profile. Remember that the task here is to describe and understand the segments a little more.

An example of how to complete this table is shown in [segment profiles](#).

KEY MEASURES

• Segment size measures • Segment growth rate • Proportion of the overall market
CONSUMER BEHAVIOR
• Main consumer needs • Usage level • Level of brand loyalty • Price sensitivity • Product involvement levels • Retailer preferences
DESCRIPTION
• Geographic spread • Demographic description • Psychographic description
COMPETITION/COMMUNICATION
• Main competitive offerings • Main media choices

Step Five – Evaluate the attractiveness of each segment

If you are required to select one target market from your list of market segments, then you need to use some form of objective assessment. Again, this topic is covered in detail in how are target markets selected, but as a quick guide you should use some of the following factors in assessing the attractiveness of each market segment.

Financial Issues

- Segment size
- Segment growth rate
- Profit margins

Structural Attractiveness

- Competitors
- Distribution channels

Strategic Direction

- Fit with firm's strategy
- Fit with firm's goals

Marketing Expertise

- Resources
- Capability
- Branding

Step Six – Select target market/s

Using the assessment information you have just constructed, you can select the most appropriate target market for the firm. While there are many factors to consider, you should at least take into account: the firm's strategy, the attractiveness of the segment, the competitive rivalry of the segment, and the firm's ability to successfully compete.

Definition of a segmentation base

A market segmentation base is simply the factor that is used to define the overall market up into its individual market segments. These factors usually include some sort of description of the consumers, usually relating to their lifestyle, purchasing behavior, goals, or life-stage attributes.

Segmentation bases are the dimensions that can be used to segment a market. Several definitions of segmentation bases are available, such as:

“A segmentation basis is defined as a set of variables or characteristics used to assign potential customers to homogeneous groups.” (Wedel & Kamakura, 2000)

“Segmentation variables are customer characteristics that relate to some important difference in customer response to marketing effort.” (Webster, 1984)

Both of these definitions highlight that the purpose of segmentation is to differentiate between consumers by using certain variables or descriptions. However, there is a slight variation between them; the first suggests that homogeneous groupings are sufficient, whereas the second requires the groupings responses differently to marketing offering.

Therefore, for our purposes as marketing students, a segmentation base/variable can be defined as:

A definable characteristic, identity or behavior of an individual consumer that can be utilized to classify consumers into related groups.

What are the main ways of segmenting a market?

There are many different approaches to segmenting a market. The main segmentation bases are discussed in more detail below. However, the most common approaches include:

Segmentation Base	Description of each main consumer segmentation base
Geographic segmentation	Segmenting by country, region, city or other geographic basis.
Demographic segmentation	Segmenting based on identifiable population characteristics, such as age, occupation, marital status and so on.

Psychographic segmentation	This segmentation approach involves an understanding of a consumer's lifestyle, interests, and opinions.
Benefit segmentation	This approach segments consumers on the basis of specific benefits they are seeking from the product, such as convenience, or status, or value, and so on.
Behavioral segmentation	Segmenting the market based on their relationship with the product or the firm. Examples include: heavy or light users, brand loyal or brand switchers, and so on.

Note: This topic discusses segmentation bases for consumer markets, there is a separate topic area relating to business market segmentation bases/variables.

What are the main ways of segmenting a market?

There are quite a number of potential market segmentation bases (also referred to as segmentation variables), which an organization could effectively utilize to construct market segments. As a simple guide, segmentation bases can be classified into five major categories:

- geographic,
- demographic,
- psychographic,
- behavioral, and
- benefits sought.

By using any of these segmentation bases, either individually or in combination, an organization can construct market segments for evaluation to help them select appropriate target markets.

Note: This topic discusses segmentation bases for consumer markets, there is a separate topic area relating to business market segmentation bases/variables.

Segmentation Base	Description of each main consumer segmentation base
Geographic	Segmenting by country, region, city or other geographic basis.
Demographic	Segmenting based on identifiable population characteristics, such as age, occupation, marital status and so on.

Psychographic	This segmentation approach involves an understanding of a consumer's lifestyle, interests, and opinions.
Benefits sought	This approach segments consumers on the basis of specific benefits they are seeking from the product, such as convenience, or status, or value, and so on.
Behavioral	Segmenting the market based on their relationship with the product or the firm. Examples include: heavy or light users, brand loyal or brand switchers, and so on.

Understanding market segmentation bases/variables

Probably the best approach to understanding the different segmentation bases is to view some examples, which are listed in the table below.

It is important to note that sometimes textbooks classify the lower-level bases/variables slightly differently. For example, some textbooks integrate 'benefits sought' as being a 'behavioral' segmentation base option. However, benefits sought are quite an important and commonly used segmentation approach in real business practice and should be separated out. And some texts will list geo-demographics (a combination of geographic and demographic measures) as a separate category. However, as it is possible to combine (use hybrid segmentation) any of the bases, the following examples just utilize the major categories.

Main Category	Segmentation Base	Example/s
Geographic	Country/continent	England, UK, Europe
	Region/area of the country	North India, West India, South India
	City	New York, Los Angeles, Dallas, Chicago
	Urban/rural	<i>Measured by the area's population density</i>
	Climate	Tropical, arid, alpine
	Coastal/inland	<i>Measured by distance to the coast</i>
Demographic	Age group	Pre-teens, teens, young adults, older

		adults
	Generation	Baby boomers, Gen X, Gen Y
	Gender	Male, female
	Marital status	Married, single, widowed
	Family life cycle	Young married no kids, married young kids
	Family size	Couple only, small family, large family
	Occupation	Professional, trade, unskilled
	Education	High school, university, vocational
	Ethnic background	African-American, Hispanic, Asian
	Religion	Christian, Jewish, Hindu, Muslim
Psychographic	Lifestyle	Family, social, sporty, travel, education
	Values (VALS)	<i>VALS = values and lifestyles</i>
	Social class	Upper class, middle class, lower class
	Personality/self-concept	Ongoing, creative, innovator, serious
	Activities, interests, opinions (AIO)	<i>Various hobbies, sports, interests</i>
Benefits Sought	Needs/motivations	Convenience, value, safety, esteem
Behavioral	Occasion	Birthday, anniversary, Valentine's Day
	Buying stage	Ready to buy, gathering information only
	User status	Regular, occasional, never
	Usage rate	Heavy, light
	Loyalty status	Loyal, occasional switcher, regular

		switcher
	Brand knowledge	Strong, some, none
	Shopping style	Enjoys shopping, functional, avoids
	Involvement level	High, medium, low

Please note that these are some examples only – there are many other ways to segment (divide) a consumer market. The important things to remember are: the major categories, that there are hundreds of potentially useful segmentation bases, and that these bases can be used in combination (which is known as hybrid segmentation).

Can firms use more than one segmentation base?

Yes, by using more than one approach for segmentation organizations can have a much stronger understanding of each of the segments. Please refer examples for segmentation bases and to main tools used in segmenting markets.

What is hybrid (multivariate) segmentation?

Hybrid segmentation (which is also sometimes referred to as multivariate segmentation) refers to using multiple segmentation variables in the construction of market segments. For example, using a demographic segmentation variable together with a psychographic segmentation variable in order to determine the market segment. The segmentation trees shown in the example section uses hybrid segmentation.

Segmentation Base Examples for Consumer Markets

Type of Firm	Segmentation Base	Possible Market Segments
Banking	Demographic segmentation	Young couples, young families, older families, pre-retirement, retired
Mobile phone carriers	Benefit segmentation	Highly social, work-oriented, safety contact, status symbol
Frozen food manufacturers	A broad mix is used here: Demographic	Single households, diet-conscious, family dining, parties, budget-conscious, variety

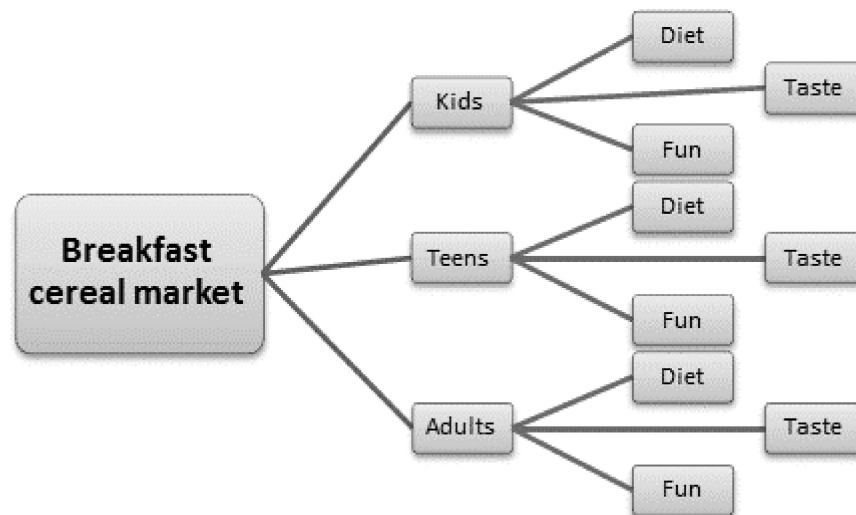
	segmentation - Psychographic segmentation - Behavioral segmentation	seekers
Toothpaste	Benefit segmentation	Teeth whitening, sensitive teeth, fresh breath, cavity protection, tartar control
Restaurant	Behavioral segmentation	Regulars, special occasion, business lunch, quick spot

The following table includes more examples, along with a rationale for this segmentation approach.

Type of Firm	Suitable Segmentation Approach	Rationale
Cosmetics and perfumes firms (such as L'Oreal)	Demographics (gender, age) OR Benefit	Cosmetics and perfumes firms could effectively use a variety of segmentation variables. For example, males and females would have different needs, as would younger and older consumers. Benefit segmentation could be used (some possible could include: skin repair, remove wrinkles, glowing skin, acne reduction, attractive look, social status, celebrity identification).
Car manufacturer	Psychographic (social class) OR Geographic	Segmenting by social class makes sense for this product category, as cars are often a reflection of a consumer's lifestyle and used as a social symbol of success. Geographic segmentation (such as urban versus rural) could also be an effective approach

Segmenting Differences in the Same Market

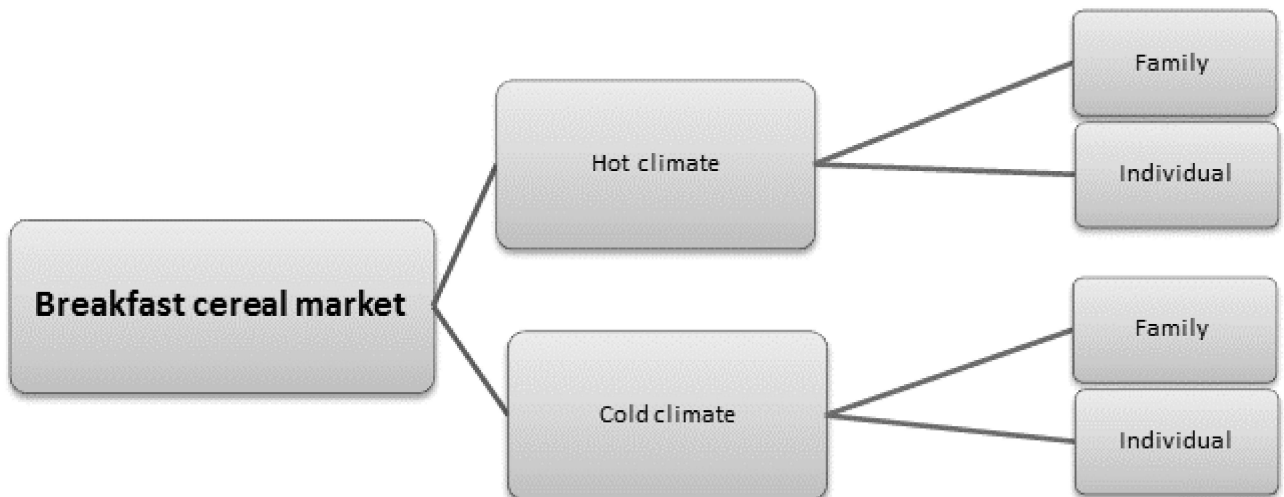
Even firms operating within the same industry can segment the market in different ways (often for strategic reasons). Using the breakfast cereal market as an example, the following diagrams highlight some different possible approaches.



Segmentation Tree example - Cereals

Source: www.marketingstudyguide.com

This first segmentation example uses age group (demographics) and then benefits sought to construct nine different market segments. Obviously, each of these segments would be of different sizes and attractiveness, but it does give a good overview of the range of consumer needs in the market. Let's now look at another approach using the same market.



Segmentation Tree example - Cereals

Source: www.marketingstudyguide.com

In this example, two quite distinct segmentation variables have been used. The first base is a geographic variable of weather/climate and the second is a psychographic (lifestyle) variable relating to whether the breakfast meal is typically consumed in a family setting (people eating together) or whether the household members usually eat alone.

Remember the point of these examples is to demonstrate that the same market can be segmented and viewed in many different ways. By doing so, the marketer gains a greater understanding of the overall market and is more likely to identify unmet needs (sometimes referred to as market gaps, which are identified through using perceptual maps).

List of advantages and limitations of the main segmentation bases

To help guide the selection of the best segmentation bases/variables to use for an organization, the marketer needs to consider the advantages and limitations of each potential approach.

This knowledge is required because there is a wide selection of segmentation variables to choose from and some bases are more appropriate than others for certain products and markets.

The below information is focused upon consumer market segmentation bases, if more appropriate for your needs you should refer to the section on Business Segmentation.

It would also be beneficial to review the Full STP Process for an understanding of the overall purpose of market segmentation.

The following table summarizes the major advantages and limitations of each approach:

Segmentation Base	Advantage/s	Limitation/s
Geographic	This is quite a valuable approach for a large company that operates across many countries, as geographic segmentation would allow them to consider cultural differences It is also quite an effective approach for small firms, with limited resources that often need to operate in a defined geographic area for efficiency purposes. Also tends to work well in cities/countries where there are significant differences in socio-economic status in different geographic areas, or where there is significant changes in lifestyle across regions	This segmentation base is quite limited as it assumes that all consumers in a geographic area are similar in needs Therefore, geographic segmentation typically needs to be used in conjunction with another segmentation base
Demographic	Demographic segmentation is very simple to apply and use, as government statistical data is readily available in most countries Suitable data can be obtained quite quickly and cheaply As segmenting by demographics is also easy for everybody to understand, from management, to sales and customer service staff, it can be more easily built into an internal marketing plan	Just like the limitation with geographic segmentation, this approach is also based on an assumption that consumers in the same demographic group would have similar needs This is unlikely, as not all 30 year old consumers have the same needs Therefore, the biggest limitation with this segmentation approach is that there is very little understanding of the consumer themselves

Psychographic	Psychographic segmentation gives a much better insight into the consumer as a person, which more likely lead to the identification of underlying needs and motives As a result, psychographic segmentation should deliver a much better understanding of the consumer, which in turn which should create more valid and responsive segments and subsequent marketing programs	Unfortunately this approach requires the organization have detailed data/research on the consumer. Hence it is far more suitable for a larger organization and is probably beyond the scope of a small business there are also some concerns regarding data and interpretation, and perhaps the creation of segments that cannot be easily accessed or practical in real life (<i>For more information, please refer to the section on the criteria for effective segmentation</i>)
Benefits sought	This is very effective segmentation method for companies that offer products that have unique features, as this will allow them to identify which products/design they should offer and which benefits they should promote It is also an effective tool for large companies who want to fragment the market and create multiple market segments, in order to reduce the threat from competitive rivalry	Firms too reliant on benefit segmentation may end up being lacking in innovation, as they could end up focusing on existing needs/benefits rather than look at other opportunities and other ways of meeting customer needs
Behavioral	This style of segmentation is often used in mature markets, where the firm is looking to understand: how to activate a non-user, target switchers, convert a medium user to a heavy user and so on	However, this approach does not really consider why consumers buy the product, their needs or their lifestyles - so the level of market understanding may not be as high It also heavily relies upon obtaining detailed market intelligence, and probably the use of a marketing models and databases for market testing and experimentation

Do firms segment a market in the same way?

The short answer is no. It is likely, that long-established competing firms will have a number of similar target markets. However, their overall identification of different market segments is quite likely to vary to some extent.

Even direct competitors that use a quite similar overall market definition will tend to adopt different market segmentation bases when segmenting the consumers in the marketplace.

There are several reasons why this occurs, as listed in the following table:

Reasons for Using Different Segmentation Variables	How to Use Market Segmentation for Strategic Advantage
Competitive advantage	By looking at (and analyzing) a market in a different/unique manner, firms have the goal of better meeting the needs of the market, thereby gaining an advantage over their competitors
Unmet needs	Looking at the market in different ways is more likely to identify market segments that are not being fully catered for
Market understanding	Utilizing different segmentation variables will enable management to gain a stronger and more detailed understanding of consumers and their behaviors in the market
Strategic goals	Some firms have clear growth, or market expansion goals, which require them to constantly find new opportunities or to be more innovative
Access to data	Larger firms usually conduct more market research studies and have access to more data, which allows them the opportunity to consider a greater choice of segmentation variables
Market fragmentation	Some firms, as a competitive approach, like to fragment the market by deliberately targeting many small segments (thereby reducing the competitive threat in each target market)

What is a segment profile?

A segment profile is a detailed description of the market segment across a range of factors and measures. It is designed to provide the organization with a good understanding of consumers within each segment for comparison and strategy purposes.

In particular, a segment profile would outline important aspects of: consumer needs, consumer behavior, brand preferences, product usage levels, and so on. A segment profile would also provide a demographic and psychographic description of the segment, along with key measures of segment size and growth. An example of how to construct a segment profile is provided below as well.

Definition of a segment profile

Definitions of a segment profile are generally quite similar, as shown by the following two definitions:

“A [segment] profile might include information about lifestyle patterns, attitudes towards product attributes and brands, product-use habits, geographic locations, and demographic characteristics” (Kurtz, 2009).

“A market segment profile describes the similarities among potential customers within a segment and explains the differences among people and organizations in different segments” (Pride & Ferrell, 2011).

When constructing segment profiles, we are attempting to describe the consumers in each of the segments with the purpose of understanding their needs, particularly in regards to how they are somewhat unique as compared to the other market segments identified. Therefore, a suitable definition of a segment profile for our purposes is:

A descriptive summary of the size, needs, behaviors and preferences of consumers within a particular market segment, with the goal of evaluating segment attractiveness and developing suitable marketing strategies.

About Segment Profiles

A segment profile is a detailed description of the market segment across a range of factors and measures. It is an important step in the overall segmentation, targeting and positioning (STP) process as it provides the organization with a good comparison between each of the market segments.

In the overall STP process (which stands for segmentation, targeting and positioning), a segment profile is developed after various market segments have been constructed by the

firm and have been evaluated against a set of criteria. (Please refer to the section on the STP model for more information regarding the overall process.)

The firm would use any available data and market research studies to build a clear understanding of each segment. In other words, a segment profile is a fairly detailed description of each segment, as a group of consumers. In particular, the firm needs to know: the size of the segment, whether it is growing, what are their core needs what they currently buy, what brands they buy, how loyal are they, and so on.

This information and allows the firm to identify how well they could meet their needs, which is an important part of selecting a target market. It also lets them know the overall attractiveness of the segment. This information is then used in the STP process of to help select target markets and then later develop a positioning strategy and a suitable marketing mix. This important role of a segment profile is reinforced by Botha et al:

“Segment profiles enable marketers to develop products that will satisfy customers, design communication messages that will appeal to the market segment, and develop an effective distribution plan that will assist in distributing the products and services” (Botha, Bothma, & Brink, 2004).

Therefore, it is important to remember that the information contained in a segment profile is critical to effectively evaluating each market segment in order to select suitable target market/s and, finally, develop a positioning strategy and a supporting marketing mix.

Segment profile sections

The information contained in a segment profile will vary from firm to firm depending upon the availability of suitable data and market research. However, the following table contains a list of some of the key considerations to include in a segment profile.

KEY MEASURES
• Segment size measures • Segment growth rate • Proportion of the overall market
CONSUMER BEHAVIOR
• Main consumer needs • Usage level • Level of brand loyalty • Price sensitivity • Product involvement levels

• Retailer preferences
DESCRIPTION
• Geographic spread • Demographic description • Psychographic description
COMPETITION/COMMUNICATION
• Main competitive offerings • Main media choices

Examples of a Segment Profile

In this example we will provide a profile for two different market segments, using the range of factors listed in the discussion of segment profiles, for two market segments that could be developed for a chain of fitness centers.

	'Young and serious' market segment	'Losing it' market segment
KEY MEASURES		
• Segment size measures	Estimated at around 10,000,000 people across the country	Estimated at around 15,000,000 people across the country
• Segment growth rate	Tends to be stable, with little evidence of growth	A steadily growing segment, increasing by around 5% per year
• Proportion of the overall market	10% of all consumers	15% of all consumers

CONSUMER BEHAVIOR		
Main consumer needs	Want to get into great physical shape Looking for state-of-the-art facilities, conveniently located, , like to mix with other patrons	Want to lose weight Need emotional support and personal training, happy with a limited range of fitness machines, often prefer private training situations
Usage level	High proportion of heavy users – go to a fitness center several times a week	Limited usage, as some consumers are embarrassed by their weight and prefer not to go to fitness centers
Level of brand loyalty	High level of switching behavior over time, may trial a new fitness center every 1-2 years, due to influence of friends or for something different	Once these consumers are comfortable and committed, they display a high degree of loyalty
Price sensitivity	Price is a reasonably important factor and different price deals are important	Less price sensitive, as other selection factors (e.g. 'feeling welcome') are more important
Product involvement levels	Low-medium, as they often switch/trial new facilities they spend less time on the product decision process	Medium-high, as they are not high usage consumers, it is often a purchase that they lack experience with
Retailer preferences	Like well-known chains with multiple outlets that have convenient locations	Preference for smaller, independent fitness centers that are less crowded and have an older age demographic
DESCRIPTION		
Geographic spread	Fairly widespread, but the heaviest users in this segment tend to live or work in busy cities	Broad spread, often living in city suburbs and even in rural areas

Demographic description	Younger (aged 18 to 30 years), well educated, usually employed in office or skilled work, upwardly mobile, single or in a relationship	Middle age group, anywhere from 30 to 60 years, mix of middle-class occupations, usually married and many have children at home
Psychographic description	Quite social, travel goals, enjoy sport, environmentally concerned, focused on future goals and success	Life's priorities are career and/or family, tend to be quite time-poor, probably less social in a fitness center situation as a result
COMPETITION/COMMUNICATION		
Main competitive offerings	Large fitness center chains heavily target this segment Some specialist gyms predominately target them as well Growing number of 'boot camp' style fitness offerings Various sports should be considered indirect competitors	A number of specialist fitness centers have targeted this group Some female-only chains appear to focus here as well Traditionally, this segment has been targeted by weight loss centers (who offer counseling services, rather than equipment) Consumers in this segment are more likely to purchase home-gym equipment

Main media choices	Big users of internet Major consumers of reality TV shows Active users of Facebook and other social media More likely to engage with mobile phone marketing communication	Magazine readers TV shows like 'The Biggest Loser' and cooking shows have a good reach Word-of-mouth promotion is effective in this segment Outdoor advertising has some impact
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Once the segment profile has been developed, as per above, the firm is then in a position to evaluate the attractiveness of each segment and select target market/s most appropriate for them. As you can see, the information contained in the segment profile would then be very useful for the firm in developing their competitive strategy, positioning and subsequent marketing mix (as part of the overall STP process).

What is a segment nickname?

Firms will often give a descriptive nickname to the market segments. A well-known example of a nickname is 'baby boomers', which refers to the generation of people born after 1945 up until the early 1960s. Subsequent generations are now referred to as Generation X, Gen Y and now Generation Z.

The purpose of a nickname is to quickly identify and understand the market segment inside the firm when discussing it in reports, presentations and meetings. Two examples of nicknames are provided below in the segment profile example.

The two nicknames are 'young and serious' and 'losing it'. In this case they refer to two possible market segments for a chain of fitness centers. As indicated by the nickname, the 'young and serious' market segment is a younger group of consumers (18 to 30 years) and quite serious about their fitness and physical appearance. Whereas the 'losing it' market segment are those consumers predominately interested in losing weight.

Each firm will develop their own segment nicknames. Ideally they should be memorable and descriptive of the key need/s of the market segments.

Business Market Segmentation

Many firms will have business target markets in addition to consumer target markets. For example, consider a bank or an airline. As well as targeting individual consumers, a key part of their marketing efforts (and their profitability) will be obtained from business markets. There are some organizations that only pursue business markets (such as consulting firms), but generally most firms will at least consider targeting both individual consumers and businesses.

The approach to business market segmentation is conceptually similar to the approach for consumer markets. As we know, while business markets have less potential customers (as opposed to consumer markets), B2B firms still need to be selective when determining their strategic approach to the market. This is because it is common for a B2B firm to have substantial investment costs and will often need to implement labor-intensive promotional strategies.

Why do firms need to segment business markets?

This is a good question, particularly as business markets have a much smaller number of potential customers, as opposed to some very large consumer numbers. However, firms that market to other businesses will typically have a smaller number of customers. These customers are, as a result, more important to them on an individual basis, so careful customer selection becomes more critical.

In addition, the effectiveness of promotional methods often differs in B2B markets. For instance, the expensive and time-consuming process of personal selling is commonly used in business markets. Some complex or expensive products may have a sales lead-time of several years, which means a team of sales people may easily invest 100s of hours in gaining a sale. Therefore, getting the target market right at the start of the process is also important.

What segmentation bases are used for business markets?

Just like for consumer markets, business or organizational markets should be segmented in order for the firm to effectively develop a successful marketing program. The segmentation bases/variables for business markets vary a little in terminology, but are quite similar in concept and application to the process of segmenting consumer markets.

The main segmentation bases/variables used in business markets include: geographic location, business description (sometimes referred to as demographics), behavioral/operating practices, culture/personality, and organizational goals.

A brief description of the various main business segmentation bases is outlined in the following table:

Broad Category of Business Market Segmentation Base	Which factors are being considered?
Geographic location	Where does the organization operate? <i>(Could be multiple locations)</i>
Business description	What sort of business is it, where does it fit into its industry?
Behavioral/operating practices	How does the organization undertake its purchasing decisions?
Culture/personality	What is the management style of the organization?

Understanding business market segmentation bases/variables

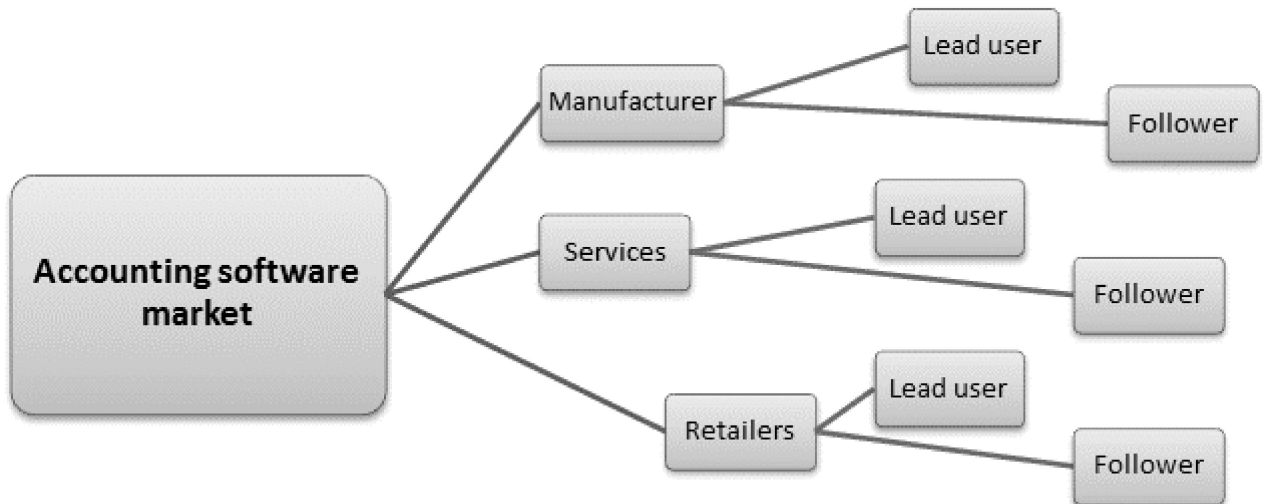
The following table outlines some of the segmentation variables that can be utilized in business markets, listed by main categories:

Main Category	Segmentation Base	Questions to help define segment groups
Geographic location/s	Country/continent	In which countries do they operate?
	Region/area of the country	In which regions do they operate?
	Number of outlets	Does the firm have one office only, or potentially 1,000s of outlets?
	Geographic spread	Does the firm operate in one geographic area, or spread over a wide area?
Business description	Industry	What industry do they operate in?
	Size (by staff or outlets)	How many staff do they have, or how many outlets do they have?
	Size (revenues/profits)	What is their financial position?

	Products sold	What is their product mix?
	Equipment/technology	What is the main forms of manufacturing and/or IT equipment do they use?
	Company ownership	Are they a public or private company? Are they a subsidiary?
Behavioral/operating practices		Do they have a centralized purchase decision-making process?
		Are they generally loyal to suppliers or do they frequently switch?
		Are they fast or slow decision makers?
		Do they use franchising?
Culture/personality		Are they a lead user (an early adopter) or more of a market follower?
		Do they make highly analytical decisions or are they more intuitive?
		How socially and environmentally conscious are they?
Organizational goals		Do they have aggressive growth goals?
		Do they want to be seen as a market innovator?
		How important is brand equity to them?

Business market segmentation examples

Segmenting business markets is essentially the same as segmenting consumer markets. The key difference is that you need to consider more business-oriented segmentation bases. To help explain this concept further, let's look at a couple of examples of business market segmentation. The first is for an IT firm that produces accounting software for businesses. The following diagram outlines a possible segmentation tree for them.

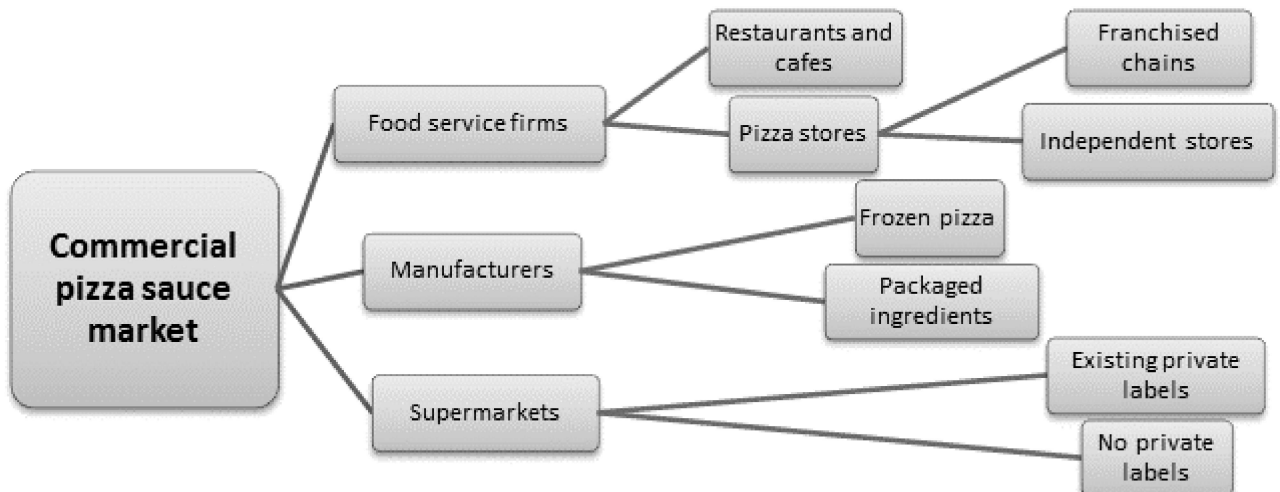


Segmentation Tree example - Software

Source: www.marketingstudyguide.com

In this business market segmentation example, the firm has used two segmentation variables to construct six market segments. The first variable used is a basic business description, splitting the market into the broad categories of manufacturing, services, and retailing. Then the firm has applied a cultural variable and considered whether the potential customers tend to adopt new products (in this case, major accounting software) early or late.

Let's look at one more business segmentation example, this time we will use a manufacturer of tomato paste that is suitable for use as a pizza topping. Here is a possible segmentation approach for this firm:



Segmentation Tree example - Pizza sauce

Source: www.marketingstudyguide.com

In this example, a variety of segmentation variables have been used in order to construct an interesting definition of market segments. The first variable considered is a business description, which broadly splits the potential market into food service, manufacturing, and supermarkets. Then, for each broad group, a different variable has been injected. For instance, food service was then further split by business description (restaurant/café or pizza outlet) and then by operating practice (whether or not they are a franchised operation).

Manufacturers are further defined by whether they use pizza sauce as a key ingredient (say for frozen pizza) or may use this style of sauce in other products (frozen or microwavable pasta for example). And finally supermarkets were further defined by whether or not they already sell a private label pizza sauce through their stores.

Understanding Targeting and Target Markets

The evaluation and selection of target markets is a cornerstone of marketing. Virtually all successful firms will have defined target markets. This section of the segmentation study guide provides a review of target markets, their evaluation and selection process, a review of different target market approaches, along with relevant examples.

What is a target market?

A target market is a market segment that has been deliberately selected by an organization, in order to focus their marketing efforts. Organizations may have several target markets and will typically have distinct market offerings each of them.

The concept of a target market is an important aspect of modern day marketing, especially as the vast majority of firms focus on the needs of a particular market segment/s, rather than the overall market (which is known as mass marketing). The starting point of the marketing concept, which is the foundation of most marketing textbooks, is the selection of a target market.

Definition of a target market

Definitions for target markets tend to be reasonably similar across most marketing textbooks as follows:

A target market is a market segment that has been deliberately selected by an organization in order to focus their marketing efforts and offerings.

Why are target markets important?

Virtually all organizations today focus their marketing efforts on specific target markets. Certainly in previous business eras, it was more common for organizations to have a fairly generic offering and engage in what is referred to as mass marketing. However, with the increased level of competition, particularly from firms with well-defined market offerings, it is very difficult to be successful with this generic approach to marketing.

A target market allows the firm to focus its marketing efforts and develop a unique positioning and marketing mix that strongly matches the needs of that part of the market. This approach is a foundation of modern marketing and is the first part of the marketing concept (which most marketing textbooks use as part of their structural framework).

Without a clear target market, an organization will have a limited understanding of the market, will probably have vague or weak offerings, and will generally have a weakened competitive position. Therefore, defining and pursuing clear target market/s is a critical part of business success.

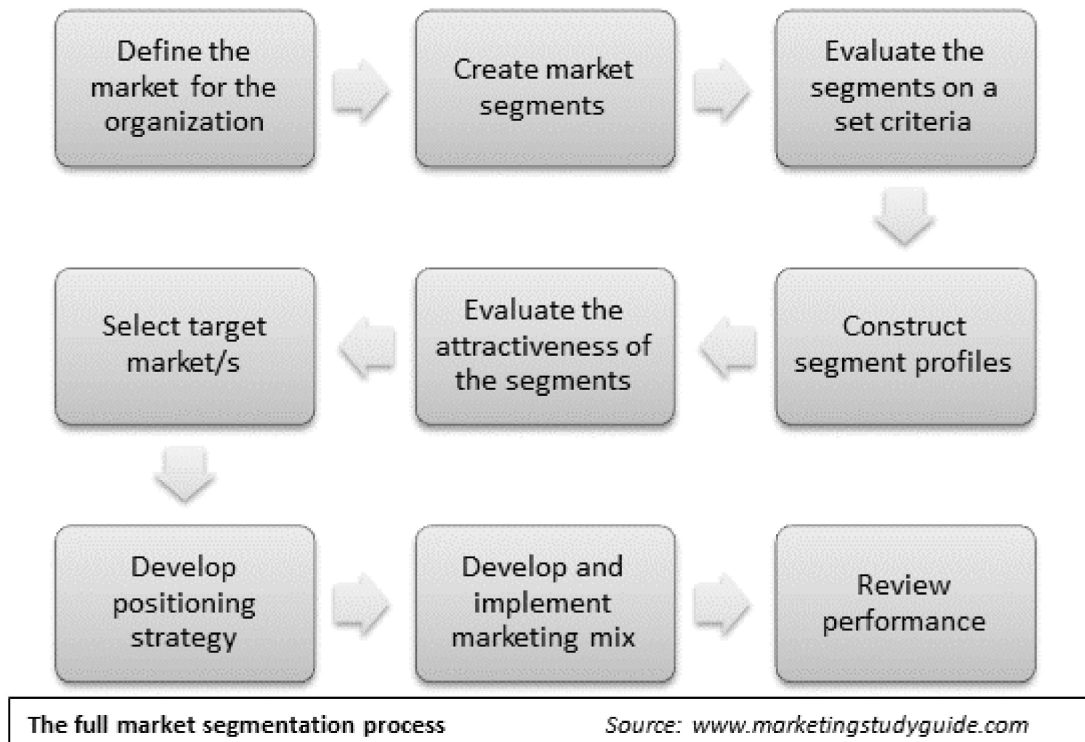
How are target markets evaluated?

The selection of target markets involves the examination of various aspects and measures of a market segment in comparison to the firm's goals and resources. Typically the firm assesses whether this particular target market logically fits with the firm's strategic direction, whether it is the best use of its resources (opportunity cost), and to what degree with a firm be able to successfully compete in the segment.

Target market selection is a very important decision for an organization as it is an integral part of their marketing strategy. As consequence, firms will typically adopt a fairly analytical approach to target market selection and will usually use to set criteria to evaluate and assess each market.

The target market selection process

As can be seen in the following model of the full STP (segmentation, targeting and positioning) process, the selection of target markets occurs after a number of important steps. Firstly the organization defines the product/market that they are interested in, they then group consumers into different market segments using a variety of segmentation bases/variables. After the segments have been validated, segment profiles are developed. Then, using the information in the segment profile the target potential target markets are evaluated and selected, most likely by using an established model or other set of minimum requirements.



Main evaluation criteria for target markets

The following table outlines the main factors that are considered when evaluating potential target markets. It is likely that many organizations will have slight variations to these factors, but the table provides a good generic guide to the key issues.

Assessment Factor	What to consider?	What the firm is seeking
Financial Issues		
Segment size	What is the size of the segment (mainly in terms of unit and revenue sales)? And is this substantial enough for the firm to consider entering?	Each firm is likely to have minimum size requirements for a market segment to be considered financially viable. Obviously larger firms have higher requirements.

Segment growth rate	At what rate is the segment growing (or perhaps declining)? What is its future outlook?	Segments with strong growth rates are more attractive as firms can gain market share from primary demand (as opposed to needing to win business from established competitors).
Profit margins	Is this a high profit margin segment or one that is price competitive?	Pursuing new target markets typically requires significant marketing investment, so target markets with higher profit margins are always more attractive.
Structural Attractiveness		
Competitors	How dominant are the established competitors? What degree of competitive rivalry exists? Are there significant indirect competitors (or close substitute products)?	Generally firms do not want to compete in markets where there are dominant market leaders, as they tend to be quite aggressive to new competitors. Therefore, target markets with a fragmented competition position are often preferred. Obviously the lower the level of competitive rivalry the better with limited in direct competition. Note: Porter's five forces model could be used to assist this style of analysis.
Distribution channels	How easy would it be to gain access to the appropriate distribution channels? What level of new investment would be required in this regard?	Strong relationships between the current firms in the distribution channel would be of concern. The ability to establish suitable channel relationships needs to be evident.

Strategic Direction		
Strategy	How well does the proposed target market fit with the firm's strategic direction and growth goals?	As part of the firm's mission and strategy statement, a clear direction of the future of the organization is generally understood and planned out. Therefore, the target market needs to contribute to the firm's strategic future.
Goals	What does the firm have high or low growth expectations	The firms with higher growth goals are more likely to adopt a multiple target market strategy and will, therefore, be more willing to enter new markets.
Marketing Expertise		
Resources	Does the firm have the financial position and staff resources to successfully enter in this segment?	Firms seek target markets where they can enter with a comfortable level of investment, in terms of: financial investment, staff time, and the potential disruption to the balance of their business.
Capability	Does the firm have the capability to develop appropriate products in a supportive marketing mix	Firms will naturally seek target markets where they can leverage their existing skills, capabilities, and technologies. Target markets that require the firm to develop new expertise are generally best avoided.

Role of brand	Would the firm be required to create a new brand, or could an existing brand be leveraged into the new target market, or is brand relatively unimportant?	Establishing a new brand requires time and money, so that requirement reduces the attractiveness of a segment. As does the risk to a brand of leveraging in into a lower status segment, such as when targeting budget conscious consumers.
Opportunity Cost		
Growth options	What is a range of other opportunities available for growth to the firm	Market development (new target markets) is simply one growth. An organization could also consider market penetration, product development, and even diversification or acquisition. Therefore, given the growth choices available, is the new target market the best option at this time?

How are target markets selected?

The selection of target markets is the second major phase of the STP process, as shown in the diagram below. (Where STP stands for segmentation, targeting and positioning.)

As shown, firms initially segment the market and, as part of this process, construct segment profiles for each segment. Included in a segment profile is a detailed description of the segment, along with various size and profit measures. Using this information in conjunction with the firm's strategy, resources and goals organization appropriate target markets can then be selected.



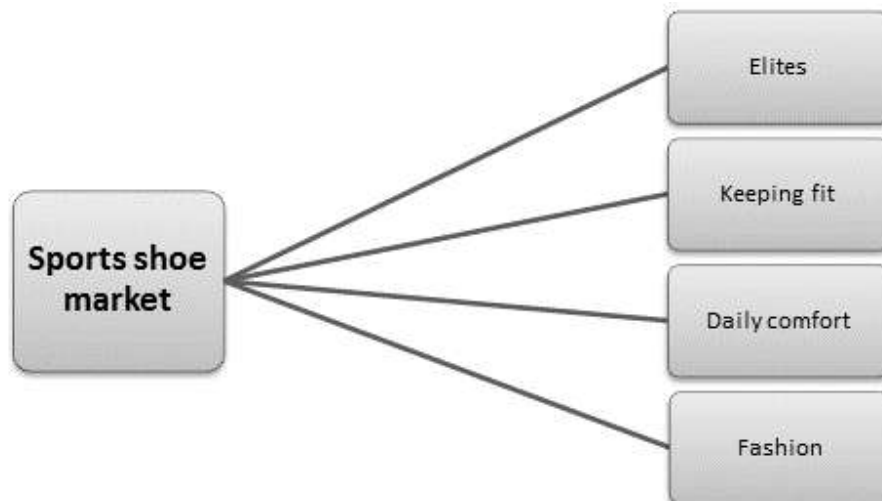
The selection of a target market is a very important decision for a firm as it then requires significant effort and commitment to implement an appropriate and targeted marketing mix. Target market selection is a key part of marketing strategy and typically involves significant analysis, discussion and review throughout the firm.

There is a separate section in this study guide that outlines an example of target market selection, but as a quick introduction, some of the factors that an organization would consider are as follows:

Selection Factor	What to consider?
Segment size	What is the size of the segment (mainly in terms of unit and revenue sales)? And is this substantial enough for the firm to consider entering?
Segment growth rate	At what rate is the segment growing (or perhaps declining)? What is its future outlook?
Profit margins	Is this a high profit margin segment or one that is price competitive?
Competitors	How dominant are the established competitors? What degree of competitive rivalry exists? Are there indirect competitors (substitute products)?
Distribution channels	How easy would it be to gain access to the appropriate distribution channels? What level of new investment would be required in this regard?
Role of brand	Would the firm be required to create a new brand, or could an existing brand be leveraged into the new target market, or is brand relatively unimportant?
Strategy/goals	How well does the proposed target market fit with the firm's strategic direction and growth goals?
Resources	Does the firm have the capability, in terms of financial and marketing resources, to successfully compete in this segment?

Example of How to Select a Target Market

Using the list of evaluation/assessment points, let's review how a firm would evaluate three different market segments. For this example, we will use a manufacturer of sports shoes who has identified four market segments, as per the following segmentation tree diagram.



Possible market segments for sports shoes

Source: www.marketingstudyguide.com

A quick description of each of these market segments is provided in the following table:

Market segment	Description of the segment
Elites	These are professional sports people or consumers who compete in sports at a top level. There are after the latest technology and features in a sports shoe for specifically designed for their chosen sport.
Keeping fit	Note: This is the firm's current target market. This segment consists of consumers who regularly exercise or play sports at a social level. They want a good quality shoe that provides reasonably good value.
Daily comfort	These are people who wear sports shoes on an everyday basis, simply because they are comfortable. They do not generally participate in sports. They sports shoes for walking, going to the shops, around the house, and so on. They are interested in the comfortable shoes at a fair price.

Fashion	This group of consumers are very interested in the fashion elements of sports shoes. They generally do not participate in regular sports, but do like shoes that have an unusual design, color, features and so on. They wear the shoes as part of their fashion and dress sense.

As noted above, the firm currently targets the 'keeping fit' market segment. This means that they have three additional market segments to evaluate and consider. Using the assessment criteria outlined in the above section, these three potential markets will be explored, as shown in the following table.

Segment Assessment Factor	Elites segment	Daily comfort segment	Fashion segment
Financial Issues			
Segment size	Likely to be a relatively small segment	Would be the largest segment of the three under consideration	Probably a small to medium-sized segment
	<i>Rating: Poor</i>	<i>Rating: Good</i>	<i>Rating: Fair</i>
Segment growth rate	Would be a fairly stable segment with limited growth prospects	Would be a mature market as well	Probably has reasonable growth prospects
	<i>Rating: Poor</i>	<i>Rating: Poor</i>	<i>Rating: Good</i>
Profit margins	Higher profit margins are likely, as consumers would not be overly price sensitive	Moderate profit margins, as significant competition exist, with a reasonable number of budget offerings	Likely to have higher profit margins, as price is a minor attribute in the purchase decision
	<i>Rating: Good</i>	<i>Rating: Poor</i>	<i>Rating: Good</i>
Structural Attractiveness			
Competitors	Would have a number of specialist competitors, who would have a strong brand and loyal customers	This segment would be targeted by an array of competition including many indirect competitors	Fairly competitive segment as well, mainly from traditional fashion shoe providers

	<i>Rating: Poor</i>	<i>Rating: Poor</i>	<i>Rating: Poor</i>
Distribution channels	Would have a good degree of channel overlap with current target market, but would need to access some specialty retailers	Would be able to meet this shopping preferences of some of the target market, it would probably have to move into Department stores and discount stores to a large extent	May have some exposure to the target market, but would have to look at more fashion oriented stores
	<i>Rating: Good</i>	<i>Rating: Fair</i>	<i>Rating: Poor</i>
Strategic Direction			
Strategy	Would assume that the brand reputation of competing in this target market would align to strategy	Probably a relatively easy market development approach for the firm	Is a move into an unrelated market segment and may not be part of their core strategy
	<i>Rating: Good</i>	<i>Rating: Good</i>	<i>Rating: Poor</i>
Goals	Would assume that they have growth goals and enhancing the credibility of their brand	Would assume growth goals, but they may be concerned about being seen as a generalist shoe	Access to the target market would help the company grow, but it is quite divergent from their current operations
	<i>Rating: Good</i>	<i>Rating: Good</i>	<i>Rating: Fair</i>
Marketing Expertise			
Resources	Would require is new products to be designed and developed, so a reasonable level of cost	Could market to this segment with your existing product range and some existing retailers, so relatively low-cost	Would require new products, potentially new designers in the firm, and the establishment of new distribution channels so relatively high-cost
	<i>Rating: Fair</i>	<i>Rating: Good</i>	<i>Rating: Poor</i>
Capability	May be concerned whether they have the technical ability to produce a range of elite sports shoes	Minor concern of the challenge of accessing department stores and discount channels	The major skill set challenge here is their ability to produce fashionable designs on a regular basis
	<i>Rating: Poor</i>	<i>Rating: Good</i>	<i>Rating: Poor</i>

Role of brand	Brand reputation is important and they will be competing against established specialists. They may have trouble in gaining credibility with some of the target market audience	Their existing brand would be easily leveraged into this more general market, but there is a concern that their existing brand equity may be eroded in their traditional target market	Leveraging the brand into a fashion segment may dilute the value of their existing brand equity, or alternatively they would need to build a new brand for this segment
	<i>Rating: Fair</i>	<i>Rating: Fair</i>	<i>Rating: Poor</i>
Opportunity Cost			
Growth options	As little is known about the other growth prospects, we would need make the assumption, across the three market segments, that a market development approach is the best choice at this stage for the firm		
	<i>Rating: Good</i>	<i>Rating: Good</i>	<i>Rating: Good</i>
OVERALL ASSESSMENT	<i>Rating: Fair-Good</i>	<i>Rating: Good</i>	<i>Rating: Poor</i>

The overall assessment at the bottom of the table has been based upon a simple review of each assessment rating. In real life, organizations are likely to have weightings each of these assessment items, which means, that depending upon their current position, some assessment items might be considered more important others. In particular strategic and financial issues are often highly regarded by organizations.

However, as you can see, at the end of this evaluation process, we have a fairly objective assessment of each of three market segments. In this case (based on the information presented), the firm would most likely select the 'daily comfort' segment to become their next target market. They may also select the 'elite' segment as another target market (perhaps now or in the future). And finally, it is likely that the organization would rule out competing in the fashion/sports shoe market at this time, (however, they may revisit that decision sometime in the future).

How many target markets can a firm have?

The usual starting point for any new organization is a selection of just one target market. This is because most new organizations are limited in resources and reputation and are still developing their expertise. However, as firms become successful they typically look for growth opportunities by expanding their range of target markets.

As a general rule of thumb, the larger an organization is the more target markets they would be likely to have. For example, Telstra (which is a major telecommunications provider in Australia) has stated that they have around 25 to 30 different target markets, ranging from individuals, households, small businesses, large corporations, government departments, and international markets.

For further information, you should review the section on Differentiated or Concentrated target marketing strategy.

Target market strategy

When designing their marketing strategy, organizations have three main choices in regards to their approach to target marketing. The first choice is to ignore the concept of market segments and the differences in consumer needs. With this approach (which is sometimes referred to as undifferentiated marketing or mass marketing), the firm will provide a generic (or middle-of-the-road) offering to the marketplace, with the hope that it appeal to some consumers.

The second choice is to focus on one target market only (which is sometimes referred to as concentrated marketing). And the third choice is to adopt a strategy of targeting multiple target markets, each with different marketing mix (which is referred to as differentiated marketing, as the firm differentiates between segments).

Definitions of undifferentiated, concentrated and differentiated target marketing

These three terms all refer to how the firm has approached its target market selection. When using undifferentiated target marketing, the firm has decided not to align its market offering to the needs of any segment in particular. Whereas the other two approaches, both recognize the importance of building a market offering around the needs of a defined target market.

As suggested by its name, firms adopting undifferentiated marketing do not differentiate between the different needs in the marketplace, and it can be defined as:

The offering of a marketing mix that is designed for the general needs of an overall market, without regard for the needs of the different segments in that market.

Concentrated marketing can be defined as:

Concentrating the firm's market offering solely on the needs of one defined target market.

With differentiated marketing, the firm has multiple market offerings that take into account the differentiation of needs in the marketplace. It can be defined as:

The targeting of two or more market segments, with separate and distinct market offerings, which have been designed to closely meet the needs of those particular segments.

Advantages of each approach

There are legitimate reasons for adopting each of the three broad target market strategy approaches. There is not one approach that is better than the others. The selection would depend upon the organization and its market. As a starting point, the following table outlines the advantages of each approach.

<i>Undifferentiated marketing</i>	<i>Concentrated marketing</i>	<i>Differentiated marketing</i>
Quite suitable for generic markets (where the product is a commodity)	Typically adopted by small firms just starting out (as they have limited resources and expertise)	Ideal for companies wishing to grow
Can be very useful when there is little diversity of core needs between the defined market segments	May be necessary approach for firms with a limited set of capabilities and skills	A necessary approach for large companies wishing to protect their market share
This is a possible approach for large global companies that have strong offerings, (such as Apple with their iPad, which could be considered an example of modern day mass-marketing)	Also used by niche marketers whose competitive advantage is their reputation and expertise within a well-defined, and usually quite small, market segment	A good approach from firms who have assets/capabilities that can be leveraged into other target markets
Typically a good /approach for small or emerging sub markets, where the development of multiple marketing mixes would not be viable	This may be a sensible approach if the organization is has had financial difficulties and needs to conserve resources	A necessary approach where there is a diversity of consumer needs across market segments

What is a niche marketer?

Niche marketing is sometimes a misunderstood term. Basically, niche marketing refers to competing within a narrowly defined market segment with a specialized offering. In essence, the firm virtually becomes a 'big fish in a small pond'. The firm's competitive advantage comes both from its expertise (as it's a specialist) and from having a high market share (of a relatively small market segment). As a result, many potential competitors do not deem it viable to directly compete against niche marketers.

Niche marketing is a somewhat rare strategy to implement and the term is sometimes confused with one-to-one marketing (discussed below) and being a small market player. Most small businesses are generally not niche marketers; they simply have a very small share of a large segment (whereas niche marketers have a large market share in a small/tight segment).

For more information, please refer to [Niche Marketing examples](#) and/or [One-to-one marketing](#).

Definitions of niche marketing

Some traditional textbook definitions for niche marketing include:

“A small market that is not served by competing products.” ([Keegan, Moriarty, & Duncan, 1992](#))

“A method to meet customer needs through the tailoring of goods and services for small markets.” ([Stanton, Etzel, & Walke, 1991](#))

“The customers in the niche have a distinct set of needs; they will pay a premium to the firm that best satisfies their needs; the niche is not likely to attract other competitors; the nicher gains certain economies through specialization; and the niche has size, profit, and growth potential” ([Kotler, 2003](#)).

You will note that the key emphasis of these definitions is the focus on small market (segments). Two of the definitions also add that there is an absence of competitors. However, these definitions do not explicitly highlight the importance of expertise and specialization in being a successful niche marketer. This skill set and focus is a critical component of the firm’s long-term success as a niche marketer. Therefore, a more appropriate definition of niche marketing would be:

Niche marketing is a specialized market offering focused on the needs of a tightly-defined market segment.

Why do some firms become niche marketers?

Achieving success as a niche marketer is a challenging and risky strategy. The major risk is that the firm is reliant upon a relatively small market and is so committed that it does not have much diversity of revenue streams. So to some extent, they are somewhat vulnerable to market downturns, new competitive entrants, and substantial changes in the market environment.

Therefore, the question is: if niche marketing presents such risks, then why would some firms choose to pursue this strategy?

The answer to this question is that being a niche marketer (if successfully implemented) has a number of significant advantages, as highlighted in the following table.

<i>Niche Marketer Advantage</i>	<i>Quick Discussion</i>
Little/no competition	A successful niche marketer can successfully dominate their targeted small segment market to such an extent that they “own it” and virtually have no competition and the threat of new entrants is also very low.
Strong relationships	Niche marketers will build strong relationships with many of their key customers over time, which further protects them from competitive threats.
Business stability	These firms typically have strong customer relationships and little/no competition, this equates into a very stable business that generally does not experience major fluctuations in performance.
Improved capabilities	As these firms are also usually experts in their field, they constantly add to their skill sets and capabilities. This builds their competitive position, making it even less likely that they will be challenged by new players.
Focused business	These firms do not waste time/effort in seeking out new opportunities or dramatically reviewing their marketing strategy. Instead, because they are so well-defined, they stay focused and committed to their core business.
High profit margins	Their profit margins tend to be higher because customers are less likely to consider the price as a determinant attribute – they are using the firm as they clearly provide the best solution for them.

Are niche marketers always small firms?

Niche marketers do generally tend to small to medium-sized organizations, mainly due to the fact that have deliberately focused upon a narrowly defined segment. However, there are exceptions to this general rule of thumb.

For example, in its early days of operation, American Express essentially operated as a niche marketer. They offered high status charge cards (not credit cards) to high income consumers in professional and senior management occupations. This meets the definition of a niche marketer: providing a specialized offering to a defined target market. However, American Express was able to duplicate their success as a niche marketer in many countries throughout the world.

Examples of Niche Marketing

To help make further sense of niche marketing, the following table highlights some examples of firms that would successfully use this approach.

Type of Firm	How they are niche marketers
Consultants	Business consultants often adopt a niche marketing strategy. They will specialize in providing advice in a particular area, often to a well-defined segment. For example, there is a sales training expert in America who teaches financial planners how to generate referrals from customer at the close of the selling process. Therefore, he specializes in one minor part of the sales process only.
Websites	Niche marketing is very common on the Internet. You can easily find many specialist websites. Most blogs would fall into this category. These websites often want to be seen as the leading authority/information source on a very narrow topic.
Retailers	Some retailers would be operating as niche marketers. These retailers would sell a range of products/merchandise that you would have trouble buying anywhere else, including department stores and supermarkets. Sometimes they are found in out of the way locations, as their customer base will deliberately seek them out.
Engineering firms	A number of engineering firms would also operate as niche marketers. Some of these firms would specialize in providing precise solutions to particular engineering problems. For example, they could be specialists in removing underground water from large construction sites, or they

	could be experts in designing certain types of machinery.
Education	Some non-traditional schools and other education providers could be considered niche marketers. For example, the <u>Montessori</u> school system (which can be found in some countries) focuses upon what is referred to as natural learning. This type of school system only appeals to a small proportion of parents, and the Montessori offering is virtually the only alternative for parents who do not want a structured/traditional education process for their kids.
Professional services	Some professional service providers will operate as niche marketers. In this category you would include medical specialists, legal firms, sophisticated accounting firms, various experts and/specialists in their field, and so on. These firms usually only provide advice/services on a very limited area of expertise, such as very precise medical conditions or a very narrow range of legal situations.
Specialty goods	Some manufacturers would also be considered niche marketers, if they are right providing an unusual selection of products. One example here is the '<u>Fred</u>' range of products. They specialize in producing a range of novelty items for use around the house and when entertaining.

What is one-to-one marketing?

One-to-one marketing is an approach that is used primarily with customer relationship management strategies/tactics usually where a firm has access to customer database information, or where a firm has the ability to tailor its offering. This is explained in the following description of one-to-one marketing:

“One-to-one marketing advocates tailoring of one or more aspects of the firm’s marketing mix to the individual customer. One-to-one marketing represents an extreme form of segmentation, with a target segment of size one.” (Arora, et al., 2008)

It is important to note that while some niche marketers may use one-to-one marketing, they are quite distinct concepts. One-to-one marketing basically refers to approaching the customer as an individual and having a tailored marketing mix designed for that one customer.

However, many large businesses could undertake one-to-one marketing activities, without being a niche marketer. For example, a large bank, with millions of different customers, could easily engage in one-to-one marketing due to the amount of customer data/information they have. As part of a direct marketing promotional campaign, they could send each customer a unique offer (of account type, interest rate, fees, and other conditions) that is based upon the customer's particular needs, profile, and campaign response history.

In this example, the bank would approach many customers at once as part of the same overall campaign, but technically each customer has received a unique offering. Clearly the bank is not a niche marketer: they are simply tailoring their marketing mix to meet the unique needs and responsiveness of each of their customers.

The other area where one-to-one marketing is common used is where services can be tailored. If you go to a hairdresser, they will cut and style according to your particular preferences. However, the hairdresser is also not a niche marketer, as they are targeting a particular market segment (say females aged 30 to 50 years) and would be directly competing with other hairdressers in the area.

The area where one-to-one marketing is the most common is in B2B markets, as highlighted in the following quote:

"When a company creates an entirely unique product or marketing program for each customer in the target segment, it employs one-to-one marketing. This approach is common in business markets where companies design unique programs and/or systems for each customer." (Ferrel & Hartline, 2008)

Therefore, it is important to remember to separate the two concepts of niche marketing in one-to-one marketing. Because one-to-one marketing is sometimes referred to as a segment of one, it the impression that this is somehow related to niche marketing. However, as discussed in this section, niche marketing is a unique form of strategy and target marketing.

Why mass marketing is so difficult to successful implement

Throughout the various discussions on market segmentation and targeting in this marketing study guide, it has been highlighted that mass marketing (a form of undifferentiated marketing) is a difficult challenge in today's business world.

Obviously, mass marketing was a relatively common and successful approach in the past. The classic example given is the Ford Motor Company with their standard offering of the Model T Ford, which is the only product they sold for many years and it was only provided in one color (black). If it was successful in the past, why it is such a challenge today?

To explain this, let's look at the example of traditional free-to-air television stations. These TV stations try to meet the needs of the entire population. For example the same TV station might show sports, followed by a movie, then have some news, then a comedy show, and so on. Over the course of the day their intention is to have something for everybody.

However these traditional TV stations have lost significant market share in recent years due to the emergence of more defined competitive offerings. In many global markets, subscription (cable) TV is becoming popular. Consumers are able to buy a TV package that may provide the choice of 100 different channels, with each channels focusing on a particular offering or style of program. Clearly these more tailored channels are a better match to the individual needs of most consumers, as opposed to the generalized offerings of the traditional TV stations.

An indirect competitor to these TV station is, of course, the Internet. Today's younger consumers are quite large Internet consumers and have dramatically lower rates of TV viewing than previous generations. The reason is the Internet, with its vast array of entertainment can better meet the entertainment/ information needs of these consumers. From this example, hopefully you can recognize that traditional TV station, with their widely targeted array of programs, do not meet consumer needs as well as the more precise offerings of their competitors who are focused on narrow market segments.

This concept applies in most industries where, by more closely meeting the needs of the target market, you can steal some significant market share from a generalist provider. And of course, over time, more and more specific competitor offerings are launched, which further erode the market share of a generalist. Therefore, in most industries, being a mass marketer in today's business world is simply not a long-term viable option.

Note: It could be argued there are some exceptions to this position. Firms such as Google (search engines), Facebook, Microsoft Office software, and Apple (with their iPhone and iPad) are examples of successful mass-marketers as their product offerings are generally designed to appeal to everybody. However, this represents a handful of companies out of the many millions of firms throughout the world, so statistically the odds of succeeding as a mass marketer are quite limited.

Understanding Product Positioning

Product positioning is an important aspect of marketing strategy, particularly when the firm operates in a highly competitive market or when they are have a broad range of products.

Positioning (or product positioning) is how the product is designed to be perceived in the marketplace by the target market against its main competitors. In other words, it's basically how consumers understand the product offering and how it differs from similar competitive offerings.

Positioning is built by the organization designing and promoting their product by highlighting various product features, benefits, and/or other competitive advantages. Ideally, firms like to create a clear and distinct product positioning. If they can achieve this positioning goal, then their product becomes the 'product of choice' for certain target markets or consumer needs.

Positioning is the final main phase of the overall STP process (which stands for segmentation, targeting and positioning). Positioning is typically more important in cluttered and competitive markets, particularly for low-involvement purchase decisions.

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Definition of positioning

Positioning was 'popularized' by Trout and Ries in the 1980s. The two authors are still considered experts in the areas of positioning and branding. The following quote was sourced from *Ries' Pieces*, a related website, which specializes in branding issues. The website quotes the following positioning definition from Al Ries himself:

"Positioning is not what you do to the product; it's what you do to the mind of the prospect. It's how you differentiate your brand in the mind. Positioning compensates for our over-communicated society by using an oversimplified message to cut through the clutter and get into the mind. Positioning focuses on the perceptions of the prospect not on the reality of the brand."

As you can see, this view of positioning is strongly related to image and communication and its impact on consumer perception. However, it is important to recognize that a clear market positioning is achieved through combined effort of the entire marketing mix, not just via promotional activities. This is because it is difficult (in the long-term) to convince consumers of

the quality, unique features and benefits, and competitive advantages of a product, unless the communication claim has some substance to it.

Other than that clarification, please note the essence of the definition from Ries: that positioning is a battle for the mind of the consumer. Let's now look at another definition of positioning as a point of comparison.

"Positioning can be defined as how a product or a company's offer appears in the mind of the target customer with respect to other brands in the market. Positioning is critical to brand building because it is responsible for projecting the brand identity and creating the perception and image of the brand in people's mind." (Vashisht, 2005)

Note the important similarities of these two positioning definitions: that positioning is in the mind of the target market and that the consumers' understanding of the product is on a relative or differentiated basis (that is, some comparison to competitors.) Therefore, we can summarize the definition of positioning as being:

Positioning is the target market's perception of the product's key benefits and features, relative to the offerings of competitive products.

The important aspects of this definition are:

- Positioning is the perception (their knowledge and understanding) of consumers,
- The focus is on the perceptions of the target market,
- Only the key features/benefits can be effectively communicated, and
- Perception, relative to competing products, is very important.

Positioning and the STP process

Positioning is the third and final major phase of the overall STP (segmentation, targeting and positioning) process. By this stage of the process, the firm would have a good understanding of the overall marketplace and have a sense of what positioning goals would work in this market. (This understanding would have been primarily achieved through the segmentation process and the evaluation and selection of one or more target markets.)

Also, as part of the target market selection phase, the organization would have considered the competitiveness of the various segments and thus would be aware of the competitive offers and their behavior. On the basis of this information, in conjunction with the firm's strategy and competitive strengths, various positioning options would probably have been considered already.

As a recap, the basic model for the STP process is shown below:



Why is positioning important?

There are many reasons why positioning is very important to firms, as outlined in the following table:

<i>Role of Positioning</i>	<i>How positioning can be used</i>
Support overall strategy	Creating a clear positioning for a brand/product in the marketplace is often an integral part of an organization's overall marketing strategy. (For example, some firms have a strategy of building strong brands and product positioning helps achieve that result.)
Differentiate offerings	Clear positioning helps the consumer differentiate between competitive offerings (as well as between similar offerings from the same brand). As we know, part of the key to marketing success is the ability to differentiate on some important features/benefits to the target consumer.

Competitive position	Having a number of clearly positioned products/brands increases the competitive strength of the organization in the marketplace. Their brand equity is stronger and they 'own' more market space.
Increase sales and customer loyalty	Brands/products that are well understood by consumers will typically generate higher sales levels, as they are seen as the ideal product solution for particular consumer needs. As a result, these customers become less likely to switch to competitive offerings.
Avoid cannibalization	Positioning allows the firm to place more products in a related category, with a reduced risk of cannibalization. This is because consumers will perceive the difference between the firm's similar offerings, rather than viewing them generically.
Clear communication and consistency	With clear positioning goals the firm can ensure that its IMC mix remains consistent, as opposed to the possibility of focusing on different benefits and offers with various campaigns over time.
Reduce price sensitivity	If a product/brand is clearly positioned as having distinct advantages over its competition, then consumers will see greater value and will become less sensitive to prices and competitive sales promotions.
Good for low-involvement purchases	Positioning is a great assistance when marketing low-involvement products. For the purchase of low involvement products, consumers often rely on their memory to make a quick or impulse purchase decision. By being well, consumers become more likely to select the firm's brand/product.
Good for habitual purchases	Many supermarket style products (that is, FMCGs - fast moving consumer goods) are bought on a habitual basis. If a product is well positioned on key attributes/benefits, then the consumer can internally rationalize why they buy the same product on a regular basis without consideration of the competitive offerings.

Facilitate W-O-M	For products that are more prone to word-of-mouth (W-O-M) communication, being positioned around a few key benefits/features makes it much easier for the target market to communicate the advantages of the product to other consumers
Guide marketing mix development	Positioning needs to be implemented by the full range of the <u>marketing mix</u> , so a firm that outlines clear positioning intentions will be more likely to implement marketing mix that is consistent and supports its positioning goals.

What are the main ways to position a product?

Brands/products can be positioned in many different ways in the marketplace. However, there are several major categories of positioning approaches, which will help us understand the range of positioning options available.

The major positioning categories include:

- positioning by product attribute (product feature and/or benefit),
- positioning by user,
- positioning by product class,
- positioning versus competition,
- positioning by use/application, and
- positioning by quality or value.

Main Categories of positioning

<i>Positioning Category</i>	<i>Description</i>
By product attribute	A product attribute is a specific feature or benefit of the product. Positioning in this way focuses on one or two of the product's best features/benefits, relative to the competitive offerings.
By user	This positioning approach highlights the user (the ideal or representative target consumer) and suggests that the product is the ideal solution for that type of person and may even contribute to their social self-identity.

By product class	This positioning strategy tends to take a leadership position in the overall market. Statements with the general message of “we are the best in our field” are common.
Against competition	With this approach the firm would directly compare (or sometimes just imply), a comparison against certain well-known competitors (but not generally not the whole product class as above).
By use/application	With this approach, the product/brand is positioned in terms of how it is used in the market by consumers, indicating that the product is the best solution for that particular task/use.
By quality or value	Some firms will position products based on relative high quality, or based on the claim that they represent significant value.
By using a combination of the above options	Some products/brands are positioned using a combination of the above positioning options. However, care needs to be taken not to clutter and confuse the message by trying to connect with too many competitive advantages.

Which positioning approach to use?

One of the key goals of positioning is to be able to enter an existing competitive market, by highlighting some unique features, benefits, and advantages to the end-consumer, with the goal of winning market share (often from selective demand). With this task in mind, the following table of questions can act as a guide to the selection of an appropriate positioning statement.

<i>Area to consider</i>	<i>Questions to ask</i>
Market gaps	Where are their <u>gaps</u> in the <u>target market</u> ? Why does the gap exist? Can we fill the gap?
Substance/support	Do we have the capability to deliver on this positioning promise? Can we really produce high quality products or compete on price? How we will compare to our competition when we get to market?
Market need	Would this positioning space appeal to the target market? Which

	features/benefits are of most interest to target market?
Competitive barrier	Will this be a long-term positioning? How easily could this position be duplicated by our competitors?
Profitable	What level of sales/profits is likely to flow from this positioning? Can we develop a supportive marketing mix on a cost-effective basis?
Communication	Is the positioning statement easy to communicate via media? Will it be simply understood by the target market?

Examples of Positioning by Category

Tagline/Slogan	Brand	How is it positioned?
Snap, Crackle, Pop	<u>Rice Krispies</u> (or Rice Bubbles)	By product attribute <i>Simply highlighting the attribute of noise that this cereal makes, which adds a fun benefit to the product</i>
Finger lickin' good	<u>KFC</u>	By product attribute <i>Focuses on the enjoyable taste of the product</i>
No battery is stronger longer	<u>Duracell Batteries</u>	By product class <u>and</u> by product attribute <i>Indicates that the battery is the leading product in its product class for durability</i>
The un-cola	<u>7-up</u>	Against competition <u>and</u> by user <i>Suggests a clear alternative to cola drinks and was designed to appeal to certain attitudes held among the target market</i>
Everything is easier on a Mac	<u>Apple Computer</u>	Against competition <i>Is targeting IBM style computers, highlighting that the Mac is much simpler and easier to use</i>
Once you pop, you can't stop	<u>Pringles</u>	By product attribute <i>Highlights that the taste is irresistible</i>

Impossible is nothing	Adidas	By user <i>Taps into the self-identity and motivation of serious sportspeople</i>
Don't leave home without it	<u>American Express</u>	By use/application <i>States that the product is vital when you are traveling</i>
Have it your way	<u>Burger King</u>	Against competition <i>Highlights the flexibility of their menu choices, implied against McDonald's offerings</i>
A glass and a half in every half pound	<u>Cadbury</u>	By product attribute <i>Simply focuses on a single ingredient</i>
Melts in your mouth, not in your hands	<u>M&Ms</u>	By product attribute <i>Connects a product feature directly to the benefit it provides</i>
Always	<u>Coca-Cola</u>	By user <i>Targeted at regular consumers who feel connected to Coke</i>
When it absolutely, positively, has to be there overnight	<u>Federal Express</u>	By product class <i>States that there is no competitive alternative when you want promptness and reliability</i>
We try harder	<u>Avis Rent-a-Car</u>	Against competition <i>Targets the market leader (Hertz), by implying that they are lazy and complacent, particularly in the area of customer service</i>
Eat fresh	<u>Subway</u>	By product class <i>Highlights their fresh menu items, against the range of fast food options available</i>
Choice of a new generation	<u>Pepsi</u>	By user <u>and</u> against competition <i>Tapping into the youth market; this is your drink and clearly targeted against Coca-Cola</i>

Examples of Product Positioning

Many firms have a tagline that is designed to support the firm's/brand's identity. A review of a tagline may help provide a clear indication of the product/brand's desired market positioning.

But you may need to care take with this approach as some firms use a slogan for a short-term marketing campaign. As an example, the firm might use "great deals over summer" or "now with an improved taste". These slogans do not indicate the full positioning of the brand/product, which means that interpreting the positioning intentions of the firm by simply reviewing their slogan can be difficult.

Regardless, the following table contains some famous taglines (still also referred to as slogans at times), which were designed to create a clear positioning in the minds of the target consumers.

Tagline/Slogan	Company	Positioning Discussion
Melts in your mouth, not in your hands	<u>M&Ms</u>	This slogan clearly establishes the competitive advantage of this candy product. It highlights a single product attribute and communicates a single clear benefit to the consumer.
Always	<u>Coca-Cola</u>	This seemingly simple slogan, encapsulates the ongoing connection between Coca-Cola and its marketplace. It is a product that has wide consumer appeal, strong loyalty, and is often treated like a 'friend' to the consumer. Hence the word 'always' reinforces this close consumer/product relationship.
When it absolutely, positively, has to be there overnight	<u>Federal Express</u>	This slogan clearly highlights the efficiency and reliability of the courier and delivery service. Again it is an example of a clear statement that efficiently communicates a distinct positioning.
We try harder	<u>Avis Rent-a-Car</u>	This well-known slogan highlights that their competitive advantage is in the area of superior customer service and creates a clear positioning that the firm will do more to help their customers.

Eat fresh	<u>Subway</u>	In the competitive fast food market, this simple two word slogan stands out by clearly differentiating their offering on the healthiness and the freshness of their menu offering.
Choice of a new generation	<u>Pepsi</u>	This very effective positioning slogan makes a clear connection to younger people (or young-at-heart) that their product is the preferred cola product for today's modern, youthful and energetic consumers.

What is under-positioning and over positioning?

Sometimes the terms under-positioned and over-positioned are used when highlighting positioning problems. (Note: It is probably worthwhile reviewing the section on points-of-parity and points-of-difference). However, let's start by explaining the terms under-positioned and over-positioned.

A firm that has **under-positioned** a product has failed to communicate a clear positioning to the end-consumer. This means that the product positioning is vague or that the firm has tried to communicate too much about the product (and the consumers are confused about what the product stands for). In either case, the positioning is quite weak and we have not effectively communicated any real points-of-difference.

Almost the opposite of that problem, is referred to as **over-positioning**. This is where we have over emphasized one or two points of the product and the target market now has been very narrow perception of what the product offers. So rather than communicating array of both points-of-parity and points-of-difference, the firm has focused on one point-of-difference only. The problem here is that the target market may interpret the product as being a very specialized solution, which would dramatically limit its overall market appeal and sales potential.

Whether the product is under or over positioned the outcome is still the same; potential sales will be limited (either because the target market does not clearly understand it or the market believes it is a very highly specialized product). The solution to both these problems is careful construction of positioning strategy, with the appropriate mix of points-of-parity and points-of-difference as discussed above.

Connecting positioning and the marketing mix

Product positioning goals must be supported by the full marketing mix. Although positioning reflects the target market's understanding (perception) of the product, it cannot be achieved through the IMC/promotional mix only.

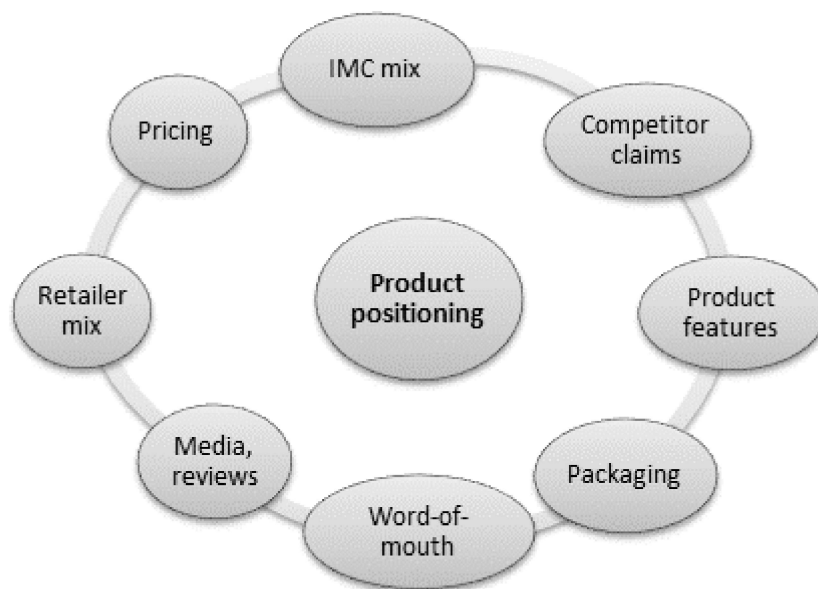
All marketing mix elements, particularly the product mix, need to be consistently focused at the end positioning goal.

An inconsistent marketing mix will simply confuse the marketplace and result in a weak positioning outcome and/or limited repeat sales.

If the desired positioning has been effectively and clearly chosen, then deciding on the marketing mix elements should be relatively straight forward (although implementation is always a challenge).

How is positioning created?

Remember that a product's positioning is the consumers' understanding of the product and its specific benefits. Consumer typically form their understanding of the product over a period of time using information from a variety of sources, some of which are shown in the following diagram and then quickly discussed in the subsequent table.



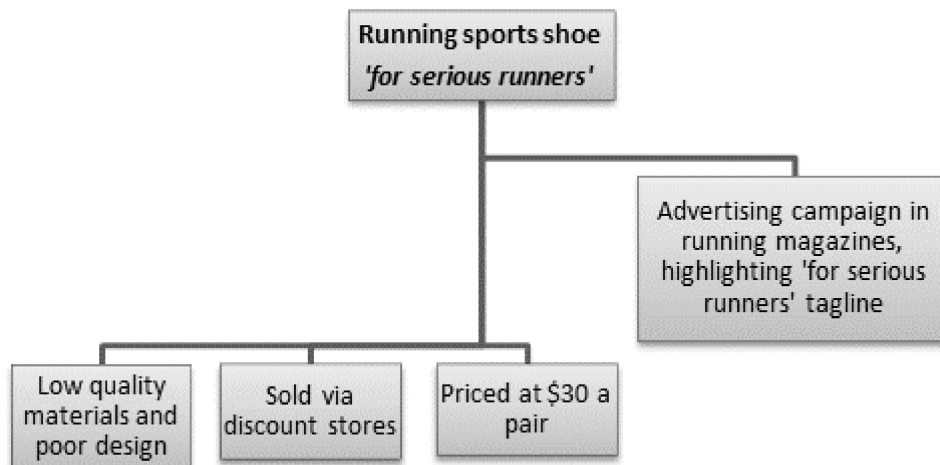
Positioning: Consumer Information Source: www.marketingstudyguide.com

<i>Information Source</i>	<i>Why this is a positioning information source</i>
IMC mix	The firm's communications mix has a big role to play as it usually focuses on particular benefits and advantages of the product.
Competitor claims	Positioning is viewed on a relative basis, therefore the competitors' IMC mix (product claims) will also affect the positioning of all products.
Product features	The actual design and features of the product, particularly when consumers use the product, has a major impact on the perception of the product and its relative advantages.
Packaging	One of the first experiences the consumer has the product is the look and feel of the packaging.
Word-of-mouth	Word-of-mouth communication between consumers has a high level of credibility and cut through and will greatly influence positioning.
Media, reviews	Media discussion/articles or product reviews are also seen as quite credible and independent and will influence consumers' perception.
Retailer mix	The type of retailers where the product is sold gives an indication of the product's quality and status.
Pricing	The overall price points of the product act as a cue for quality, and a high frequency of sales promotions may suggest lower quality.

Example of an inconsistent marketing mix

The following diagram illustrates the delivery of an inconsistent marketing mix. In this case, using a running sports shoe, the goal is to position the product as a shoe 'for serious runners'. The firm has invested in an advertising campaign in specialist running magazines and websites. While that part of their program is good, unfortunately the balance of their marketing mix offering is not aligned to that positioning.

As shown, the product quality is poor as the firm has used low quality materials and they have not invested in a suitable design. They have used discount stores as their prime distribution channel and they have priced shoes at a discount level as well. These marketing mix elements clearly communicate to the end consumer that this is a low quality, budget shoe, and not a serious running shoe as the advertising tries to indicate.



Example of inconsistent positioning: Source: www.marketingstudyguide.com

Because of this inconsistency of the marketing mix, which is not supportive of the overall positioning goals, the following outcomes would be expected:

- Overall sales would be quite poor as the product does not appeal to any particular target market
- Consumers who do buy the product would probably be very dissatisfied and would be very unlikely to rebuy the shoes
- The retailers themselves might be disappointed with the consumer feedback and may discontinue stocking this particular product
- Negative word-of-mouth is likely
- Negative media and Internet reviews are also likely, further brand equity

How to fix this problem?

This problem is easily rectified by simply aligning the marketing mix to a consistent end. If the firm does want to position the shoe for serious runners, then they need to invest in product improvement with higher quality materials, they would need to access sporting and specialty shoe stores, and the product is to be priced higher.

Alternatively, they could change their communications mix and position the shoe as a budget running shoe. Either approach would align the positioning with the marketing mix elements and will generate better sales and enhanced profitability.

What is Repositioning?

Repositioning is sometimes used by organizations when faced with particular problems. To successfully reposition a product, the firm has to change the target market's understanding of the product. This is sometimes a challenge, particularly for well-established or strongly branded products.

Firms may consider repositioning a product due to declining performance or due to major shifts in the environment. Many firms choose to launch a new product (or brand) instead of repositioning because of the effort and cost required to successfully implement the change.

Definition of repositioning

Elsewhere in this study guide, we have summarized the definition of positioning as:

Positioning is the target market's perception of the product's key benefits and features, relative to the offerings of competitive products.

Therefore, in definition terms, repositioning is "implementing a major change" in the perception of the product, resulting in the relatively similar definition of:

Repositioning is the task of implementing a major change the target market's perception of the product's key benefits and features, relative to the offerings of competitive products.

This view of repositioning as being a change of the established product positioning is reinforced by the following two quotes:

"Sometimes, marketers feel the need to change the present position of the brand to make it more meaningful to the target segment. This change in position, and finding a new position for the brand, is called brand repositioning." (Vashisht, 2005).

"Repositioning is changing consumers' perceptions of a brand in relation to competing brands." (Lamb, Hair, & McDaniel, 2009).

Both definitions carry the word 'change' as the key issue. The first definition, however, suggests that repositioning is focused upon the same target market. But, as will be discussed, a product can be repositioned in order to appeal to a wider or different target market.

Why repositioning is used?

Because the firm has made the major decision to reposition a product (which is a timely and expense exercise), it is clear that there must be significant concerns with the current performance or outlook of the brand or product. With that in mind, the following table outlines the more common reasons for considering repositioning as an option. (Note: Several of these reasons are further discussed in the 'repositioning examples' section further below.)

Major Reason	Why reposition?
Change in consumer needs	Over time (say 10-20 years), there are changes in consumer needs and lifestyles (as the next generation moves through), which may result in the key benefits of a product no longer being as relevant to the target market.
New/strong competition	A product may be challenged by a new (perhaps more relevant) or stronger competitor in their positioning space, requiring the task of repositioning to a less competitive arena.
Lack of perceived differentiation	A firm may have found their products with many points-of-parity and few <u>points-of-differentiation</u> , requiring a revised positioning in order to highlight their particular advantages.
Under or over positioned	<u>Under positioned</u> means that the positioning is too vague or weak and <u>over positioned</u> means that the product is too narrowly defined. Either way they are problems for the firm that can be addressed by a repositioning exercise.
Change in macro environment	Significant changes in the macro environment may require products to be repositioned. Economic conditions, technological advances, and even legislative change may require the firm to change its product's positioning.
Improved product	If a firm invests in a substantial product improvement, it is likely that additional benefits (or relative advantages) will be delivered, which means that product repositioning could be warranted.

Poor product launch	Any new product that is launched with disappointing results may be considered for relaunch with a new positioning (that is, repositioned).
New target market	Sometimes alternate <u>target markets</u> may be more attractive. Therefore, a product may need to be repositioned to more directly appeal to the newly defined target market.
Broader/smaller target market	Some firms, as part of their <u>target market selection process</u> , may decide to broaden (or more tightly define) their target market. This will mean that the firm will probably need to construct a revised positioning for the product.
Clear market gap	A review of a <u>perceptual map</u> may indicate a significant and uncontested market gap, which may be deemed more profitable than the product's current positioning space. In this case, a repositioning exercise might be considered.
Positioning drift	If a product's positioning is not clearly defined by the firm, has inadequate support, or is carelessly managed by the firm over time; then it is likely that the resultant product positioning will not be in line with positioning goals and repositioning will be required to correct this 'drift'.

The difficulties of successfully repositioning

Repositioning is not a simple decision or a simple task to successfully implement. Some of the unique challenges of repositioning are outlined in the following table.

<i>Challenge</i>	<i>Repositioning considerations</i>
Lose existing sales	If a product is repositioned, then it moves away from its current <u>positioning</u> . It is likely that a significant proportion of any existing sales may be lost because the product will no longer be deemed suitable for the existing customers.

Change perception	Repositioning requires the target market to change their understanding of a product. In other words, they may need to forget much of what they understood about the product and learn a number of new aspects instead.
Competition reaction	Positioning is how the product is understood relative to competitors. A repositioning program is often disrupted by competitors who try and confuse the message of the firm; by highlighting 'we made them change' or a similar theme that indicates that the competitor offerings are far superior.
Low-involvement purchases	As the consumer needs to be 're-educated', there needs to be some learning undertaken. This is far more of a challenge with low-involvement purchases, as the consumer is typically disinterested.
Cost versus new brand	Repositioning is often an expense exercise as the product is often modified and the communications cost is substantial. Therefore, the firm needs to consider whether introducing a new brand/product instead would be a more prudent option. (This is discussed in a section on new brand or repositioning .)
Cost and time	Repositioning requires the changing of many consumers' understanding and perception. This may take years to fully achieve and is likely to be reasonably expensive. The cost-benefit of this approach needs to be carefully considered.
Marketing mix support	A product positioning is generated from its supportive marketing mix (see separate section on this issue). Therefore, a successful repositioning probably requires some changes to the product at least and may require changes to the other marketing mix elements as well.

Examples of Repositioning

Here are three different examples of how and why products are repositioned. These are examples that are important to understand your marketing course, as discussed elsewhere, there are a number of viable alternatives to deciding to reposition product.

Mother Energy Drink (Coca-Cola)

The first example relates to Mother Energy Drinks, which was launched into the Australian market in 2006 by the Coca-Cola Company.

Coca-Cola used a heavy launch program to generate trials of the product. In particular, they had a series of TV commercials that have a look and feel similar to the Madagascar movie that was popular at the time. They leveraged their extensive distribution channels and were able to get the product in many retailers, with prominent point-of-sale displays. The can's packaging had a tattoo look about it, again tapping into the popular culture of the time.

While the launch campaign was professionally and effectively executed, the taste of the product was not great and repeat purchases were quite low as a consequence.

Obviously, Coca-Cola is a major firm in beverage, so a poorly performing product is simply not suitable for them. Therefore, they had to decide whether to improve and reposition the product or to withdraw it and replace it with a new brand and product. The firm decided to reposition the product. This is because they had done such a good job with the launch, that the brand awareness (a key part of brand equity) was very high in the marketplace.

With the relaunch and repositioning project, their biggest challenge was to convince consumers to re-trial the product. As a result, they changed the packaging, increased the size of the can and, of course, improved the product's taste.

However, they approached the problem of the product's perceived poor taste head-on. For instance, on the can's packaging, in quite prominent letters, they had "New Mother, tastes nothing like the old one". Their TV commercials for the relaunch (see below), which used a humor appeal, showed commandos breaking into the lab to get the scientists that invented the original formula.

As a consequence, they are able to reposition the product as having a great taste and many consumers were willing to re-trial the product and today the product enjoys a good share of the Australian market and is performing to the firm's expectations.

Napisan

Napisan is a laundry detergent product that was designed to wash baby diapers (called nappies in Australia, hence the name of the product). Napisan was a very popular product up until around the 1980s when there was a significant change in consumer lifestyles. As consumers became more time poor, as a consequence of both parents working, there was a big shift from using washable cloth diapers to using disposable ones.

Therefore, sales of the NapiSan product fell in line with the decrease in consumer demand. This is a good example of repositioning being required due to the change in the macro environment.

The firm had a good quality product, so they had to decide whether to reposition the product or to bring out the same product under a new brand name. They decided to reposition it because it had good brand equity (high awareness and it was trusted by consumers).

Over recent years the NapiSan product has been successfully repositioned for a new use; being the ideal laundry detergent for tough stains.

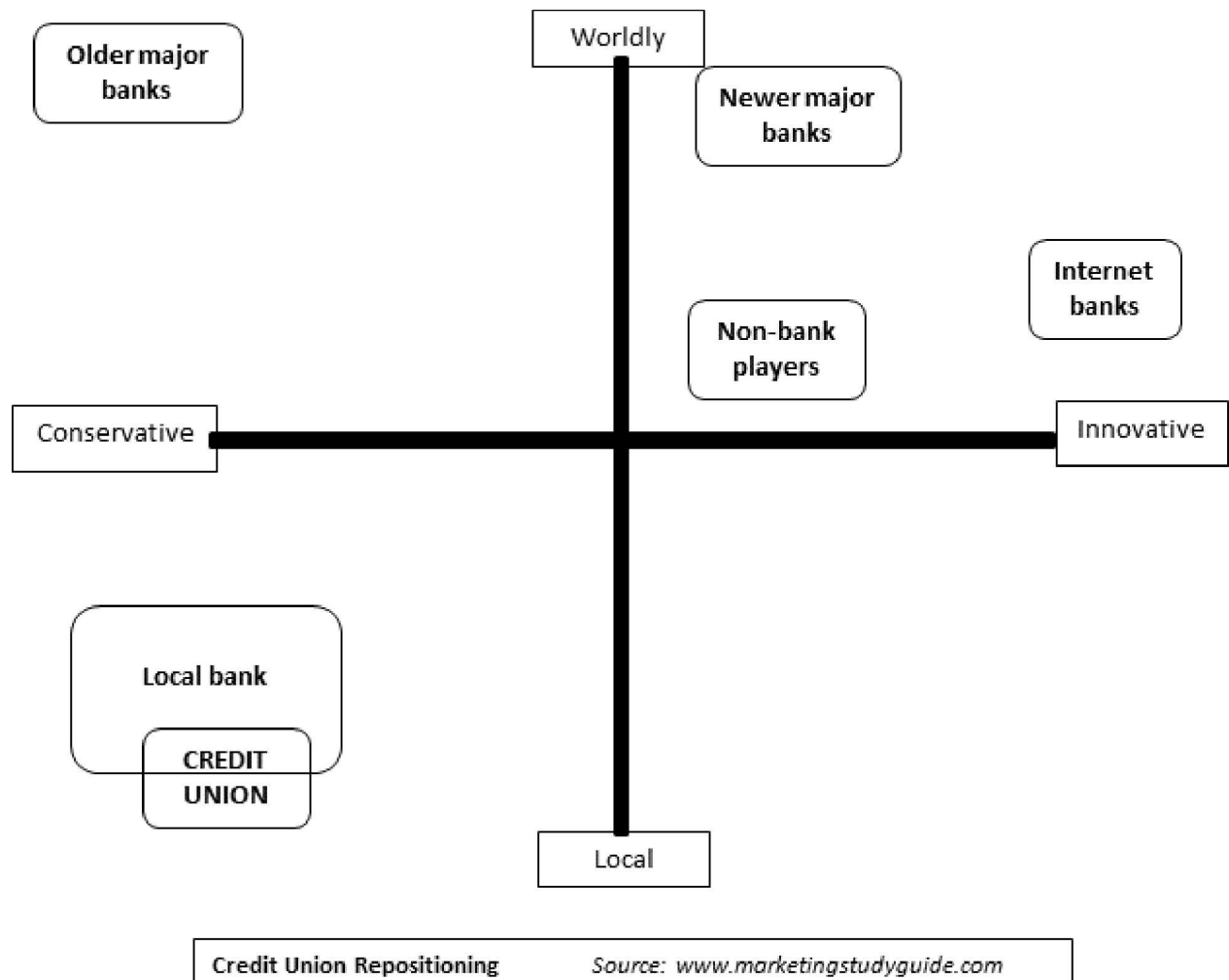
Repositioning a Credit Union

The final example demonstrates how a credit union was repositioned because it did not have a clear positioning space. As shown in the perceptual map (below), the credit union was competing in a local market with a local bank which was substantially bigger than itself. Both were best perceived as local and conservative, but the much larger financial institution was generating more market share.

As you can see, there was a clear market gap in the bottom right-hand quadrant and the credit union decided to reposition itself into that space. This move allowed them to keep the positioning aspect of being local, but required them to modify their positioning from being conservative to being more innovative.

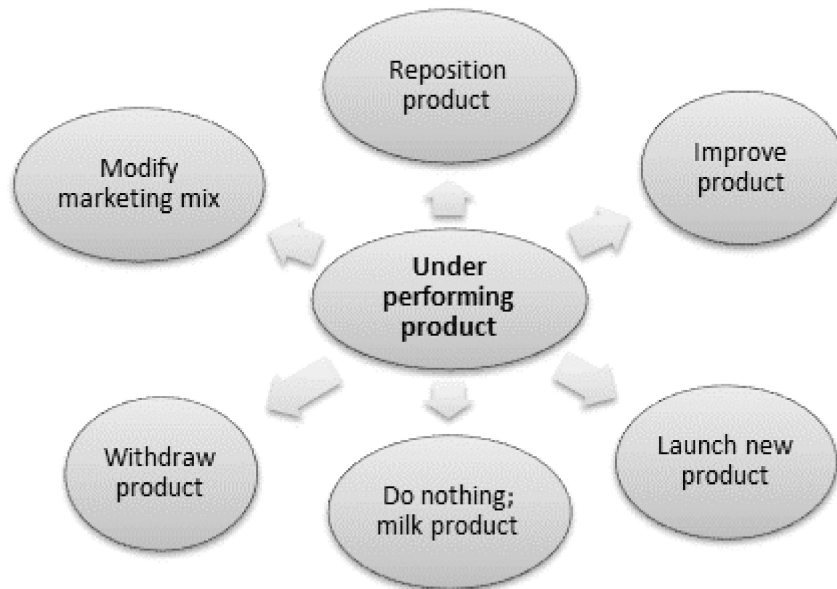
As part of this repositioning process, the credit union introduced a range of new products, set up a customer relationship management (CRM) program, modified their sales and customer service staffing structure, and changed their tagline to “leading the way”.

These marketing mix changes were able to clearly communicate their new positioning and the credit union grew by 60% over the next three years.



Reposition or introduce a new brand?

As noted in the [repositioning section](#), brands/products that are considered for repositioning are typically under-performing products. Because of the significant challenges of successfully repositioning the product (as discussed in [challenges of repositioning](#)), firms will also consider viable alternatives to repositioning. One main choices for managing an under-performing product are shown in the following diagram.



Repositioning and alternatives

Source: www.marketingstudyguide.com

In order to successfully determine the most appropriate option for improving the performance of a specific product, the organization needs to identify the core reasons for the product's weak results. This insight will significantly guide the choice of action. However, the following table provides some general principles about when each option should be used.

<i>Improvement Option</i>	<i>When this option is used</i>
Reposition product	For repositioning to be the best option, there must be three important ingredients present. The first is lack the poor performance must be attributable (mainly) to the product's current positioning. The second is that there needs to be a viable positioning space available for the product to be repositioned towards. And finally, the product must have specific design and features or reasonable brand equity. In other words, the product must have "something going for it".

Improve product	On occasions, products will have weak performance simply because they do not have enough relative advantages, or they are lacking an important product feature, and so on. The simple approach here, which is quite common, is to improve the product in some way. And other than using “new and improved” and some packaging changes, repositioning is usually not required.
Launch new product (as a replacement)	It may be simpler and less costly to develop and launch a new brand/product and withdraw the existing product offering. This option would be the best choice if repositioning would be cost-prohibitive, or the product required a major redesign and improvements, or if the brand equity of the product was quite low, or if a substantial repositioning (that is, a major change in understanding) was required.
Withdraw product (no replacement)	Another option is to simply withdraw the product, without replacing it. This would be suitable if there was no viable repositioning space and the current product was either unprofitable or its poor performance was affecting the brand equity of the firm’s other products.
Do nothing; milk product	Alternately, the firm could decide to milk the products. A firm would probably take this view on a minor product (or one that needs a major overhaul). The goal is to make the product as profitable as possible, before eventually withdrawing it. The common approach in this regard would be to eliminate any investment in the product (that is, no product improvements or promotional support), as well as increasing the average price through the removal of any sales and trade promotions.
Improve marketing mix	Finally, some modification of the marketing mix could deliver a suitable performance improvement. As we know, the positioning of the product needs to be supported by a <u>consistent marketing mix</u>. The use of inconsistent mix elements will result in a poor communication of positioning in the marketplace.

Introduction to Perceptual Maps

Perceptual maps are tools used by firms to help understand their image and positioning in the marketplace relative to competitors. A perceptual map is of the visual technique designed to show how the average target market consumer understands the positioning of the competing products in the marketplace. In other words, it is a tool that attempts to map the consumer's perceptions and understandings in a diagram.

The word 'perceptual' comes from the word 'perception', which basically refers to the consumers' understanding of the competing products and their associated attributes. (Note: In some textbooks, perceptual maps are referred to as positioning maps, but for our purposes they essentially have the same meaning.)

The most common presentation format for a perceptual map is to use two determinant attributes as the X and Y axes of a graph, however there are also other formats that are sometimes used.

What is a perceptual map?

A perceptual map is of the visual technique designed to show how the average target market consumer understands the positioning of the competing products in the marketplace. In other words, it is a tool that attempts to map the consumer's perceptions and understandings in a diagram.

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The most common presentation format for a perceptual map is to use two determinant attributes as the X and Y axes of a graph, however there are also other formats that are sometimes used.

Definition of perceptual maps

Most definitions are fairly consistent in their description of perceptual maps, as follows:

"Perceptual maps measure the way products are positioned in the minds of consumers and show these perceptions on a graph whose axes are formed by product attributes." (Kardes, Cronley, & Cline, 2011).

"A perceptual map represents customer perceptions and preferences spatially by means of a visual display" (Ferrell & Hartline, 2008).

You will note that both definitions highlight that the information is visually presented on some form of graph or display. And that a perceptual map is designed to examine consumer perceptions and understanding, primarily of products and their associated positioning.

The main types of perceptual maps

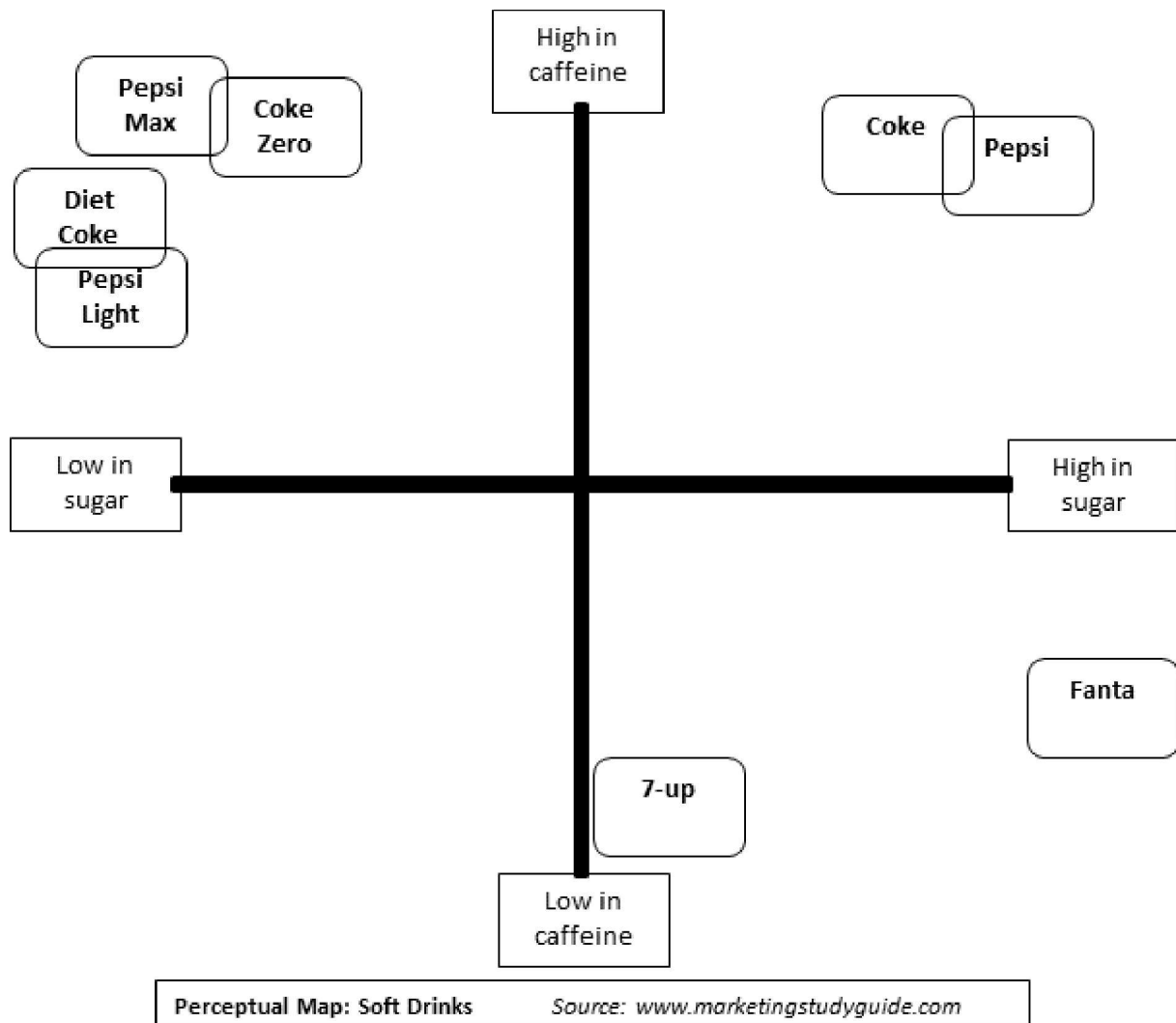
There are three main formats for a presenting a perceptual map.

Using two determinant attributes

The first format (which is the one presented in the majority of introductory marketing textbooks and most probably the only format an undergraduate student would need to know) simply uses two determinant attributes on the graph. Below is a simple example of a perceptual map for soft drinks in this format.

The main advantage of this presentation format is that it is very simple to construct and interpret. You will note that only two product attributes have been considered. In this case, they are 'to what extent does the consumer consider the product to be high/low in sugar' and 'to what extent is a product considered high/low in caffeine'.

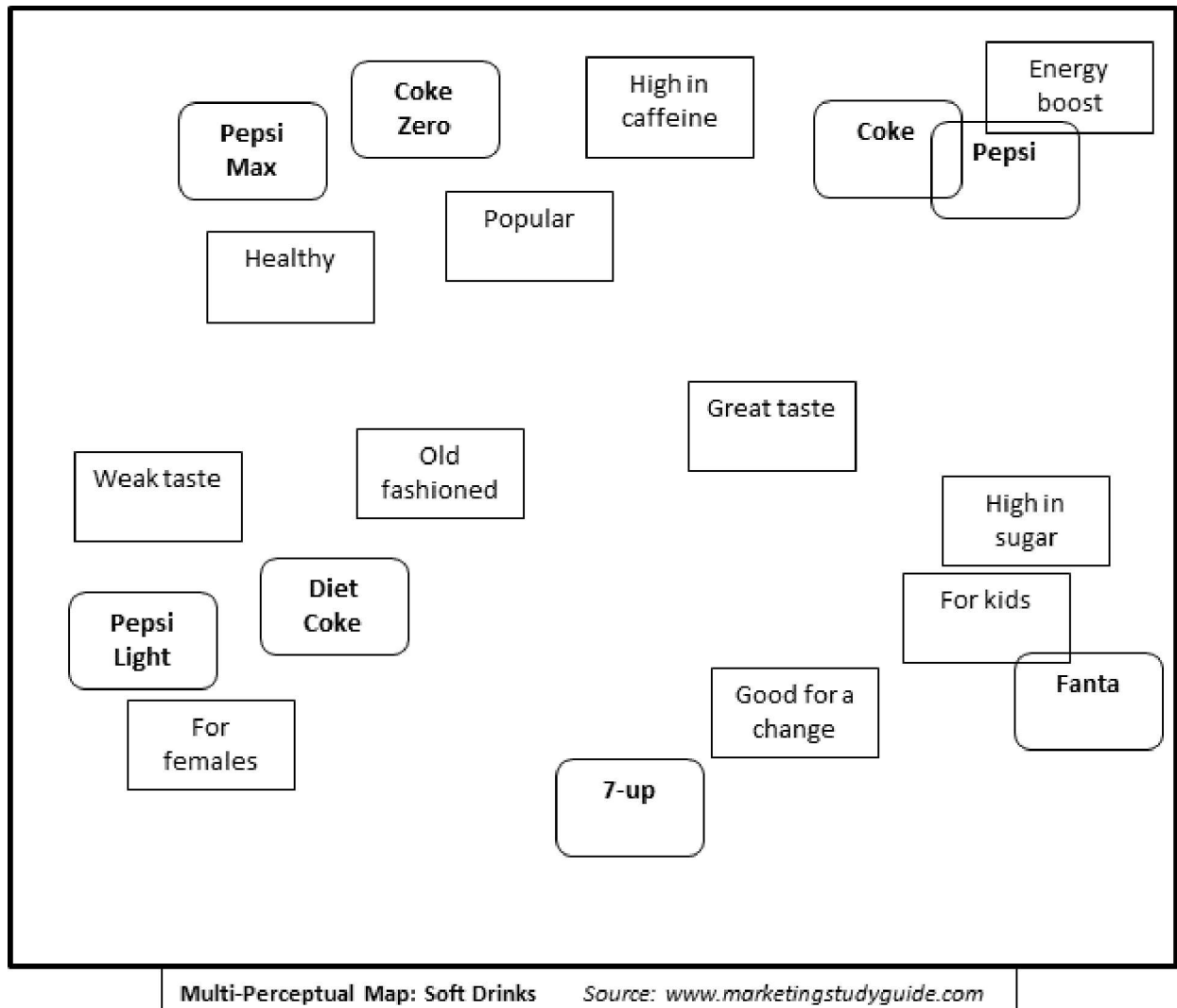
The simple combination of these two scores (probably obtained from a consumer survey) places the product offering onto the map. For example on this map, the 7-Up product offering is perceived as having a moderate level of sugar and being relatively low in caffeine'.



Using many product attributes

The second approach to perceptual mapping used to use a statistical technique called correspondence analysis. Using a computer, a statistical program (such as SPSS) has the capacity to map multiple product attributes at the same time. This type of map is a little bit more confusing and difficult to interpret, but it does provide a good overview of how the target market views and connects the various attributes.

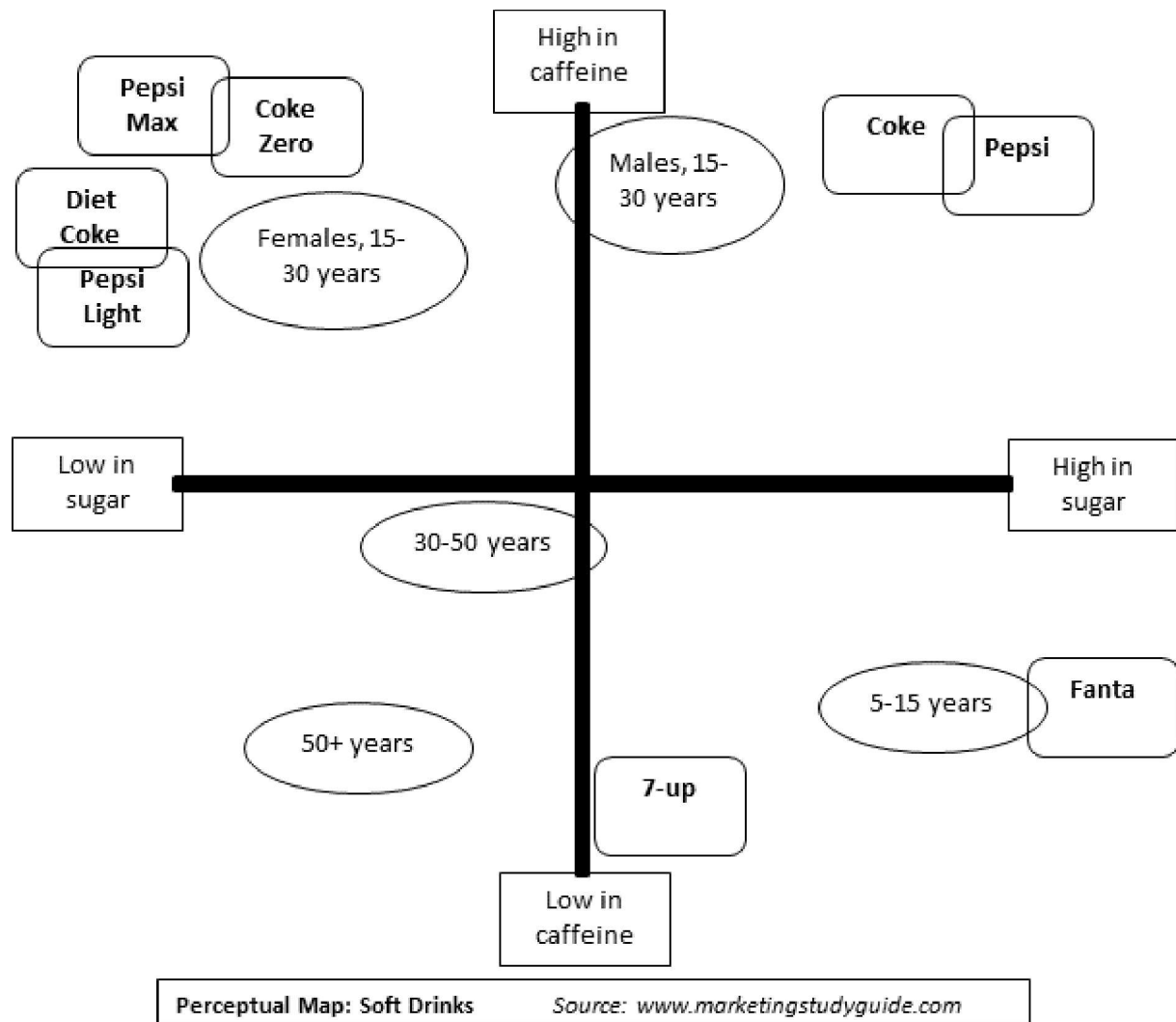
You will note that there are no defined axes in this type of perceptual map. Instead the various product attributes are scattered throughout the map, along with the perceived positioning of the various product offerings. (How to interpret these maps is discussed in another section of this marketing study guide.) The following is an example of a perceptual map formed by correspondence analysis:



Joint perceptual maps

Occasionally you will see a perceptual map that also maps the preferred needs of different market segments, based on the same attributes. These types of maps are sometimes referred to as joint perceptual maps, as the perceived product positioning is jointly presented with the needs of the segment.

The addition of market segment needs being placed on the perceptual map allows the firm to identify how well they are positioned to relative to their particular target markets. The following is an example of this type of a joint perceptual map, showing age and gender demographic segments.



Where does the data come from for a perceptual map?

There are two main options for the base information used to construct a perceptual map. These are by using a suitable market research study or by relying upon management's experience.

Marketing research

As you can imagine, perceptual maps rely upon significant data for their construction. The ideal source of this data is from a quantitative survey of consumers in their target market. Larger organizations would probably undertake this style of research on a regular basis. Sometimes these pieces of market research are called image studies.

In this survey, respondents would be asked to rate the various competing products on a range of attributes (or image statements), on some form of scale. For example, they might be asked to rate each of the soft drink brands (included in the perceptual map in the example section) on

a scale of one to five in terms of sugar content, and so on. With this market research study as the data foundation, all three alternate presentations (as shown in the example section) of a perceptual map can be generated from the same data-set.

Management Understanding

Obviously, not all organizations have access to market research data. However it is quite possible to construct the first type of perceptual map, using the two determinant attributes, simply from management's view of consumers' perceptions. (It would also be possible for most university students to construct this style of perceptual map, based on their understanding of how consumers might consider the competing offerings.)

Although this technique is clearly not as reliable, it does have the advantage of being able to be constructed very quickly and without the expense of a large market research study.

What are determinant attributes?

The first perceptual map format (which is the most common format presented in introductory marketing textbooks) relies on two determinant attributes. As we know, an attribute is any feature, function or benefit of a product (making products simply the sum of their multiple attributes).

But what is meant by a 'determinant' attribute? Well, a simple way to think about determinant attributes is to consider the particular attributes a consumer uses when they are determining their choice between competitive offerings. In other words, determinant attributes are the most important for them and are used to differentiate key offerings.

This is further explained in the following alternate definitions of determinant attributes:

"[A determinant attribute...] is both important and differentiating [...] A determinant attribute is one on which customers will make choices about which products or services to purchase"
(Blythe & Zimmerman, 2005).

"Determinant attributes are those attributes that actually determine the buyer's final choice of service. A determinant attribute does not have to be the most important attribute but it is the attribute that the consumer uses to ultimately distinguish one service offering from another"
(Botha, Bothma, & Brink, 2004).

You will note that both definitions highlight that determinant attributes are used to distinguish/differentiate between competitive offerings. In other words, given all the attributes

of a product, which ones are actually used primarily in the selection process? Because of their importance to winning market share, key determinant attributes are used in perceptual maps.

For further information, some examples of determinant attributes for different product categories are provided in the [How to construct a perceptual map](#) section.

What does 'Perception is reality' mean?

We have probably heard the cliché 'perception is reality'. This means that we need to consider how the marketplace actually perceives the positioning of different products, rather than a technical/objective assessment of the product. Remember that our goal is to determine how consumers perceive the positioning of the various products in their minds, not to prove that our firm offers better/worse products than their competitors.

Let's use an example to explain the difference. Assume that in a market research study, consumers were asked to rate which banks they believed were the most financially secure and the majority of them indicated that it was Bank X. However, let's say a financial analyst undertook a detailed analysis of the various banks, he/she may find that Bank X is not the most secure, it is actually Bank Y.

So now we know, on a technical basis, that Bank Y is actually the most secure, but we are mainly interested in how consumers perceive the market. The research has found that the consumer perception is that Bank X is the most secure and, most importantly, their perception is their reality – it is what they believe to be true.

Therefore, the marketer has to work within the perception of the consumers, whether they are technically correct or not. The challenge here for Bank Y is how to change the perception of their offering in the marketplace, to align it with their actual/technical position.

Why use perceptual mapping?

There are many reasons why a firm would undertake perceptual mapping, the following table lists a number of these reasons.

Reason	Benefits of Perceptual Maps
Check reality	To see how the target consumers actually perceive the various offerings and positions
Impact of campaigns	To measure/track the impact of recent marketing campaigns and any other marketing mix changes
Monitor new products	To identify how well any new products have been <u>positioned</u> into the market
Monitor competition	To monitor the impact of various competitive offerings over

	time
Look for gaps	To assist the company identify <u>market gap</u> , as an input into the new product development process
Understand segments	To provide information that will help further understand different market segments
Track preference changes	To track any changes in consumer preferences (and other environmental factors) over time

How to understand and interpret perceptual maps

Perceptual maps are designed to provide a visual summary of how consumers perceive the positioning of the different brand/product offerings in the market. In most cases, they are relatively simple to understand and interpret and, perhaps surprisingly, they are able to provide a significant amount of information.

In this below section, we highlight the key aspects to consider when reviewing a perceptual map and work through several examples on a step-by-step basis, using a variety of map formats.

Purposes of a perceptual map

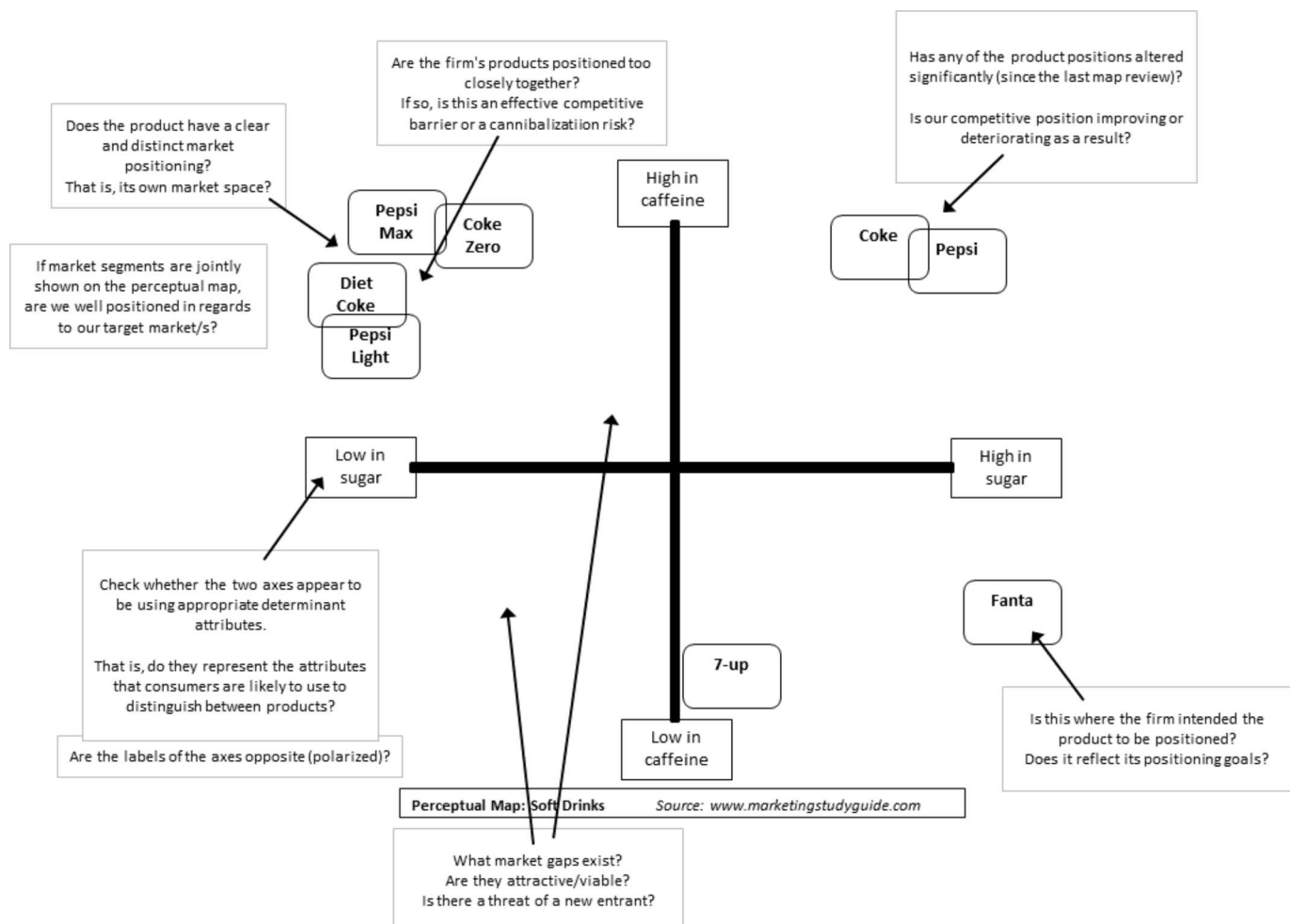
Understanding the different roles of a perceptual map can greatly assist in the interpretation and review process. Let's quickly relook at why perceptual maps are used (as was presented in the 'what is a perceptual map?' section). When presented with maps to review, this checklist should help guide your analysis and conclusions.

Reason	Discussion
Check reality	To see how the target consumers actually perceive the various offerings and positions
Impact of campaigns	To measure/track the impact of recent marketing campaigns and any other marketing mix changes
Monitor new products	To identify how well any new products have been positioned into the market
Monitor competition	To monitor the impact of various competitive offerings over time
Look for gaps	To assist the company identify market gap, as an input into

	the new product development process
Understand segments	To provide information that will help further understand different market segments
Track preference changes	To track any changes in consumer preferences (and other environmental factors) over time

What to review on a perceptual map

Using a standard two determinant attribute perceptual map, the following diagram highlights the aspects that should be reviewed (with a discussion following).



What to look for/what to do with a perceptual map

1. Check whether the two axes appear to be using appropriate determinant attributes.

That is, do they represent the attributes that consumers are likely to use to distinguish between products?

2. Are the labels of the axes opposite (polarized)?

This is simply a quick check of the validity of the perceptual map. You would probably do this if the product positions shown on the map did not appear to be logical (from your knowledge of the market).

In some cases, additional maps should be constructed using alternate determinant attributes (which is a common approach). Does the product have a clear and distinct market positioning? That is, its own market space? This is quite important. A key goal of positioning is to be perceived as having a unique offering in the marketplace (that is, some points-of-difference).

For products with strong brand equity, being positioned close to weaker competitors is not much of a problem, whereas weak competitors probably need to reposition slightly to create their own market space. Is this where the firm intended the product to be positioned?

3. Does it reflect its positioning goals?

This is an opportunity to review how the brand/product is really perceived in the marketplace.

Generally you would expect a minor variation between the positioning goal and the actual outcome. It only becomes a problem to be corrected if there is a substantial difference.

4. Are the firm's products positioned too closely together?

If so, is this an effective competitive barrier or a cannibalization risk? Firms tend to run multiple product offerings in the same target market. In a very competitive market, such as above, a firm with closely positioned products will 'own' that area of the market, so this would be considered a competitive strength.

However, if the market had limited/weak competition, then closely positioned products from the same firm would be a weakness.

5. What market gaps exist?

Are they attractive/viable? Is there a threat of a new entrant? There are generally gaps in all markets, but some gaps in cluttered markets are fairly precise.

You need to first consider why there is a gap. Often gaps exist because they are not viable or there is no underlying market need. If a viable gap exists, the firm needs to decide whether this is an opportunity for a new product or assess the threat of a new entrant?

6. Has any of the product positions altered significantly (since the last map review)?

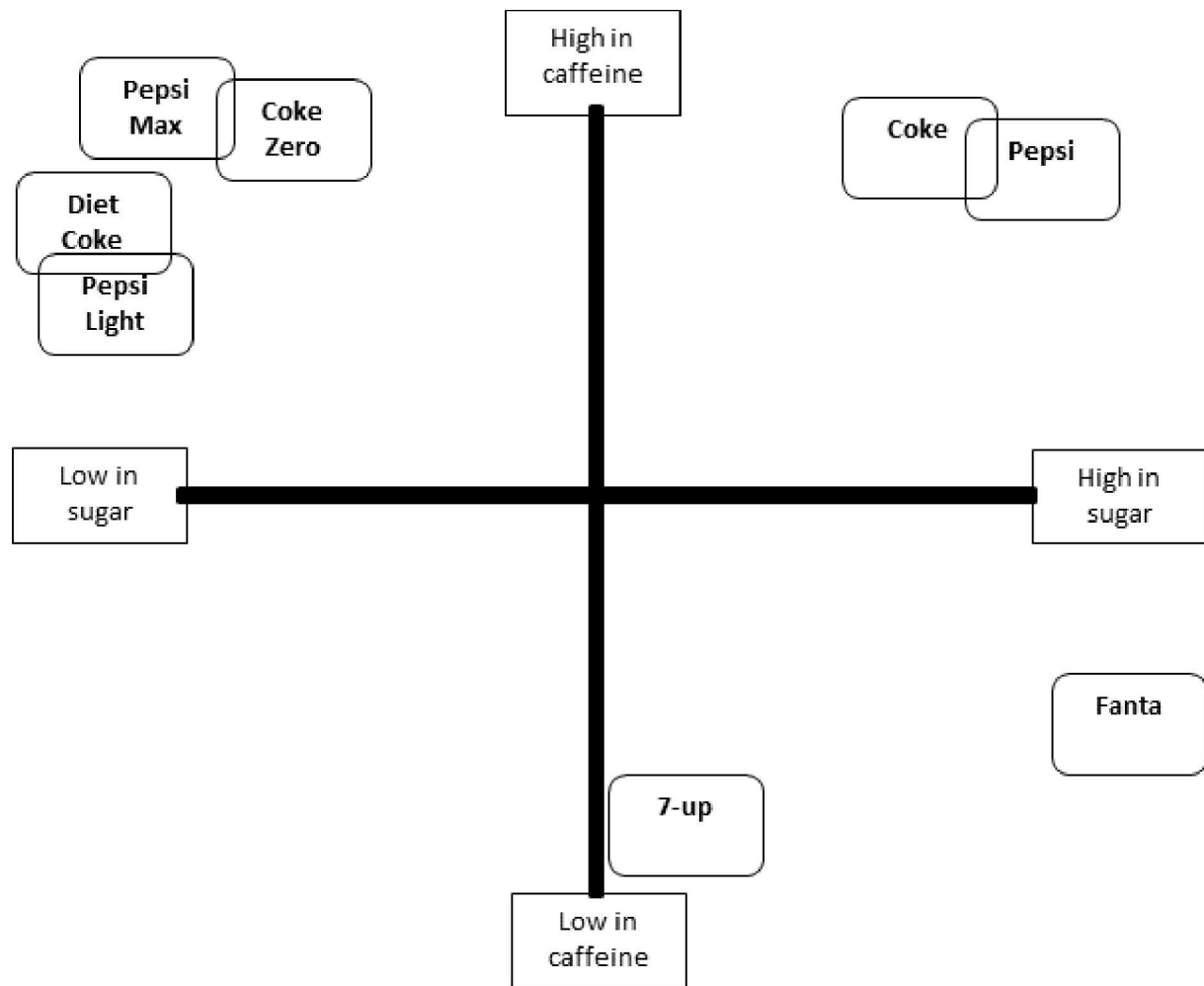
Is our competitive position improving or deteriorating as a result? Trends are important. Over time many market conditions change; we modify our marketing mix, competitors change their offerings, new firms may enter the market, and consumer preferences may change.

By comparing perceptual maps over time, the firm can assess whether their competitive position has improved. If market segments are jointly shown on the perceptual map, are we well positioned in regards to our target market/s? Sometimes a clear/distinct product positioning may be misleading. When market segment preferences are overlaid onto a perceptual map, a different picture of the market may emerge.

A Worked Example of Interpreting a Perceptual Map

Let's review the three perceptual maps shown in the '[what is a perceptual map?](#)' section of this study guide. Using the [checklist of questions](#), a summary of conclusions that can be drawn is provided following each map.

Please note that the perceptual maps and their interpretation are based on hypothetical data and are provided for educational purposes only and may not reflect the brand's actual position in the marketplace.



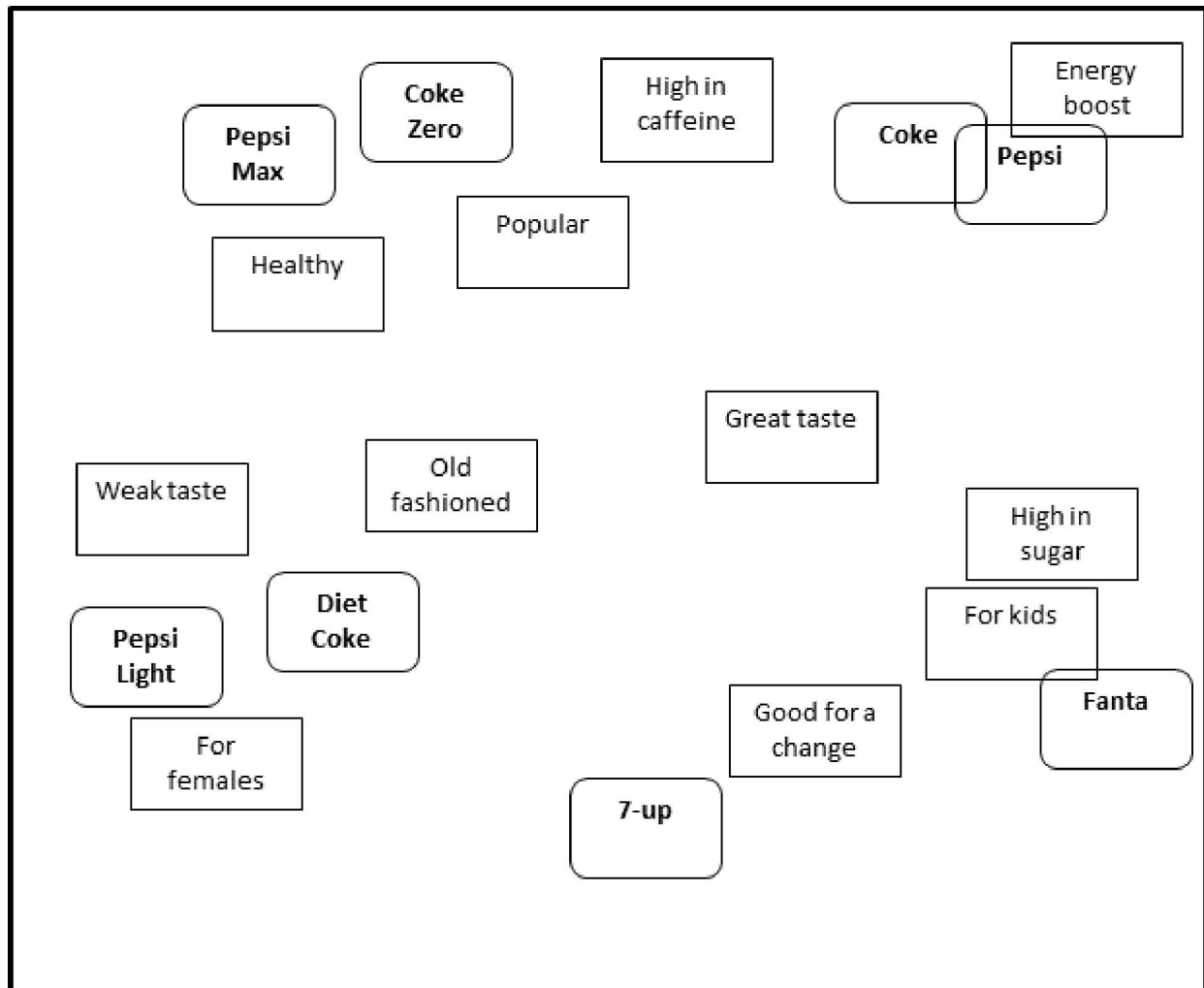
Perceptual Map: Soft Drinks

Source: www.marketingstudyguide.com

Findings	Review of the perceptual map
Matching of the major brand offerings	Coke and Pepsi products appeared to be paired together. Therefore, the market perceives these firm's offerings as very similar across their three cola products (normal, zero/max, diet/light).
Distinct product positioning achieved by brands	The market perceives significant differences between the normal and the no sugar offerings under the brands of Coke and Pepsi. The market also perceives a reasonable level of difference between the firm's two diet offerings.

Competitive barriers in place	Having multiple distinctive offerings (both Coke and Pepsi) in the market is a high competitive barrier (for them combined), as the firms 'own' significant parts of the market space. Obviously there would be significant competition between the two, but they are relatively protected from other players, particularly at the top of the perceptual map.
Some cannibalization likely	However, there is less positioning differential in regards to the top left hand quadrant of the map. As a result, some cannibalization of sales will probably occur.
Several market gaps exist	The map highlights many market gaps, particularly towards the middle of the map. These are probably viable gaps and present a significant market opportunity.
Non-cola advantages	The two non-cola products (7-Up and <u>Fanta</u>) appear to be very well positioned, with both having a clear and distinct space on the map.
Map appears incomplete	In terms of the last two comments, it should be noted that the map appears incomplete and is missing a number of competitors. Therefore, a more complete map may result in some different conclusions being drawn.
Logic check is OK	Other than the previous concern, the product positions shown on the map appear to be logical and in line with expectations.

Now let's look at the same map, this time with the consumer preferences for different target markets overlaid. Additional comments, as a result of this further information, are summarized in the table after the map.

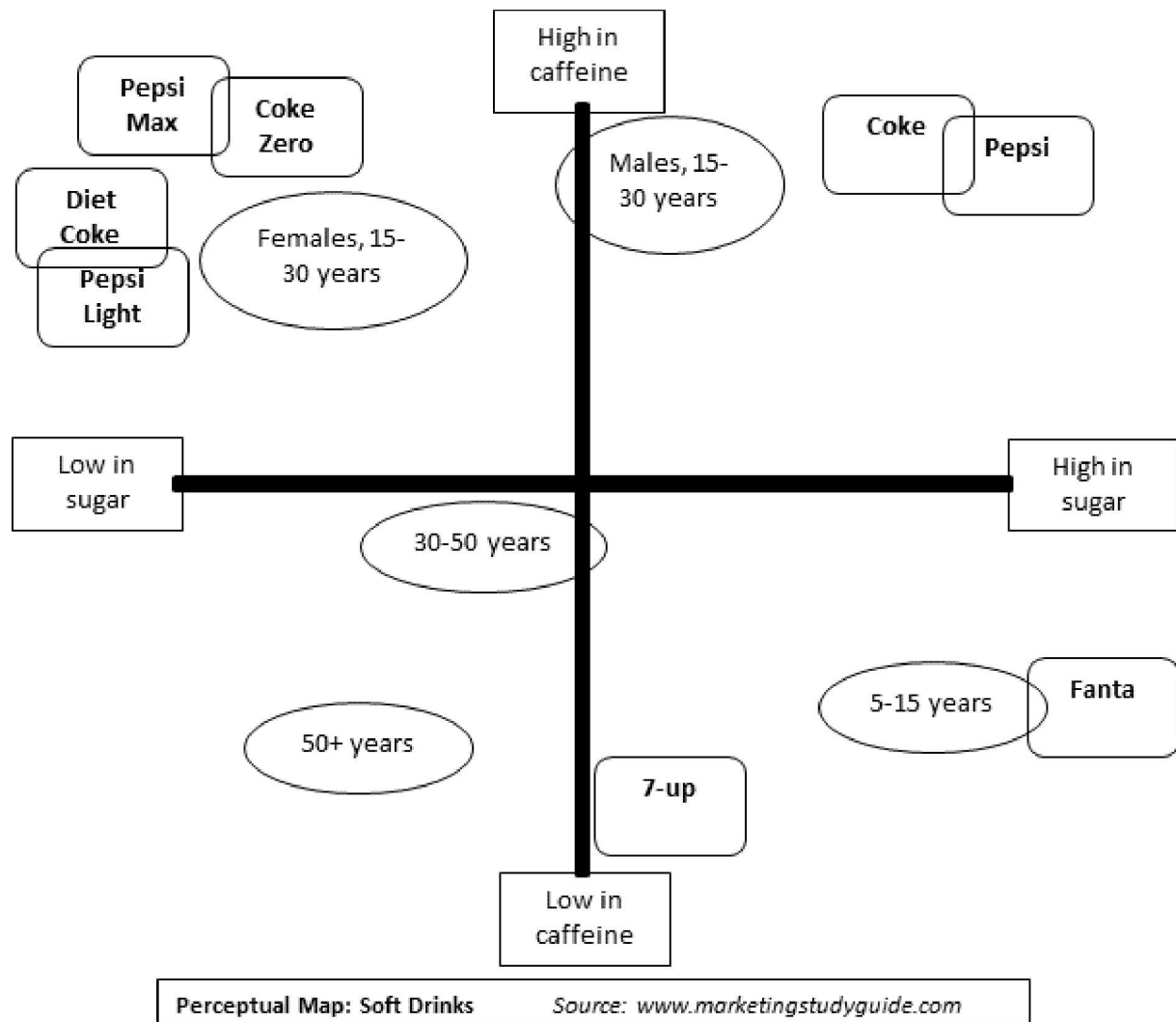


Multi-Perceptual Map: Soft Drinks Source: www.marketingstudyguide.com

Findings	Review of the perceptual map
Gender differences	This is a market that appears to have significant needs differences between males and females, as there appears to be a stronger preference appropriate for low sugar product offerings by females.
Fanta well-positioned	As presented, the Fanta product is very well positioned relative to the children's market, without any strong competitor being evident.

7-Up needs a positioning improvement	While 7-Up has a clear and distinct positioning on this map, it does not appear to be directly aligned to the preference needs of any particular segment. As a result, the product may need to be repositioned closer to a target market preference.
Two clear market gaps	There are two distinct market gaps available that would probably present a good market opportunity, as both the 30 to 50 years and the 50+ years age group do not have product offerings that are perceived to closely meet their needs.
Young males split	The young male segment appears to be divided between normal Coke/Pepsi and low sugar Coke/Pepsi, resulting in their preference needs being mapped somewhere in the middle. This indicates that this target market should be further segmented.
Young females is a competitive segment	The most competitive segment is young females target market, which has four strong product offerings positioned close to it.
Caffeine need is age related	There appears to be a strong relationship between the preference/need for high caffeine and the age group (youth market has a stronger preference).
NOTE	These are additional comments, or clarifications, to the comments made in the previous table. You should note how the addition of the customer preference data changes the interpretation of the perceptual map.

The final perceptual map below looks a more complicated, but the same review principles apply. The major difference is that there are multiple attributes listed (not just two). This creates a more complete picture of the market and consumer's perceptions. It also gives a guide to how the consumers tend to link/connect the various product attributes.



Findings	Review of the perceptual map
Head-to-head positioning	In most cases, the Coke/Pepsi products are perceived as quite similar, resulting in head-to-head competition in most cases.
Generally unique space	However, each product generally has its own positioning space, despite having a close competitor.
New products has dated existing ones	The introduction of Coke Zero and Pepsi Max appear to have had the impact of dating both Diet Coke and Pepsi Max, as they are more closely associated with 'old-fashioned'. Likewise the 7-Up positioning is slightly associated with the 'old-fashioned' attribute as well.

New products are trendy	<u>Coke Zero</u> and Pepsi Max are positioned close to the attribute of popular, probably due to the fact that they are more recent products.
Perceived gender positioning	Pepsi Light and Diet Coke both appear to have a gender preference, being seen as more female-oriented drinks.
Max/Zero connected to health	Pepsi Max and Coke Zero are both seen as healthier alternatives, probably due to their low sugar perception.
7-Up seen as an alternative	7-Up is position close to “good for a change”, indicating it is an alternative choice, rather than being a preferred choice.
Sugar + caffeine = energy	Consumers seem to link sugar and caffeine in their minds to equal an ‘energy boost’, perhaps rivaling the substitute energy drink market at times.
Sugar-kids connection	There is a clear market connection between high sugar and being more appropriate to children, this is evident by Fanta’s positioning
Taste better for sugar	The ‘great taste’ attribute is positioned more towards the drinks with high sugar, and the ‘weak taste’ attribute is much closer to the low sugar versions.
Link of old-weak	Consumers have linked ‘old-fashioned’ and weak taste to some extent, which may be a longer term concern for these brands, particularly if new products are planned.

What are points-of-difference (POD)?

When deciding upon a brand’s/product’s positioning in the marketplace, the organization must ensure that end positioning has both sufficient points-of-parity (POP) and points-of-difference (POD). What this means is that you want the brand/product to be consider equal/similar (on par with, hence the word ‘parity’) with the major offerings in the category for the key attributes (POP), but the brand/product also needs to have a number of unique or differentiated attributes (POD).

An appropriate balance is required for market success. Too much reliance on points-of-parity in the product's positioning and it could be perceived as a 'me-too' product offering. And too little emphasis on points-of-parity and the product might be perceived as not meeting the core needs for the target market.

Definitions for points-of-difference (POD) and points-of-parity (POP)

Points-of-difference (POD) and points-of-parity (POP) are essentially opposite in nature, with the first referring to differences in the second referring to similarities. As a result, we can the following definitions for our purposes as students of marketing:

Points-of-difference (POD)

The aspects of the product offering that are relatively distinct to the offerings of like competitors.

Points-of-parity (POP)

The aspects of the product offering that are largely similar to the offerings of like competitors.

You will note that both definitions referred to the offerings of competitors, so these terms are relative measures. And to clarify the word 'aspects'; it refers to the various product features, benefits, brand equity, and other marketing mix elements (including price and place, plus any associated marketing mix elements of services).

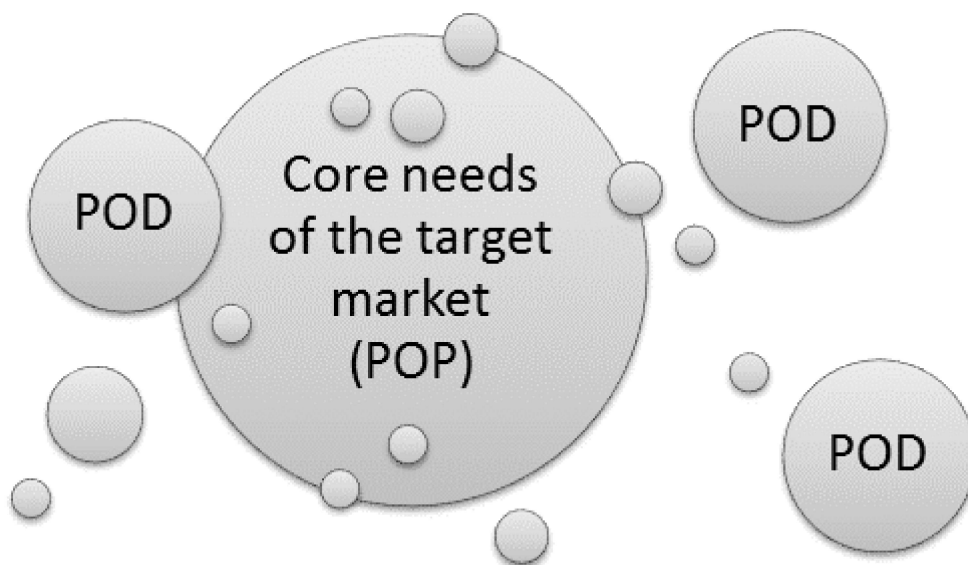
Understanding PODs and POPs

Typically, a firm decides the positioning of a product when it is either: entering a new target market for the first time or launching a new product into an existing target market. In either case, the product will usually need to win market share from established competitors (which is referred to as selective demand).

For the product to win market share, it requires existing consumers in the marketplace to change their purchasing behavior. That means that customers who currently buy a competitive product will need to trial the new offering and/or current non-consumers need to be activated to purchase in the product category for the first time (which is primary demand).

To achieve this goal of changing established purchasing behavior, the firm has both meet the core need of product, as well as bring something new to the marketplace. The following diagram demonstrates this in visual terms. As you can see, the large circle in the middle of the diagram represents the core needs of the market (points-of-parity) and the smaller circles represent new features or benefits (points-of-difference).

Therefore, the positioning of any new entrant needs to have many points-of-parity (that is, it must be seen to offer a relatively similar solution), but it needs to have something unique or different about it (points-of- difference). (For more information, please refer to the example section below.)



Visualizing POP and POD

Source: www.marketingstudyguide.com

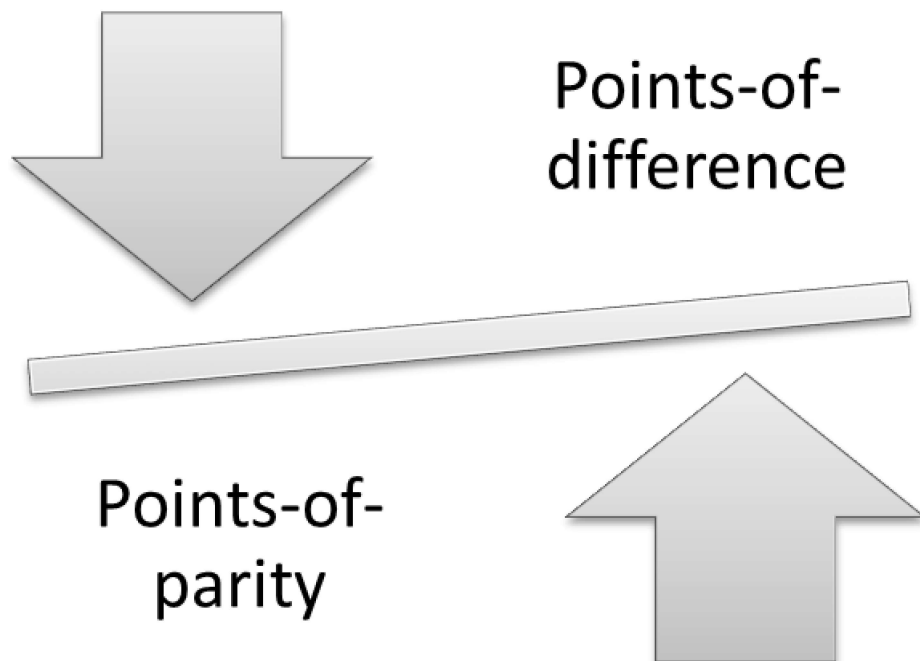
The POD – POP Trade Off

One of the challenges for a firm launching a new product offering is to the extent that they differentiate the product. As outlined in the positioning section of this marketing study guide, one of the purposes of positioning is to simplify the offering in the minds of the consumer.

As we know, marketing communication is a very competitive world and it is difficult to communicate many messages about a product, particularly low-involvement one. Therefore, as it is necessary to simplify the message, firms need be careful about overindulging in points of difference.

As shown in the following diagram, there is a distinct trade-off between the ability of the firm to communicate points-of-parity and points-of-difference. This is because consumers are likely to only remember a few elements about the product. Ideally, an organization would like to communicate everything about all of their products, but that is just not practical given the interests of the consumer and the vast array of marketing messages being sent out.

Therefore, firms need to strike an appropriate balance and to position the product within the product category as having sufficient points-of-parity, while highlighting one or two points-of-difference.



The POD-POP trade-off

Source: www.marketingstudyguide.com

Unique Selling Proposition (USP)

The concept of a unique selling proposition (USP) has become quite popular in terminology in recent years. Essentially what this refers to is points-of-difference and you can use the terms interchangeably if required. A point-of-difference is basically what is different about the firm's product, as compared to most competitive offers. The same meaning is applied to the term 'unique selling proposition'; that is, what is unique (that is, different) about the firm's offer.

What to emphasize POD or POP?

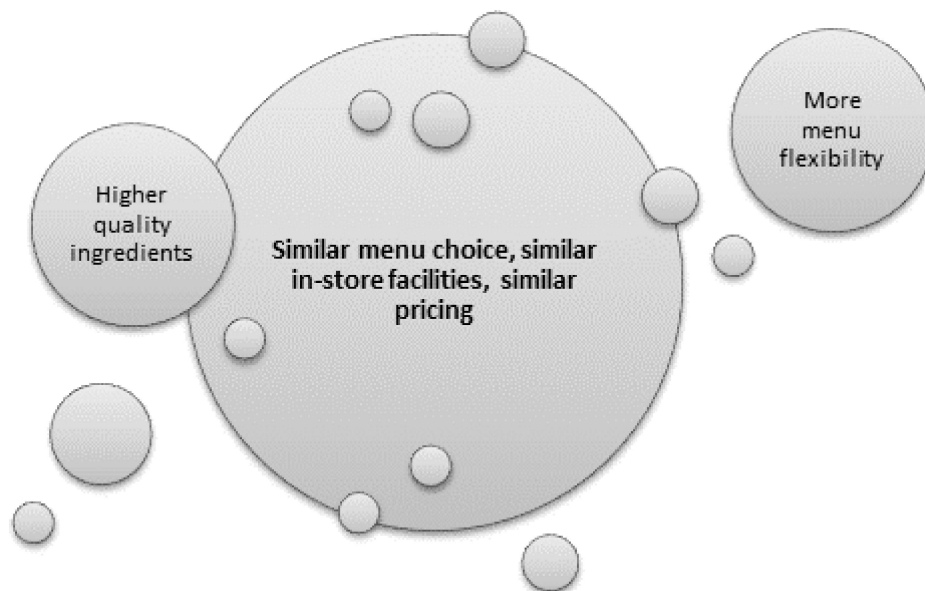
Continuing on from the discussion on the previous section, while firms do need to balance their emphasis between points-of-parity (POP) and points-of-differentiation (POD) there are occasions when a firm should more heavily emphasize one of these elements. The following table outlines the circumstances when a greater emphasis is required.

Situation	What to emphasize
When the firm is a 'me-too' competitor	In this case, being a weaker competitor, the goal is to piggyback on the success of the market leader by highlighting many points-of-parity
When the firm as a market leader	This is the reverse situation from the one above. To maintain market leadership, the brand/product needs to be seen in as superior/different in key ways, thus highlighting the need to focus on relevant points-of-difference
When the firm enters an established and mature market	In this case, the likelihood of switching is relatively lower, so points-of-difference are required to break their habitual loyalty
When the firm and is a fast-growing market	Fast-growing markets have primary demand (that is, first-time customers to the market), therefore points-of-parity positioning will should be quite successful in capturing new customers
When there is a diversity of needs, even when looking at fairly narrow market segments	When there is significant diversity of consumer needs, a points-of-difference positioning should ensure that reasonable market share is generated
In a target market where the firm already offers multiple products	To reduce the risk of cannibalization of sales, the firm would need to have more emphasis on points-of-difference
In a relatively price sensitive market	Our goal in this case would be to provide additional benefits, in order to reduce the importance of price in the decision. Therefore, a points-of-difference positioning emphasis would be required

Points-of-difference (POD) and points-of-parity (POP) examples

To see how POD and POP work in real life, let's look at two examples. The first example looks at a possible way that a chain of fast food outlets could challenge the market leader (in this case let's assume that the market leader is McDonald's). The center circle in the diagram below highlights the points-of-parity that the rival chain wants to duplicate (which includes a similar menu choice, similar in-store dining facilities, and pricing around the same level).

However, the rival firm chain still needs to give consumers a reason to switch, so they have identified two points-of-difference to highlight as part of their overall positioning (which are built around high-quality ingredients and having more flexibility in the menu for the individual). The overall combination of POP and POD creates their overall positioning.

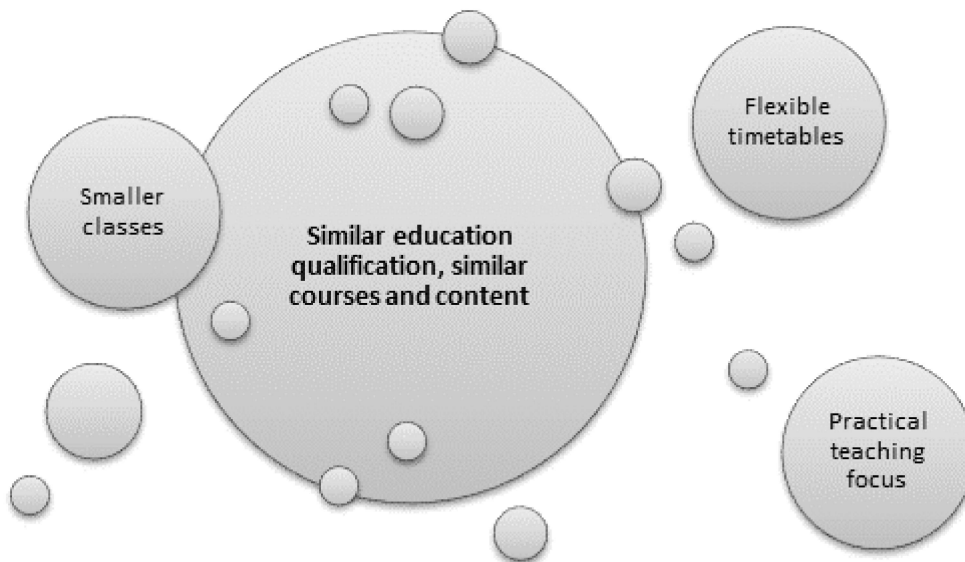


POP versus POD: Fast food

Source: www.marketingstudyguide.com

The second example in the next diagram focuses upon a small education provider, who offers an alternative to a large university program. Again the large central circle highlights the points-of-parity (by highlighting that the qualifications and courses are similar). The points-of-difference (as highlighted in the outside circles) indicate that this particular college/school has decided to emphasize three major differentiating benefits.

With these examples, you can see how the overall positioning is created using a balanced mix of points-of-parity (to piggyback on a market leader) and points-of-difference (to give consumers a clear reason to use their product/service).



POP versus POD: Education

Source: www.marketingstudyguide.com

How to construct a perceptual map

The section below highlights how you can construct a perceptual (or a positioning map). However, if you are new to perceptual maps, you may need to review what is a perceptual map first.

Step one – select two determinant attributes

There are two main approaches to constructing a perceptual map. The first is used it is where management of the organization utilizes their collective the knowledge and experience of the market to construct a perceptual map, and the second approach is where you have access to the results of a suitable market research study.

Either way, the first step is to select the determinant attributes. As discussed in the what is a perceptual map topic, determinant attribute are those attributes that the consumer relies upon in their purchase decision. In other words, determinant attributes are quite important to them and the consumer uses them to help differentiate competitive offerings.

As a rough guide, some likely determinant attributes in different product categories are shown in the following table:

Product Category	Likely Determinant Attributes
Shoes	Comfort, design/style, quality, functionality
Instant coffee	Flavor/taste, country of origin, variety, quality
Breakfast cereal	Healthiness, sugar level, variety, fun/boring factor
Holiday destination	Temperature, travel distance, culture difference, facilities
Camera	Zoom, memory, size/weight, picture quality

Note: Price is not shown in the above table. While price is a cue for quality and certainly does affect the perceptions of a brand/product, it is generally not helpful when constructing a perceptual map. You may use quality instead of price – but never use price and quality in the same map as they are high correlated and the map's outcome will be poor.

Depending upon the product category, we need to consider how consumers choose the product between offerings. Take the shoe category; most consumers would select shoes on the attributes listed in the above table. While that list may not be valid for every single consumer, we are simply trying to get an understanding of the target market overall, so some generalization is fine.

From the list of possible determinant attributes (that may be given to you or you may need to develop based on your best judgment), you need to select two only. These two will form the axes of your perceptual map. Try and pick the two that you think would be the most important in terms of the product choice between competitive offerings.

Step two – list the main competitors in the product category

For whatever product category you are looking at, you will need to compile a list of the main competitive brands/products. These are the brands that will be plotted upon on to your perceptual map. You don't need to list every single competitor in the marketplace, but you should try for a list of five to ten players.

Note that the term 'brands/products' has been used. This is because sometimes there are multiple products under the same brand. For example in the cereal market, Kellogg's is the main family brand name, and they run a number of individual brand names such as Kellogg's Corn Flakes, and they also may have product line extensions (that is, different varieties of Corn Flakes). So depending upon the task, you may need to drill down deeper if required.

Step three – Create scores for these brands

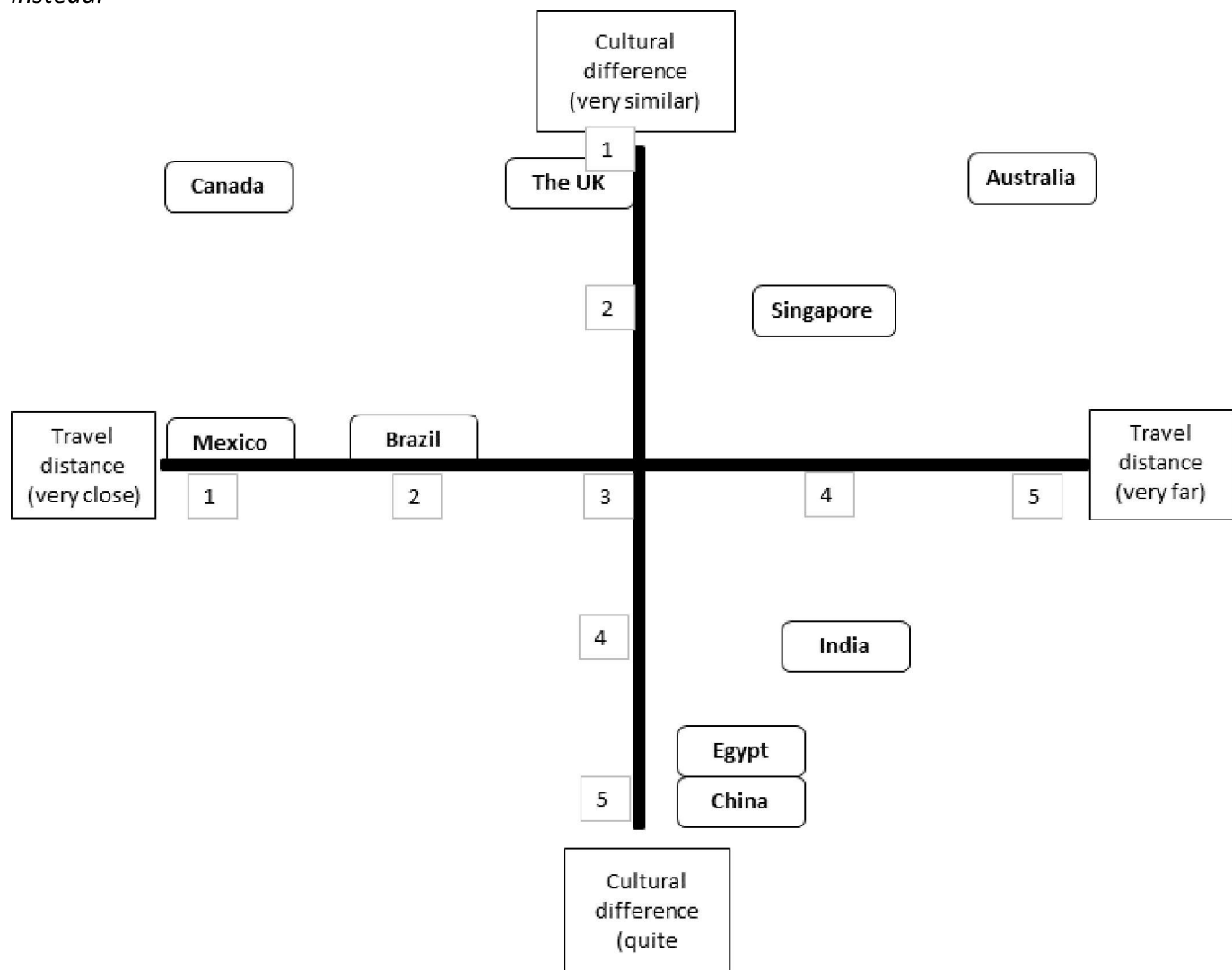
Now we have our have chosen the brands, we need to allocate scores for them using the two determinant attributes. The simplest way to do this is by using simple 1 to 5 rating scale.

Let's look at an example in the following table. This example uses the holiday with two of the determinant attributes listed category (from the above table). Note how a 1 to 5 polarized (opposite) scale has been used. The scores are a good estimate of how an average American traveler (the assumed target market in this case) would perceive these possible holiday destinations/countries.

Holidays	Travel distance 1 = very close, 5 = very far	Culture difference 1 = very similar, 5 = quite different
Mexico	1	3
Canada	1	1
The UK	3	1
India	4	4
Singapore	4	2
Australia	5	1
Egypt	3	5
Brazil	2	3
China	3	5

Note: Obviously, if you have been given the relevant data or access to a market research study, then you don't have to estimate the figures in the above table; you can use the real data

instead.



Holiday destination perceptual map : Source: www.marketingstudyguide.com