15.835: Entrepreneurial Marketing

Session 12: Positioning

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Positioning

- Consumers generally use a small number of evaluation dimensions (two to four) when they think about a particular product or product class

- Placing a product in consumer's minds (relative to competing products)

Physical vs Perceptual Positioning

- Limitations of physical positioning
  - A simple comparison of only the physical dimensions of alternative offerings usually does not provide a complete picture of relative positions because positioning ultimately takes place in customer's minds.
    - Customers may attach less importance to some of physical attributes, or perceive them differently, than the firm expects.
    - Customer's attitudes toward a product are often based on social or psychological attributes not amenable to objective comparison.
      - e.g., aesthetic appeal, spottiness, status image in car market

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Physical vs. Perceptual Positioning (cont'd)

- Why is perceptual positioning better than physical positioning?
  - Customers know very little about the essential physical attributes of many products. Even if they did, they would not understand them well enough to use them as a basis for choosing between competitive offerings.
  - Most customers are not buying physical properties but rather the benefits they provide.
  - The evaluation of many products is subjective because it is influenced by factors other than physical properties. Thus, physically similar products may be perceived as being different because of different histories, names, and advertising campaigns.

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Comparison of Physical and Perceptual Analysis

Physical Positioning	Perceptual Positioning
- Technical orientation	-Customer orientation
- Physical characteristics	- Perceptual attributes
- Objective measures	- Subjective measures
- Data readily available	- Needs marketing research
- Direct R&D implications	- Indirect R&D implications
- Large number of dimensions	- Limited number of dimensions

Why Is Positioning Important?

- Learning about novel products is a very difficult and complex problem for customers.

- Knowledge about a new product category is initially minimal and customers are exposed to products sequentially-first the pioneers and subsequently later entrants.

- As a result, customer preferences are likely to evolve over time.

Why Is Positioning Important?

- Three stages of a customer's learning about an innovative product or service.

1. Prior to trial
2. Through trial of the pioneer product/service
3. After the advent of latent entrants

Preferences Prior to Trial

- Preferences prior to trial are likely to be weakly formed since:
  - the category is novel and buyers know little
  - the knowledge on the most important attribute or the best combination of attributes are not obvious even though potential customers have objective information on product attributes.

- Therefore,
  potential customers are likely to be largely indifferent between possible offerings in the new product category.
  - Uniformly distributed ideal points across potential buyers

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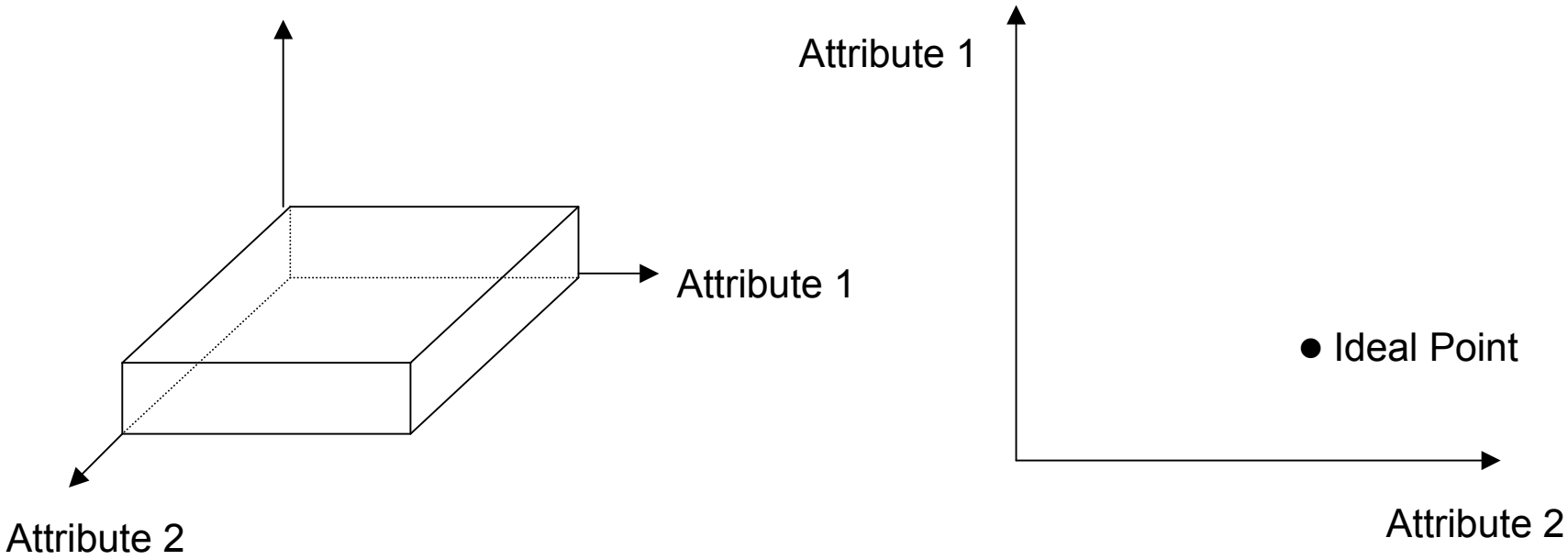
Preferences Prior to Trial (cont'd)

- Uniformly distributed ideal points across potential buyers



Preference Formation Through Trial of the Pioneer

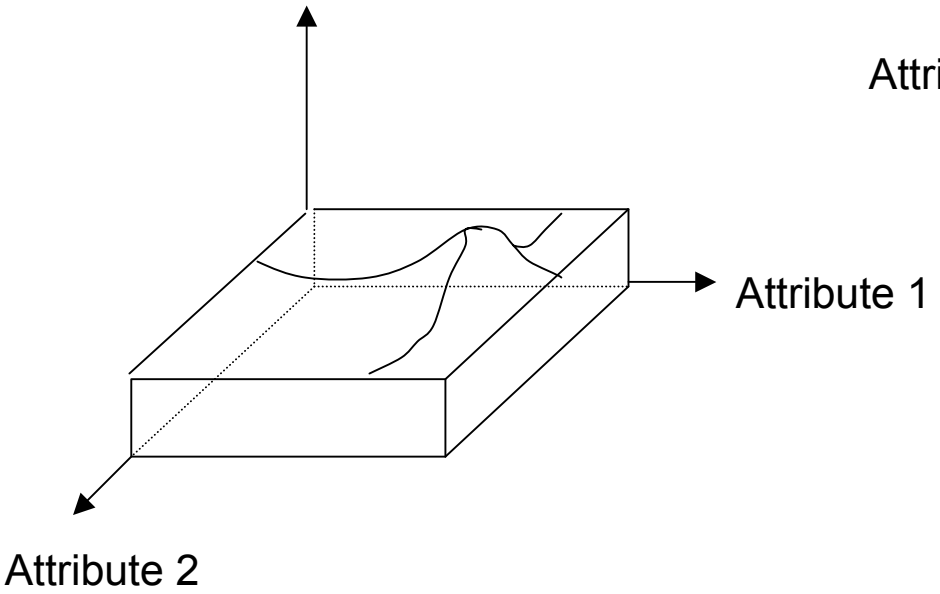
- Buyers update their preferences through trial of the pioneer product.

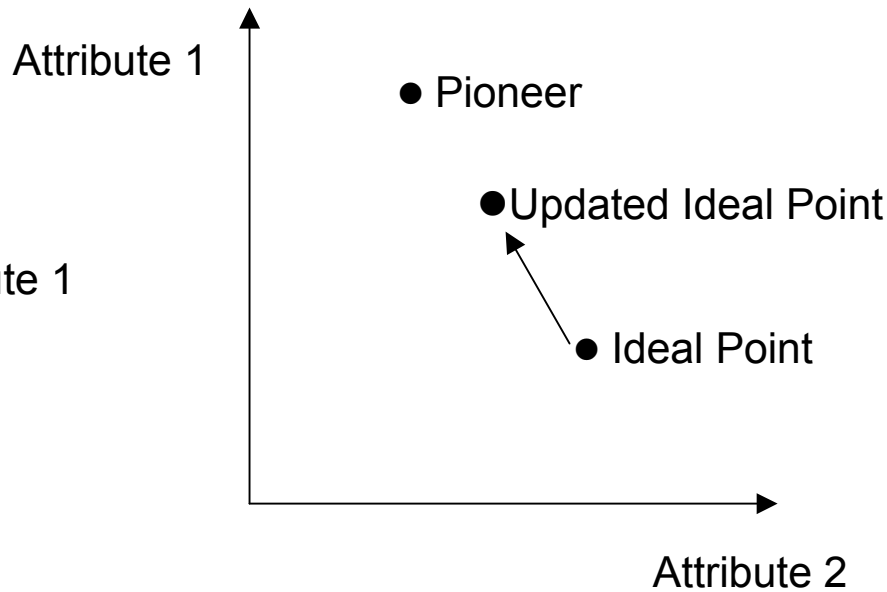
- Buyers try the pioneer product and if the product works, attribute the successful outcome to the attribute combination of the pioneer product.

- Buyers learn through trial of the pioneer how to value attribute combinations. Because their experience is limited to a single product, they learn the pioneer's attribute combination and update their preferences accordingly.

Preference Formation Through Trial of the Pioneer (cont'd)

- Therefore, customers' ideal points shift toward the pioneer's position to reflect their learning about.
  - Attribute combination
  - Attribute weights





Preference Change After the Advent of Late Entrants

- When latent entrants are “me-too” products,
  - Through learning process, customers perceive the pioneer as a prototypical product in the product/service category.
  - As late entrants position closer to the pioneer, they become less distinct and the pioneer more distinct, increasing the relative perceptual prominence of the pioneer.
  - Being closer to the pioneer, the me-too products are less distinct than the pioneer, so any price reduction of the me-too products have a small impact.
  - Therefore, the more similar the pioneer and me-too products, the greater the relative advantage of the pioneer.

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Preference Changes After the Advent of Late Entrants (cont'd)

- Late entrants had better move away from the pioneer.
- The differentiated late entrants can:
  - Diminish the impact of the pioneer's distinctiveness
  - Become more distinct relatively to the pioneer
  - Develop recognition for a market segment
  - Increase their relative prominence in the chosen segment
- If the late entrants succeed in differentiation, they can effectively increase their market share and steal market share from the pioneer.
- Therefore, for late entrants, it is very important to find a dimension to differentiate them from the pioneer through careful decision on positioning.

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Preference Changes After the Advent of Late Entrants (cont'd)

- What should pioneer do?
  - To minimize the loss of market share produced by the advent of differentiated late entrants, the pioneer should:
    - Target the most profitable segment
    - Carefully position it to attract the target market
  - By doing this, the late entrants will have a great difficulty in finding profitable segments.
  - By pre-occupying the most profitable market position, the impact of differentiated late entrants will be diminished significantly.

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Positioning Map (Perceptual Map)

- Consumers generally use a small number of evaluation dimensions (two to four) when they think about a particular product or product class

- Objective of a positioning map

  To identify the relevant evaluation dimensions and to locate the positions of existing and potential new products along these dimensions

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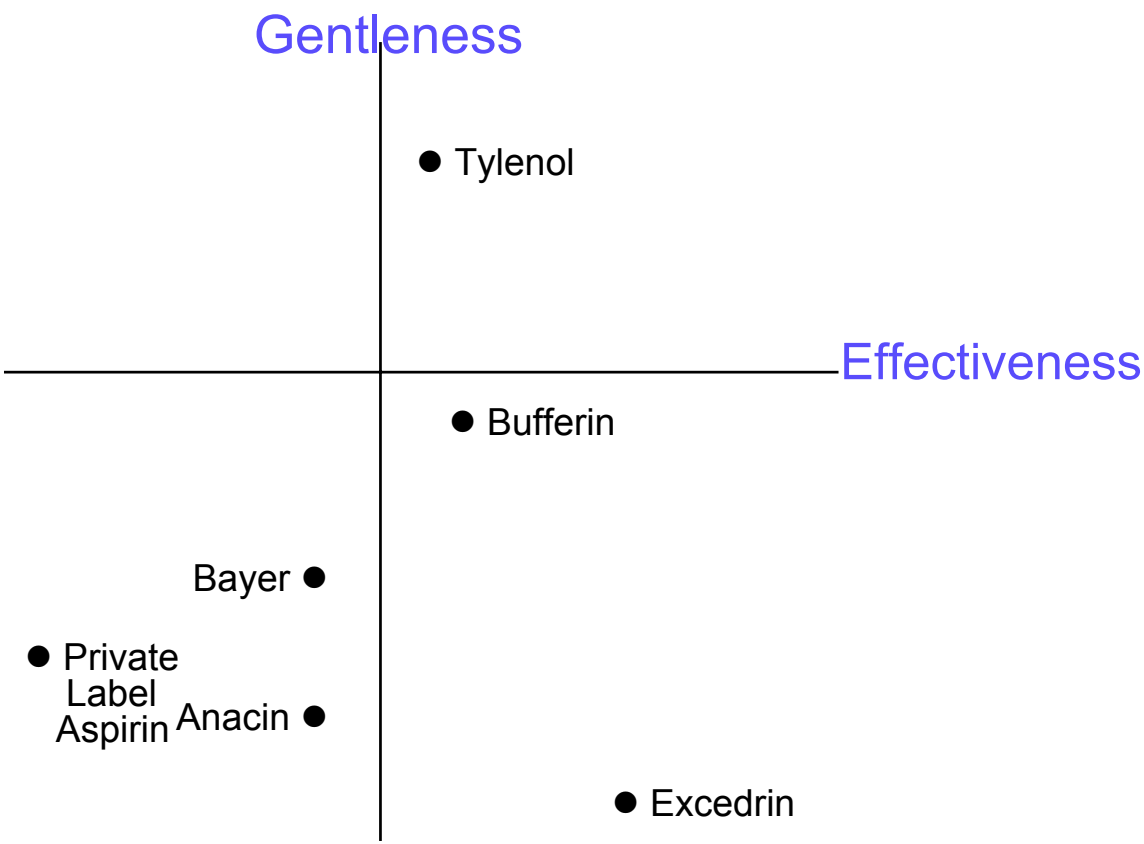
Example: Pain Reliever Market



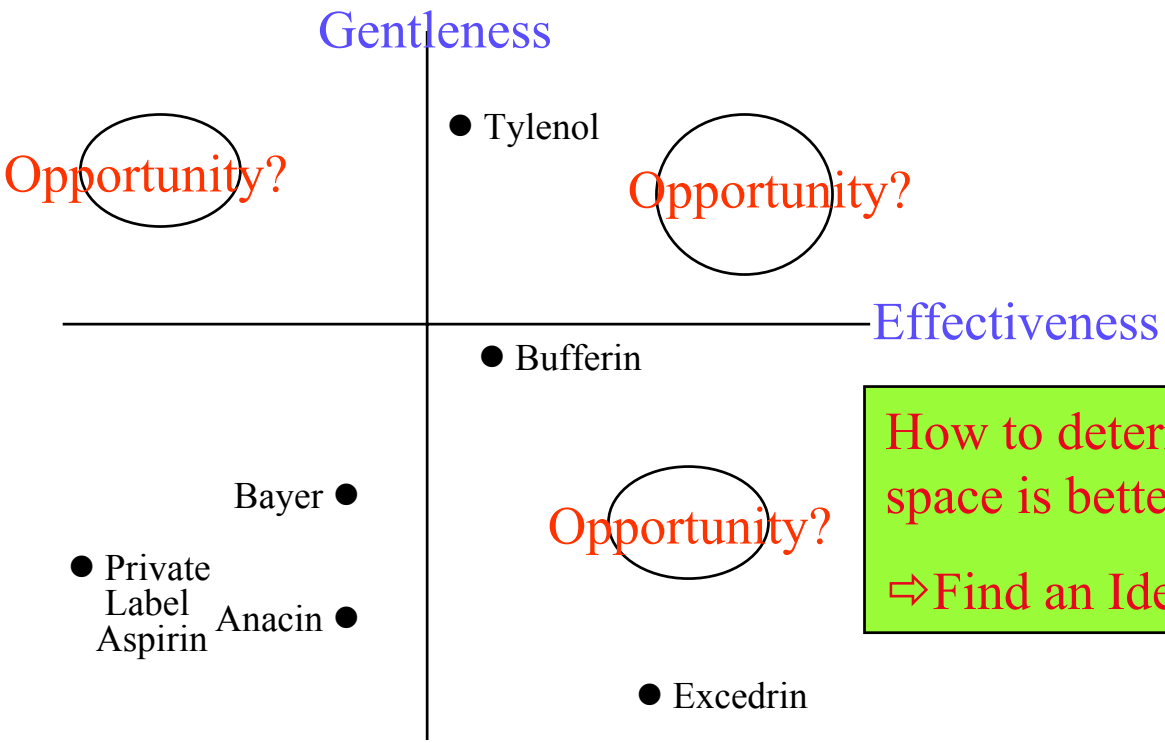
Effectiveness: perceptions on the ability to make headache pain go away fast

Gentleness: perceptions that the product would not upset one's stomach or cause heartburn

Positioning Opportunity

Q: Is there a positioning opportunity along gentleness and effectiveness?

A: Search for an empty space in the positioning map.

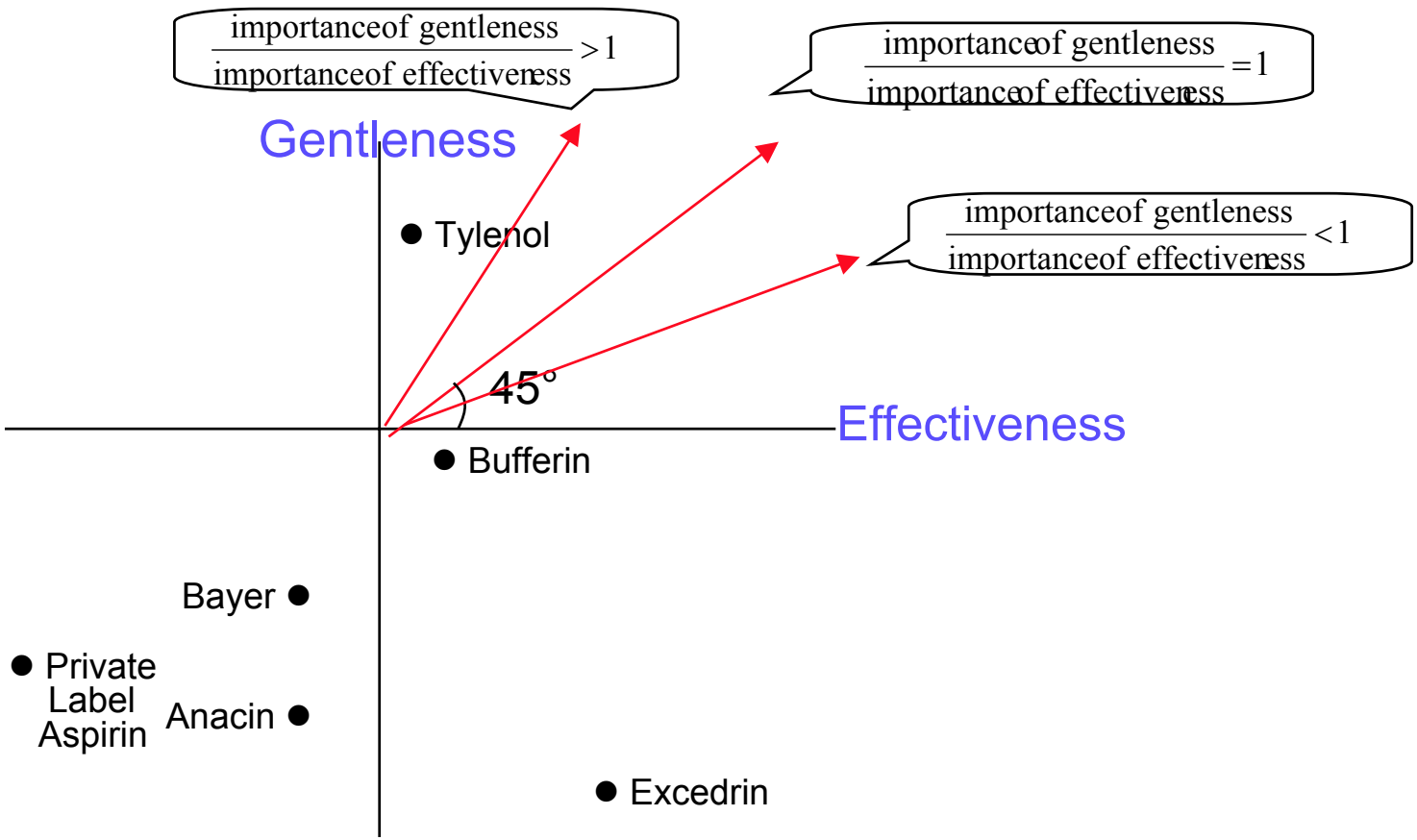


How to determine which empty space is better?

⇨Find an Ideal Vector

Ideal Vector

- Objective
  - To find the importance weights of the evaluation dimensions on the preference formation



Ideal Vector: Preference Regression

- One of the most popular approach to derive an ideal vector is "Preference Regression Analysis".
- Underlying assumption on preference: Expectancy-value model.

$$\text{Pref}_{ij} = \sum_{k=1}^{K} I_{ik} X_{ijk}$$

where,
Pref_{ij}=individual *i's* preference for brand *j*
I_{ik}=importance placed by individual *i* on dimension *k*
X_{ijk}=individual *i's* perception on dimension *k* of brand *j*

☞ I_{ik}'s are measured directly from individual *i* and Pref_{ij} is derived.

- Preference Regression

$$\text{Pref}_{ij} = \sum_{k=1}^{K} I_k X_{ijk} + \text{error}$$

☞ Pref_{ij} is measured but I_k's are estimated.

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Ideal Vector: Preference Regression (cont'd)

- Dependent variable: preference score
  - Measure of preference: get the preference rank orders on all brands and rescale the rank orders by subtracting the original ranks from the number of brands.

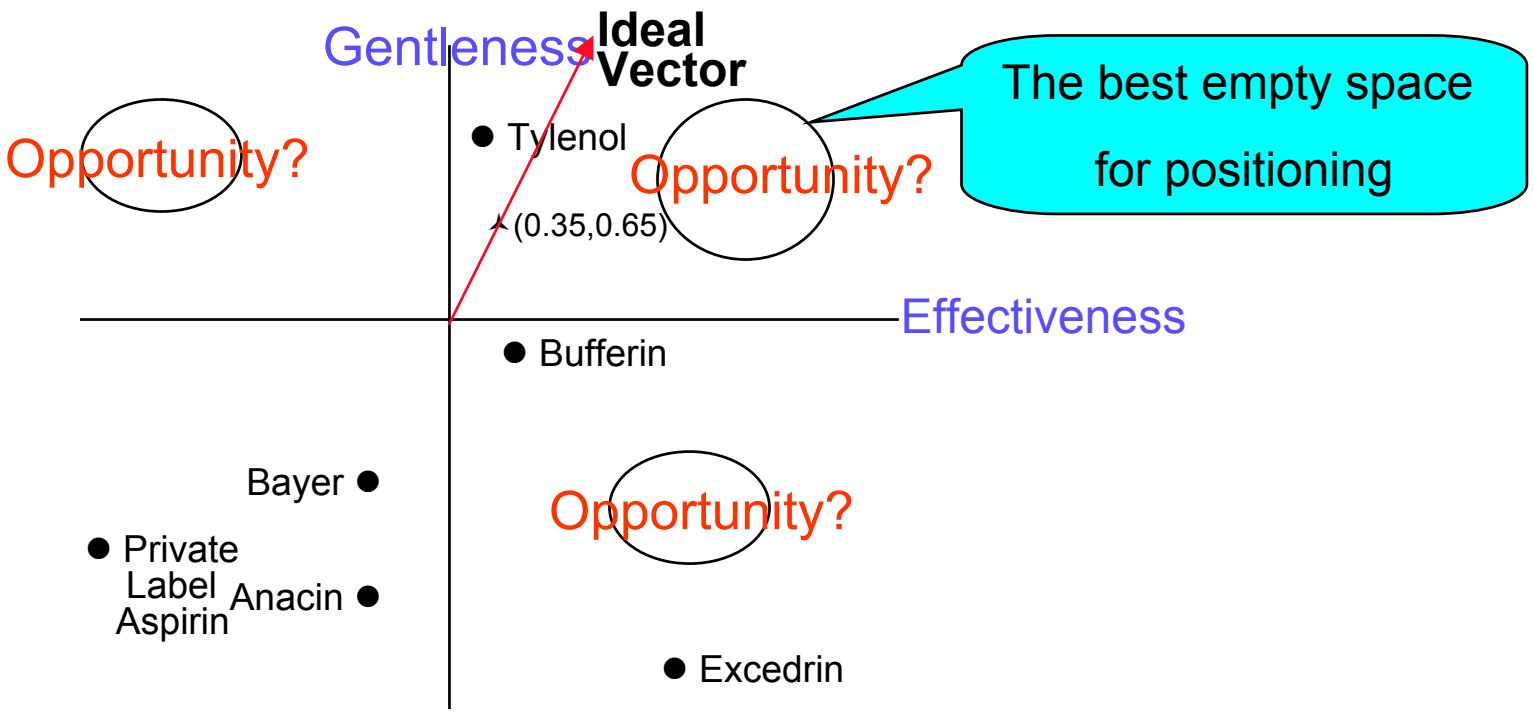
Preference rank orders		Rescaled	
Anacin	(3)	Anacin	(2=5-3)
Bayer	(4)	Bayer	(1=5-4)
Bufferin	(2)	Bufferin	(3=5-2)
Excedrin	(1)	Excedrin	(4=5-1)
Tylenol	(5)	Tylenol	(0=5-5)

- Independent variables: evaluation ratings on several dimensions for each brand

Ideal Vector: Preference Regression (cont'd)

- For example, the result of the preference regression analysis for the pain reliever market is as follows:

$$Pref_{ij} = (0.35) * effectiveness + (0.65) * gentleness$$



Ideal Vector: Preference Regression (cont'd)

- The preference regression can be conducted for each segment.
  i.e. segment-specific ideal vectors

- If segmentation scheme is appropriate, segments will be very heterogeneous in terms of importance weights, i.e., ideal vectors.

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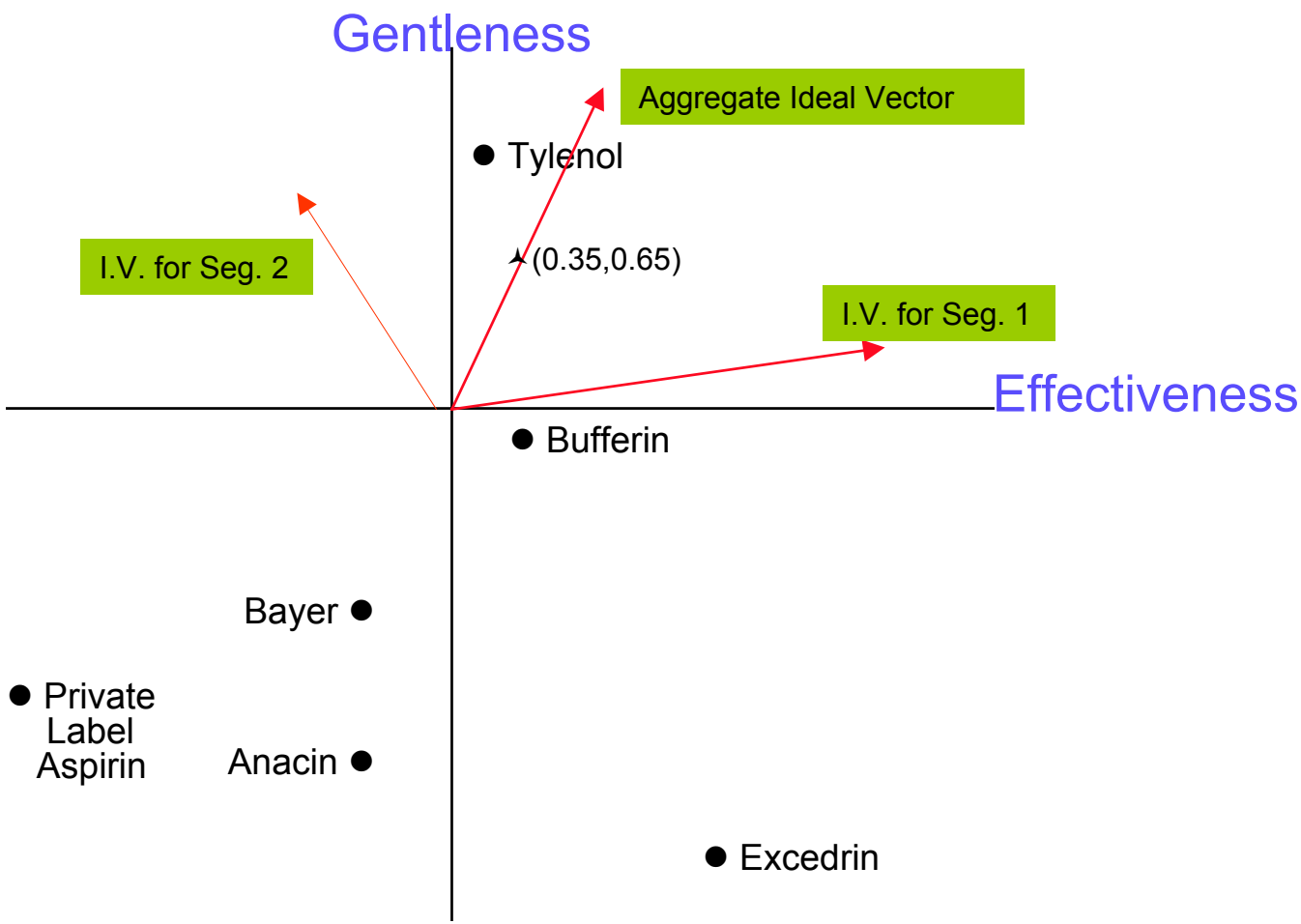
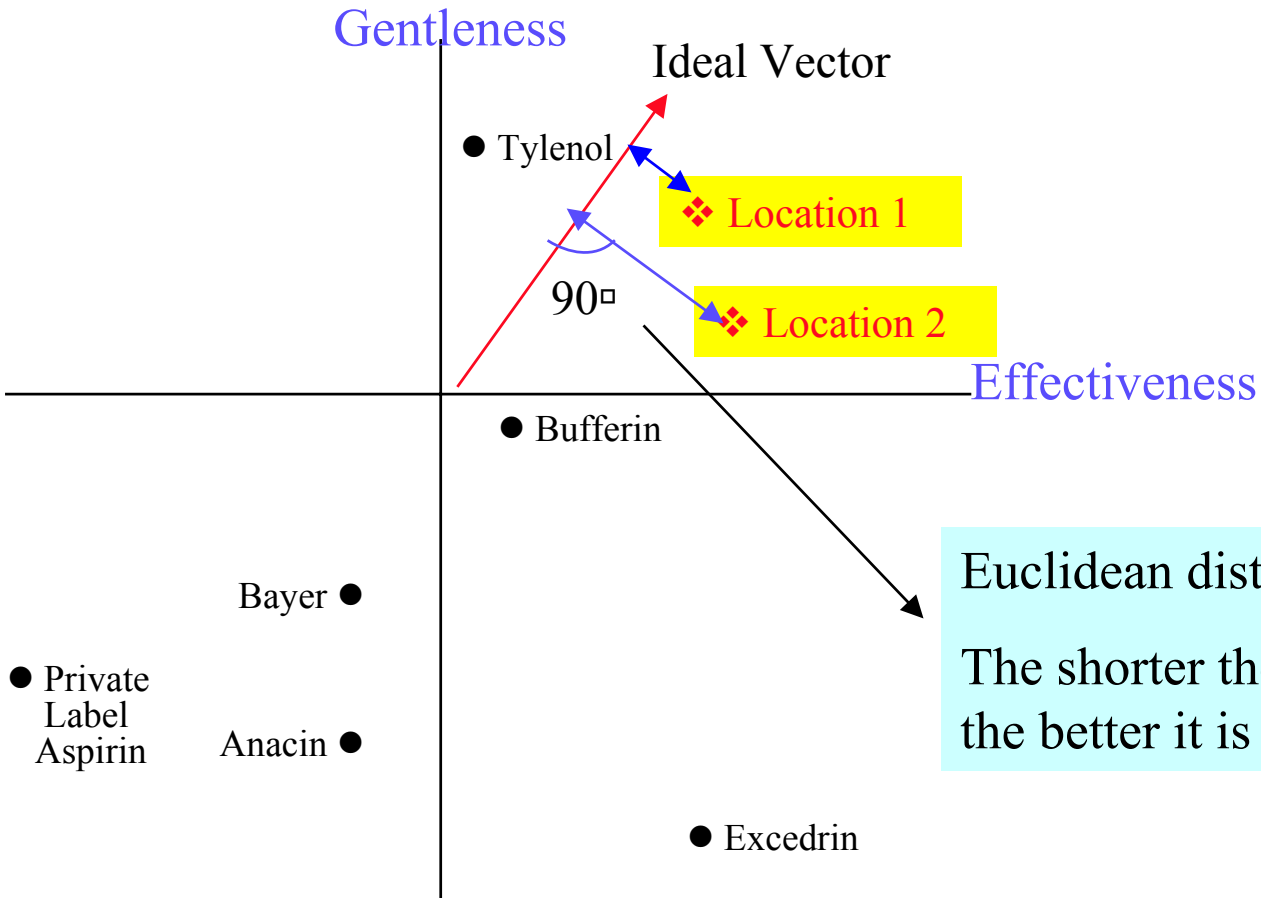
Ideal Vector: Preference Regression (cont'd)



How to choose the best location of a brand?

- Measure a Euclidean distance from a brand's location to the ideal vector.

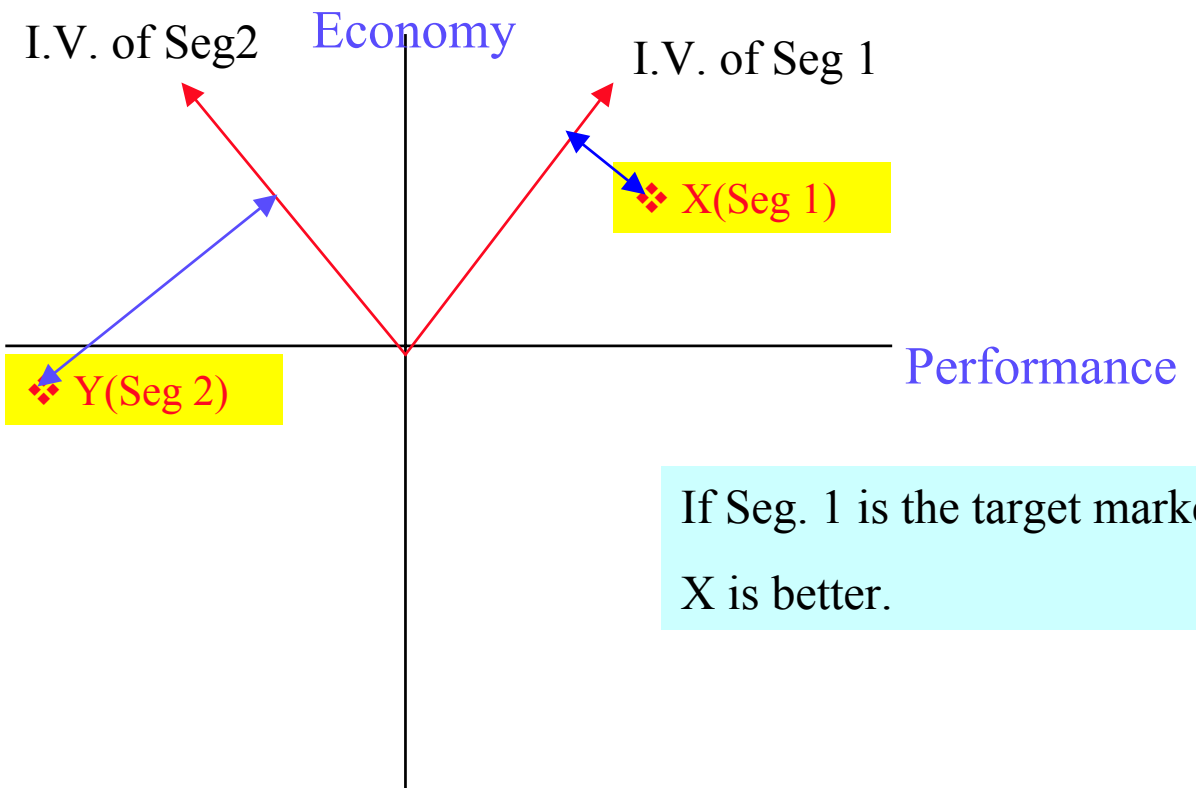


Euclidean distance:

The shorter the distance is, the better it is

How to Match Positioning with the Target Market?

- Measure a Euclidean distance from a position of a product concept to the segment-specific ideal vector.



If Seg. 1 is the target market,

X is better.