Segmentation, Targeting and Positioning

Session 6
Marketing Management
Prof. Natalie Mizik
Developing Marketing Strategy

Identify Market Opportunities

Set Strategy

- Segment the market
- Develop profiles of segments

- Evaluate segment attractiveness
- Select target segments

- Develop positioning concepts for each target segment
- Select, develop, and communicate the chosen concept
Segmentation

- What is segmentation
- Why segment the market
- Characteristics of a good segmentation
- Bases for segmentation
- Techniques for segmentation
- Examples
# Why Segment

<table>
<thead>
<tr>
<th>Hospital</th>
<th>Hospital A</th>
<th>Hospital B</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Died</td>
<td>6</td>
<td>16</td>
<td>79</td>
</tr>
<tr>
<td>Survived</td>
<td>2037</td>
<td>784</td>
<td>2821</td>
</tr>
<tr>
<td>Total</td>
<td>2100</td>
<td>800</td>
<td>2900</td>
</tr>
<tr>
<td>Death Rate</td>
<td>0.03</td>
<td>0.02</td>
<td>0.027</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Hospital</th>
<th>Hospital A</th>
<th>Hospital B</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Died</td>
<td>6</td>
<td>8</td>
<td>14</td>
</tr>
<tr>
<td>Survived</td>
<td>594</td>
<td>592</td>
<td>1186</td>
</tr>
<tr>
<td>Total</td>
<td>600</td>
<td>600</td>
<td>1200</td>
</tr>
<tr>
<td>Death Rate</td>
<td>0.010</td>
<td>0.013</td>
<td>0.012</td>
</tr>
</tbody>
</table>
Benefits of Segmentation

To the Firm:
- Identification of valuable customers
- More targeted promotions & marketing comms
- Higher CLV

To the Customer:
- Customized products & services
- Personalized experience
- Increased customer satisfaction

Sustainable Profit Growth  Customer Loyalty & Retention
Characteristics of Good Segmentation

- Large
- Identifiable
- Distinctive
- Stable
- Actionable / Respond differently
## Bases for Segmentation

<table>
<thead>
<tr>
<th>Descriptors “Who”</th>
<th>Bases “Why”</th>
<th>Behaviors “What”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>Needs</td>
<td>Usage</td>
</tr>
<tr>
<td>Income/ Education</td>
<td>Preferences</td>
<td>Loyalty</td>
</tr>
<tr>
<td>Profession</td>
<td>Decision processes</td>
<td>Deal proneness</td>
</tr>
<tr>
<td>Media Habits</td>
<td>Lifestyles</td>
<td>Responsiveness</td>
</tr>
<tr>
<td>Industry</td>
<td>Strategic importance</td>
<td>to marketing mix</td>
</tr>
<tr>
<td>Size</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Location</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Statistically Speaking

Effective Descriptor

- Do Not Own Microwave: 20%
- Own Microwave: 80%

Ineffective Descriptor

- Low Education: 30%
- High Education: 40%

Likelihood of buying Frozen Dinner
## Dog Food Market

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Functionalist</th>
<th>Family Mutt</th>
<th>Baby Substitute</th>
<th>Nutritionist</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Demo</strong></td>
<td>Central/South</td>
<td>East Low income</td>
<td>West High income</td>
<td>East/Central</td>
</tr>
<tr>
<td></td>
<td>Low income</td>
<td>Low income Children</td>
<td></td>
<td>High income</td>
</tr>
<tr>
<td></td>
<td>Children</td>
<td>Children</td>
<td>No children</td>
<td>Urban</td>
</tr>
<tr>
<td><strong>Dogs</strong></td>
<td>Several</td>
<td>One, average size</td>
<td>One, small</td>
<td>Several, large</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Attitudes</strong></td>
<td>No bother, dog outdoor</td>
<td>Little interest</td>
<td>Attached, dog fragile</td>
<td>High attachment</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Feeding behavior</strong></td>
<td>Basic feeders</td>
<td>Heavy usage, biscuits, lots of cans</td>
<td>Soft moist, high priced</td>
<td>Many feedings</td>
</tr>
<tr>
<td></td>
<td>low priced</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Product Line Segmentation

Income

Age, aspirations

OLD NAVY

GAP

Banana Republic

Shared values:
Urban, fashionable
Techniques for Segmentation

Segmentation Methods:

- Judgment
- Data-based:
  - Cluster Analysis
  - Regression

Perceptions/Ratings for one respondent:

A, B, C, D: Location of segment centers.

Typical members:
- A: schools
- B: light commercial
- C: indoor/outdoor carpeting
- D: health clubs

Distance between segments C and D

Goals:

- Prof. Natalie Mizik – 2010 MIT 15.810
Choosing your Target Market(s)

Market Opportunities (Customer):
- Segment Size
- Growth rate/potential

Target Market Selection

Company “Fit”
- With Objectives
- With Competencies
- With Customer Base
- With Resources

Competition:
- Competitors’ Strengths
- Competitive Intensity
Taxonomy at the Pump: Mobil’s Five Types of Gasoline Buyers

Road Warriors: Usually higher income middle-aged men who drive 25,000 to 50,000 miles a year…buy premium with a credit card…purchase sandwiches and drinks from the convenience store…will sometimes wash their cars at the carwash.

True Blues: Usually men and women with moderate to high incomes who are loyal to a brand and sometimes to a particular station…frequently buy premium gasoline and pay in cash.

Generation F3: (for fuel, food and fast): Upwardly mobile men and women - half under 25 years of age - who are constantly on the go…drive a lot and snack heavily from the convenience store.

Homebodies: Usually housewives who shuttle their children around during the day and use whatever gasoline station is based in town or along their route of travel.

Price Shoppers: Generally aren’t loyal to either a brand or a particular station, and rarely buy the premium line…frequently on tight budgets…efforts to woo them have been the base of marketing strategies for years.

16% of buyers 16% of buyers 27% of buyers 21% of buyers 20% of buyers

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Selecting segments based on segment profitability

“Convenience Seekers”

“Bargain Hunters”

Source: Bain/Mainspring Online Retailing Survey (Groceries, n=297), Oct 99.
Early Pregnancy Tests

Q: Are there differences in consumer needs in this market? What are they?

Q: What are the descriptors of these segments?

Q: What is the best positioning in these segments?
How is the packaging and positioning different? What customer values are the products appealing to?
Product Differentiation & Positioning

- “There is no such thing as a commodity”

- Differentiation can be achieved on
  - product attributes
  - service factors
  - Image

- Positioning: the image created in the minds of target consumers
Positioning statement

- To customers who are (target summary)

- Our product offers (state what the product does from the consumers’ point of view)

- Relative to (competitive alternatives)

“For World Wide Web users who enjoy books, Amazon.com is a retail bookseller that provides instant access to over 1.1 million books. Unlike traditional book retailers, Amazon.com provides a combination of extraordinary convenience, low prices, and comprehensive selection.”
Positioning strategies

Vertical positioning

More/
Smaller/
Cheaper/
Faster/

Horizontal positioning

Different/
Lifestyle/
Vertical positioning

The Razor Battle

Schick Quattro

Gillette Mach 3 Turbo

Gillette Trac II

Gillette ups the ante, unveils 5-blade razor

Image courtesy of Rene Schwietzke on Flickr.

Image courtesy of Maskington San Francisco on Flickr.
Positioning the ED drugs

Viagra (Pfizer)  4h
Levitra (Bayer/GSK)  ~4h
Cialis (Lilly/Icos)  36h
Example of a Perceptual Map:

Mapping a Store’s Personality

Shoppers’ feelings about eight stores helped researchers place those stores on a ‘map’ of perceptions. On this map, the vertical axis ranges from tradition to innovation; the horizontal, from luxury to thriftiness. Other qualities shoppers associated with one or more stores appear near those stores, revealing shoppers’ relative perceptions.

Source: BBDO
Developing a Positioning Strategy: Guiding Questions

- Which positions are of greatest value to our target customers, given their needs?
- Which of these positions are “taken,” and which positions are relatively free of competition?
- Which of the available positions fits best with our objectives and our distinctive capabilities, i.e., can we back up the chosen positioning by demonstrable product attributes or benefits?
- Can we “change the rules” of the game by discovering new critical points of differentiation?
- Are all our positioning messages consistent?
Conclusion: STP as Marketing Strategy

- Segmentation
  - Identify segmentation bases and segment the market
  - Develop profile of resulting segments

- Targeting
  - Evaluate attractiveness of each segment based on 3Cs
  - Select target segments

- Positioning
  - Use perceptual map to identify current positions
  - Identify positioning concepts for each target segment
  - Select, develop, and communicate the chosen concept
An Afterward:

- What about personalization? And mass customization?
  - Information technology lowers the cost of
    - Gathering information about consumers
    - Changing the product
  - But there is still the trade-off:
    - Finer, smaller segments are expensive
    - Must produce increase in loyalty, satisfaction, and ultimately profits
Listening to the Customer
15.821 H1

- Understand strengths and weakness of the most important qualitative research methods

- Learn how to get quick customer input, skipping the market research middleman

- Do a Voice of the Customer project

- For everyone (marketing, product development, consulting..)
Strategic Market Measurement
15.822 H2

- Learn how to create, interpret and analyze a market research survey
- Emphasis on market structure and segmentation
- Hands-on conjoint and cluster analysis
- For consulting, market research careers
- 15.821 NOT a prerequisite