

Strategic Marketing Management

Lecture 5 – Segmenting, Targeting and Positioning

Lecturer: Fidela R. Balajadia
Associate Professor 2
University of the Assumption, Philippines

Lecture Learning Objectives:

At the end of the lecture, you will be able to:

1. Describe the Segmenting, Targeting and Positioning Model
2. Apply the four segmentations in interpreting different consumer behaviors before constructing product characterization to determine the homogeneity of the needs of the target market segment
3. Develop a selling proposition or statement that would appeal to a particular market segment
4. Explain the benefits of market segmentation
5. Discuss the variables of market segmentation

Large portion of marketing concepts is concerned with segmentation. It is the same as saying that the marketing programs your team has just crafted will guarantee success or the newly composed advertising jingle your team has just conceived will perfectly matter and strike a certain group of people.

This is why dividing a large group of prospective customers to a smaller group of buyers is definitely crucial. You will be able to tremendously cut down your marketing budget if you are able to resonate the message to an intended, potential group of people. This logic lies on the fact that a single product item can seldom meet the needs and wants of all consumers because it can be construed that consumers have different preference patterns caused by the differences of their interests, traits and characteristics; hence, it is very rare that a single product can completely meet the satisfaction requirements of everyone.

Take for example, our regular use of a toothpaste. Everyone uses toothpaste but to some varying purposes and reasons. There are those who prefer to select a brand of toothpaste that will give them therapeutic benefits like maintaining healthy gums, protecting from tooth decays or cavities; yet there are particular group of buyers that demands another benefit from toothpaste other than its therapeutic benefit because for them the latter is just secondary. Primarily, this other group of buyers are looking for toothpaste with cosmetic benefit toothpaste that promises them a fresher breath and shiny white teeth.

Given this scenario, consumers use toothpaste but their requirements of a particular brand of toothpaste vary differently. Strategically, organizations who will be dwelling in multi-segment strategy in the toothpaste industry have to risks more of their resources in order to capture the variance within a single product. But they may opt not to risk instead they may focus on a specific group with common needs, optimize their marketing activities and accomplish their predetermined goals.

Thus, **market segmentation** can be defined as the process of identifying and dividing target markets into smaller groups who share similar characteristics. This strategy holds various advantages, one of which is that market segmentation allows companies to leverage over their marketing, advertising and sales efforts since they have the idea to whom their products will appeal the most. This lecture gives you other good benefits that market segmentation offers to organizations; segmentation variables and the requirements for an effective market segmentation.

Also, this lecture covers, market targeting and product positioning as the final stages in the targeting strategy.

Benefits of Market Segmentation

Market segmentation as market strategy offers variety of benefits, as mentioned above, dividing your target markets into small groups allows the company to focus and leverage in their sales and marketing efforts. Therefore, we can say that the strength of every market strategy lies on carefully studied market segmentation. There are **six advantages of segmentation**:

1. It allows the company to maintain a solid view of how marketing plans and activities will be carried out for the purpose of winning the preference of the target market. Let us take a trending scenario of the bubble tea networks in the industry this present time. In the December 2018 report of Grab Food, about bubble tea craze, it was estimated that Southeast Asians drink four cups of bubble tea per person per month wherein Thailand got the top of the list followed by Filipino consumers who reportedly drink an average of five of bubble tea in a month. Illustration of the recent report is cups presented in Figure 5.1.



Average bubble tea consumption by cups per person per month

Figure 5.1

Report on the Average Bubble Tea Consumption

Source: Ichimura, A. (2019)

In the same viewpoint, a study was conducted involving selected milk tea stores in the Philippines and it was found out that most milk tea buyers are composed of high school and college students who consider milk tea as a refreshment to quench their thirst. These groups of buyers prefer to visit stores that offer them a wider selection of menu items that are both healthy and affordable.

Owners of the milk tea stores can make use of the above cited facts for their own advantage. These provide justification in the manner of how they prepare their marketing program. Few considerations may surface such as obtain focus on their specific segment and maximize the potential of their limited resources. What do you think is the rate of their

success after they have brought the right message to the right market segment? It is for you to decipher.

2. Segmentation generates a customer-centric marketing program that allows organizations to increase the rate of their competitiveness.

This lecture has been constant in stating that focus is the cornerstone of a sound marketing program and is definitely the result of a carefully analyzed market segmentation. From a holistic view, understanding who your customer really has come with a lot of benefits. Aside from enabling organizations to come up with cost-efficient marketing programs, it also allows organizations to acquire positive brand equity. The same as the given example above, since the market segments of milk tea stores were already identified, individuals in their younger years, these stores may likewise respond favorably to the demands of their target market.

As a result, these pleased youngsters create a positive perception that adds premium to the brand resulting to the organization's competitiveness. Among the barometers of competitiveness are the ability of a firm to provide products or services that meet and even exceed the standards and requirements of the target markets; the likelihood of more cost-efficient product promotion activities; and to top it all are adequate returns on resources employed by the organizations.

3. Segmentation offers possibility of market expansion on the basis of geography. After leveraging the company's product or service to a particular territory on the basis of the segment's relative needs and wants, the organization is now capable to increase the range of their territorial coverage. Companies will benefit on geographic expansion as it would be easier for them to replicate the marketing strategy, they have practiced in one territory to another just like the sprouting of various milk tea stores in different parts of the country.

4. As segmentation provides refinement of product messaging and deployment of the company's optimal offer to target market, customer retention becomes the end view. There is customer retention when first time users or buyers opted to stay with the brand, continued using it and even volunteered to become brand ambassadors themselves.

5. Clear product messaging is only possible if the company knows their targets; hence, one of the benefits of segmentation is improvement in their communication. Say for instance, you are in a blindfold, and you are asked to talk about financial literacy, personal finance and financial responsibility. After your blindfold was taken off, you found out that you are in front of a five-year-old girl. This is the same as bragging about what your product and what wonders can it give without having any inkling about your market's demography. Thus, communication is a very vital element of segmentation.

6. Increase in competitiveness, brand equity and increased rate in customer retention are the by-product of segmentation, therefore, profitability takes the center stage. **Profitability** is high for companies who have already delivered the right message even prior to the actual purchase of the targeted segment.

Variables of Market Segmentation

Having perceived the essential gain of knowing and understanding your customers, it is also essential that the organization is guided as to how market segmentation is being done correctly. There are a number of useful approaches in segmenting consumer as presented in Figure 5.2 including some categories which could help us to accurately interpret why consumers behave in such manner. The four segmentation approaches include (1) *demographic*; (2) *geographic*; (3) *psychographic*; and (4) *behavioural*.

1. Demographic Segmentation. This is considered the most common approach in segmentation wherein markets are divided into units on the basis of different variables such as age, sex, family life cycle, income and occupation. **Consumers** that belong to any of these segments share the same reason and purpose for using a particular product. **Generational age** is a major factor that companies should look into in trying to make a product appeal to their intended market.

For instance, despite being able to entice quite a diverse market, Jollibee products have the biggest impact on children, specifically on little kids, seven years and below. Hence, their marketing activities are most likely geared towards enticing this group all the more. Meanwhile, Greenwich pizza is busy enticing teenage groups and young adults with their "*Greenwich Barkada*" packages and bundles. Considering the sex profile of the market, who says that only girls are vain when it comes to their looks? The industry today has acknowledged the needs of the male market for beauty products. Unilever's Ponds Facial Cleanser, Facial Wash and other skin care products are now settled to taming men's grooming market.

2. Geographic Segmentation. **Buying preferences** are sometimes defined by the geographic locations. Hence, marketers use geographic segmentation in making strategies that are most appealing to a specific location. **Geographic segmentation** is another approach of dividing prospective buyers based on geographic units like nations, regions, municipalities, cities or neighborhoods. Needs and preferences of a particular region may be caused or formed by many factors such as culture, tradition, rituals, beliefs, climate, population density and the like. Provinces in the Bicol Region are known for having spicy foods in every dining table. These spicy dishes and delicacies are already ordinary dishes in the locale as well as the use of coconut cream in many of their dishes as well; no wonder most tourists and travelers thought of spicy delicacies whenever they set foot in the Bicol areas.

Another good example to look into is the aspect of "**urbanicity**" that is attributable to the density of the population. Highly urbanized areas have distinct buying needs than people in the semi-urban areas and rural areas. People in the highly urbanized areas require products and services that possess the characteristics of ease of preparation, quick and instant manner, convenient and user-friendly while life in the rural areas are quite simple and sometimes slower-paced and a greater sense of relaxation.

3. **Psychographic Segmentation.** Personality traits and characteristics including person's interests, hobbies and lifestyles are the aspects that marketers consider when dividing markets using the psychographic segmentation. Undeniably, there are no two people alike, even identical twins - in one way or another, have certain degree of uniqueness or peculiarity. In one instance, there are girls who pick clothes that describe their being modest while there are those who love to show their being grandiose. **People** also differ *in* their choice of hobbies, interests and advocacies that affect their choice of products, brand preferences and buying decisions.

4. **Behavioral Segmentation.** This approach is shaped by the person's buying behavior on the basis of his or her buying patterns evidenced by usage frequency, loyalty to the brand, benefits needed, purpose and urgency of use; thus, marketers clubbed them together as one segment with homogenous preference. In this approach, the organization can make use of niche marketing strategy wherein they identify customers who are heavy users of their products. **Loyalty to the brand** is another parameter in the behavioral segmentation approach and this is the reason why there are companies who maintain their product status quo despite the present's economic condition. They knew that they have already created a pool of loyal customers who will insist to have the brand no matter what; just like the increasing rate of fanatics who are freaking out in anticipation for the new releases of Apple products like iPhones, iPad, etc.

The Four segmentation approaches are presented below.

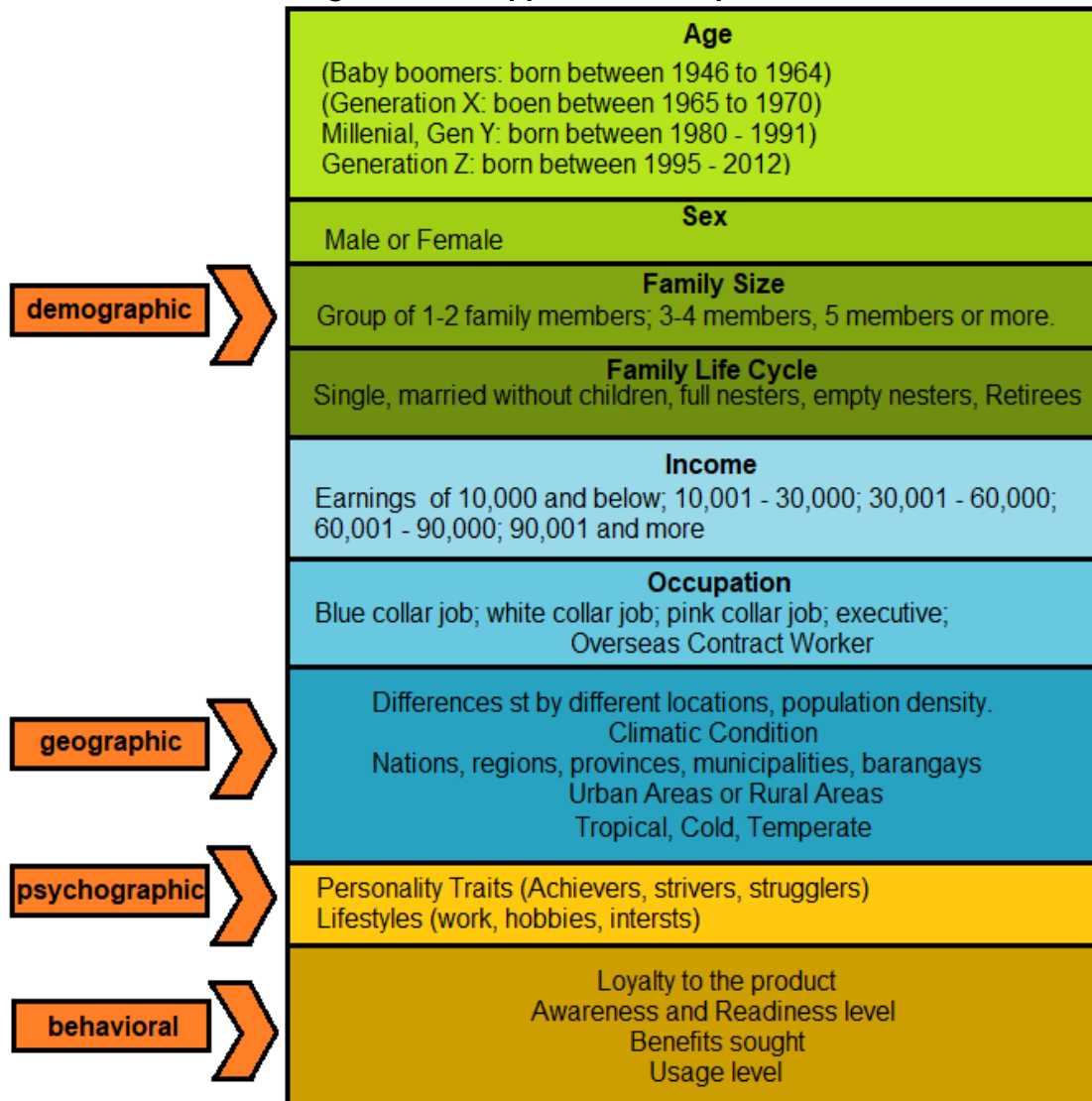


Figure 3.2 Segmentation Approaches

Source: Tow, H. (2019)

Requirements of an Effective Segmentation

Effective market segmentation strategy possesses attributes that would make the segmentation more efficient; hence, the process must be:

- 1. Measurable.** Upon identification of the profile of your target segment of your product, say for instance, young professionals who are health buffs, it is imperative that you have the reliable source of information about the number of such health buffs, young professional from the total population. In so doing, you will have inkling as regards to the feasibility of the product. Also, having an idea about the size of the market segment as well as the generated sales of that particular segment can be good predictors of the company's possible growth rate and profit margin.

- 2. Accessible.** This is another criterion that you need to reconcile whether your targeted market segments of health buffs, young professionals are highly concentrated in certain geographic areas. It is important that you have the mechanism of reaching this segment as economically as possible upon the application of the company's marketing effort.
- 3. Substantial.** One would think that if you divide the market of your product into segments, limitations are expected, in the operation and in sales growth, probably, yes? But let us examine the other side of the coin, since after getting your focus then it would be easier to hit the bull's eye, right? Because you were able to craft the perfect message to your market niche! However, it is important that your market niche is huge in number-- large enough to sustain the predetermined goal of the company that is to maintain favorable market growth and profit margin. In here, your marketing effort will matter a lot on how to turn them from moderate product users to heavy users as well as how they themselves will become your product ambassadors or become the perfect advertisement of your product. If this is the case, then, sustainability will never become an issue in your company.
- 4. Actionable.** Plans and strategies should be translated to actions to test its efficiency. Companies, big or small, should be willing to sacrifice a slice of pie from their resources in order to reach the identified homogenous market, if not, then market segmentation strategy is deemed futile.

Segmentation, Targeting and Positioning: A Modern Marketing Model

High demand of the modern times requires painstaking execution of strategies in order to maximize profit while efficiently using company's limited resources. It is but prudent that companies may refer to proven business models that would lead to guaranteed result. The Segmentation, Targeting and Positioning is the second most popular marketing models beaten by the commonly known SWOT/ TOW's matrix. Proper execution of strategies starts with the creation of clear marketing communications. This means that companies' product or service proposition should be more personalized, relevant and commercially appealing that make large audiences be engaged into it. Figure 5.3 presents how STP model works best.

- 1. Market Segmenting.** The discussions presented with regard to the segmentation strategy approaches provided clear insights about the prospective market. Becoming acquainted with the profile of target markets in order to group them according to the homogeneity of their needs and wants enables one to present various options on what segment will the company be able to sustain the accomplishment of their objectives as to growth rate and profit margin.
- 2. Targeting.** Once market segmentation has been completed, the company should now select or target one or few market segments that they would like to serve on the basis of some factors such as the:
 - a. Financial and non-financial capacity of the company to cater such markets. Are their resources enough to cover undifferentiated market or simply focus efforts on concentrated ones? Say for instance, an airline would opt to cater to either first class passengers or business class passengers and to economy passengers. Thus, for them to cater best in both segments the company should provide facilities such as separate cabins with comfortable seats, superior meals with full service while catering to another bunch of passengers who settle for low- cost services. This effort of reaching to both segments may look promising but is also costly in the part of the company.

- b. The type of product or service you would want to specifically offer to your market. You should weigh the risks involving the choice of a particular target segment, for you to be able to tailor fit the product or service to the requirements of the customer.

The concept of one-size-fits-all is already very risky nowadays since businesses are turning to the concept of market niche strategy or concentrating on the heavy users of products or services.

- c. Competition. It is best to study the activities of the competitors such as knowing their market coverage, what did they do about it and their possible limitations.

How do you target the range of your marketing efforts then? And to whom will you aim the bullets? Well, one is for sure; you should consider the segment which will promise the highest rate of return.

3. Product Positioning. What message would you like to send to your target market? And will they find it commercially appealing should they have heard you communicating? Is the message relevant or it is for some other groups of buyers? These questions lead you to product positioning-- the last and the final stage in the modern marketing model. This is the point where company has to formally craft the product or service statement that they would like their target segments to remember over and over again such as any specific perception that occupies their target buyers' minds.

One very basic example is the different product positioning applied by different soap manufacturers. There are bath soaps being offered to the market that are germicidal while there are beauty soaps like that of a moisturizing and whitening one. Hence, if someone would like to consider gaining fairer skin, they would probably search for soaps that have whitening agents. To further illustrate, there are legal drugs or pills that give different results like that of a diet pill, sleeping pill, a food or herbal supplement. But they are all legal drugs that one could buy over the counter from any drug or beauty shops. They only differ on the company's communicated features, advantages and benefits about the products or services relative to the existing competition.

After applying the STP model inside your marketing activities, it would now be easier where to place the limited resources of your company. This is now what we call the optimal or the most suited marketing mix. After deciphering the market options, selecting from the options and crafting relevant product or service messaging, you can now play with the marketing mix games, that probably include the following activities: creating strong product message vis-à-vis its feature, advantages and benefits, selecting the best and within- the-budget promotional media, identifying suitable pricing policy that would deliver favorable profit margin, and effectively selecting the channels where you buyers could easily reach anytime and at all times.



Figure 3.3 Segmenting, Targeting and Positioning Model

Source: Hanlon, A. (2021)

Summary

Careful strokes for a relatively diversified market are still the best deal in maximizing the resources of a company. Crafting a nice- sounding advertising message or spending a bigger chunk from your marketing budget on consumer promotion activities do not guarantee success nor guarantee an assurance that company resources were indeed maximized. Being able to resonate the message to an intended, potential group of people creates the difference. This is the advantage created by market segmentation, target marketing and product positioning. Market segmentation is the process of identifying dividing target markets into smaller groups who share similar characteristics. It offers a lot benefit such as allowing the company to maintain a solid view of how marketing plans and activities should be carried out; increasing the rate of competitiveness through a customer- centric marketing program; leveraging company's product or service to a variety of geographical territories; refining product messaging and companies optimal offer to target market; improving company's communication towards its target audience; and increasing company's opportunities to earn higher profit.

Market segmentation best suits with the parallel conduct of target marketing and product positioning. Each of them should be executed in proper order taking into consideration the modern marketing model called STP. Further, it is a must that the marketing team should be constantly updated about the profile of their prospective market because it is very risky to be plunging into a diverse market without understanding to whom your product appeals the most. In so doing, team should consider the different approaches in market segmentation.

These **four approaches** are as follow:

1. **demographic segmentation** which uses variables such as age, sex, family life cycle, income and occupation as basic determinants of consumer buying behavior and buying decisions.
2. **geographic segmentation** wherein buying preferences of an individual may be formed by the person's domicile of origin.
3. **psychographic segmentation** where an individual's personality traits and characteristics that include one's interests, hobbies and lifestyles are the main drivers of the person's buying preferences; and,
4. **behavioral segmentation** is about the idea that the person's sense of loyalty, purpose and urgency are some of the reasons of his or her buying behavior.

After careful study on the profile of the prospective market and dividing them according to the homogeneity of their needs and wants, picking the right target market comes after. Selecting the right target with which the company wants to primarily cater should be based on the following criteria: financial and non-financial capacity of the company, the type of product or service they would like to specifically offer to their target, and the last is competition. In so doing, risks in making wrong marketing decisions will be lesser and that they will be able to focus on the target market that promises higher rate of return. The last stage is the product positioning wherein the marketing team crafts the right message for the right market. This marketing communication is based on what kind of perception the company would like to impose into the minds of their target market and, since they already have the right audience, it

would be easier to prepare commercially appealing and engaging messages and marketing activities to a group of selected audience.

Textbooks:

- Strategic Marketing Management, Naval, Girly H. Mind shapers Co, Inc. 2021
 - Strategic Marketing Management, Butler, Dane ED-TECH Press 2019
- Strategic Marketing Management: The Framework, Chernev, Alexander Cerebellum Press 2019