Chapter Three

Focusing Marketing Strategy with Segmentation and Positioning

When You Finish This Chapter, You Should

1. Understand why marketing strategy planning involves a process of narrowing down from broad opportunities to a specific target market and marketing mix.

2. Know about the different kinds of marketing opportunities.

3. Understand why opportunities in international markets should be considered.

4. Know about defining generic markets and product-markets.

5. Know what market segmentation is and how to segment product-markets into submarkets.

6. Know three approaches to market-oriented strategy planning.

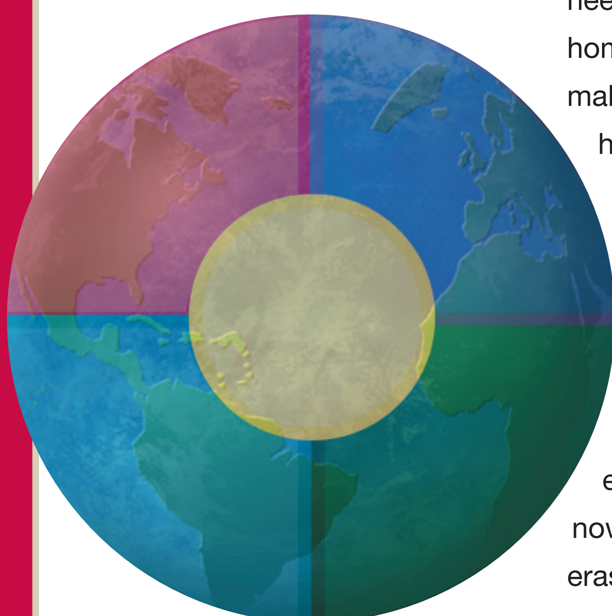
7. Know dimensions that may be useful for segmenting markets.

8. Know what positioning is and why it is useful.

9. Understand the important new terms (shown in red).

Polaroid desperately needed a profitable new opportunity. The firm had been losing money, so the objective of the new top executive was to quickly make Polaroid profitable again. That was a needed first step for Polaroid to be able to compete longer term.

Polaroid got its start with a breakthrough invention. Its instant picture cameras and films were unique and met the needs of different groups of customers. Realtors needed photos of just-listed homes for clients, colleges had to make IDs, and insurance adjusters had to document auto accidents. Over time, however, Polaroid faced competition from other types of goods and services. One-hour photo labs popped up everywhere. Then digital cameras made it even rougher. A hundred firms now offer all types of digital cameras. Digital pictures can be shared



place

price

promotion

product

by e-mail or a website—without costly film or printing. Increased competition wasn't the only problem. A bad economy eroded Polaroid's revenues in China and India.

Polaroid's new-product development manager helped overcome these weaknesses. He saw teens having fun at an instant photo booth in a Japanese airport and had an idea for an inexpensive new pocket-size camera that would appeal to teens with its instant, stamp-size photos. Some Polaroid engineers objected that the poor quality of the photos would hurt Polaroid's position as a technology leader. But marketers at Polaroid pressed on because the product would help attract a new generation of teen customers. Many teens viewed Polaroid cameras as clunky holdovers from the past. Besides, picture quality wasn't the benefit that determined their interest. They just wanted fun and quick pictures rather than a serious camera.

Polaroid's pocket camera proved to be right on target with the teen segment. It quickly became a best seller and new-product revenue was the highest it had been in a decade.

Targeted promotion helped to attract buyers, half of whom were girls age 13 to 17. Ads for Polaroid's I-Zone Pocket camera and film were placed in magazines like *Seventeen,* at clickclick.com and other websites popular with teens, and on TV shows like *Buffy the Vampire Slayer*. While ad media were slanted toward teen girls, the ad messages were broader so that they would appeal to a combined male and female teen market. To increase the opportunities for I-Zone Pocket camera fun, Polaroid came out with a special "sticky" film. The sticker-pictures could be attached to lockers, notebooks, and just about anything else. One funny ad featured a young man sticking instant pictures of his girlfriend to his bare chest. Reaching this younger target market also called for new distribution channels, including online toy and music stores and more emphasis on mass-merchandisers like Wal-Mart. Trade ads targeted at these retailers helped bring in the orders and make the film more widely available.

ct place price promotion product

Of course, Kodak didn't take this sitting down. Soon it was targeting teens with its one-use Max cameras. Marketers at Polaroid know that its teen target market can be fickle and that the I-Zone could become yesterday's fad. So it is introducing other new products for teens to strengthen its fun positioning. One is a camera that takes both digital and pocket pictures. Another is the Webster, a miniature scanner to turn I-Zone pictures into digital images. Teens can post pictures from either product at a special Polaroid website (www.i-zone.com).

Polaroid's new strategies and teen target market have boosted profits. But Polaroid's traditional customer segments—with a variety of other instant picture needs—still account for the bulk of its business. So if Polaroid is going to have a clear profit picture long term, it needs to find new ways to offer these segments superior customer value as they shift toward digital images.[1]

What Are Attractive Opportunities?

Breakthrough opportunities are best

As the Polaroid case suggests, attractive opportunities for a particular firm are those that match the firm's resources (what it can do) and objectives (what it wants to do).

Throughout this book, we will emphasize finding **breakthrough opportunities**—opportunities that help innovators develop hard-to-copy marketing strategies that will be very profitable for a long time. That's important because it's hard to continuously provide superior value to target customers if competitors can easily copy your marketing mix.

Competitive advantage is needed—at least

Even if a manager can't find a breakthrough opportunity, the firm should try to obtain a competitive advantage to increase its chances for profit or survival. **Competitive advantage** means that a firm has a marketing mix that the target market sees as better than a competitor's mix. Every firm needs some competitive advantage—

Attractive new opportunities are often fairly close to markets the firm already knows.

so the promotion people have something unique to sell and success doesn't just hinge on offering lower and lower prices. A competitive advantage may result from efforts in different areas of the firm—cost cutting in production, innovative R&D, financing for a new facility, or a well-known brand name. Whatever the source, an advantage only succeeds if it allows the firm to provide superior customer value.[2]

Marketing Strategy Planning Process Highlights Opportunities

From Chapter 2, you know that a marketing strategy requires decisions about the specific customers the firm will target and the marketing mix the firm will develop to appeal to that target market. However, the idea isn't just to come up with *some* strategy. After all, there are thousands of strategies that a firm might try. Rather, the challenge is to zero in on the best strategy.

Process narrows down from broad opportunities to specific strategy

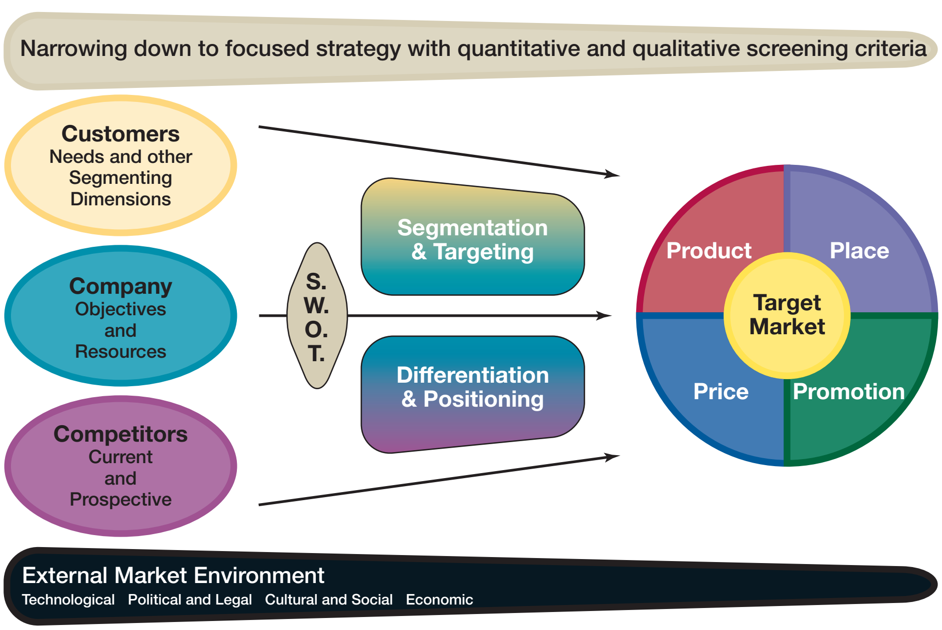
As Exhibit 3-1 suggests, it is useful to think of the marketing strategy planning process as a narrowing-down process. Later in this chapter and Chapter 4 we will go into more detail about the terms in this figure. Then, throughout the rest of the book, we will present a variety of concepts and "how to" frameworks that will help you improve the way you make these strategy decisions. As a preview, let's briefly overview Exhibit 3-1.

The marketing strategy planning process starts with a broad look at a market—paying special attention to customer needs, the firm's objectives and resources, and competitors. This helps to identify new and unique opportunities that might be overlooked if the focus is narrowed too quickly.

Segmentation helps pinpoint the target

In the early stages of a search for opportunities we're looking for customers with needs that are not being satisfied as well as they might be. Of course, potential customers don't all have the same needs—nor do they always want to meet needs in the same way. Potential customers may also differ on attitudes, preferences for how to spend time, what shows to watch, and the like. In spite of the many possible differences, there often are subgroups (segments) of consumers who are similar

Exhibit 3-1
Overview of Marketing Strategy Planning Process



This Norwegian ad for the Audi Quattro simply says, "Sticks like quattro." Although it doesn't show the car at all, it helps to differentiate the Audi and its four-wheel drive system that holds the road especially well, even in the snow.

and could be satisfied with the same marketing mix. Thus, we try to identify and understand these different subgroups—with market segmentation. We will explain segmenting markets later in this chapter. Then, in Chapters 5 and 6, we delve deeper into customer behavior. For now, however, you should know that really understanding customers is at the heart of using market segmentation to narrow down to a specific target market to satisfy.

Narrow down to a superior marketing mix

A marketing mix won't get a competitive advantage if it *just* meets needs in the same way as some other firm. So, in evaluating possible strategies the marketing manager should look for ways to differentiate the marketing mix. **Differentiation** means that the marketing mix is distinct from and better than what is available from a competitor. Sometimes the difference is based mainly on one important element of the marketing mix—say, an improved product or faster delivery. Differentiation is more obvious to target customers, though, when all of the elements of its marketing mix are fine-tuned to the specific needs of a distinctive target market. Then target customers think of the firm as being in a unique position to meet their needs.

For example, in Norway, many auto buyers are particularly concerned about safety in the snow. So, Audi offers a four-wheel drive system, called quattro, that helps the car to hold the road. Audi ads emphasize this differentiation. Rather than show the car, however, the ads feature things that are very sticky (like bubblegum!) and the only text is the headline "sticks like quattro" and the Audi brand name. Of course, handling is not Audi's only strength, but it is an important one in helping to position Audi as better than competing brands with this target market.[3]

In this chapter, we'll introduce concepts relevant to this sort of positioning. Then, in Chapters 8 to 17, we'll cover the many ways in which the four Ps of the marketing mix can be differentiated. For now, you can see that the thrust is to narrow down from all possible marketing mixes to one that is differentiated to meet target customers' needs particularly well.

Screening criteria make it clear why you select a strategy

There are usually more different opportunities—and strategy possibilities—than a firm can pursue. Each one has its own strengths and weaknesses. Trends in the external market environment may make a potential opportunity more or less attractive. These complications can make it difficult to zero in on the best target market and marketing mix. However, developing a set of specific screening criteria can help a manager eliminate potential strategies that are not well suited for the firm.

S.W.O.T. analysis highlights advantages and disadvantages

A useful aid for identifying relevant screening criteria and for zeroing in on a feasible strategy is **S.W.O.T. analysis**—which identifies and lists the firm's strengths and weaknesses and its opportunities and threats. The name S.W.O.T. is simply an abbreviation for the first letters of the words *s*trengths, *w*eaknesses, *o*pportunities, and *t*hreats. A good S.W.O.T. analysis helps the manager focus on a strategy that takes advantage of the firm's opportunities and strengths while avoiding its weaknesses and threats.

The marketing strategy developed by Amilya Antonetti illustrates the basic ideas behind a S.W.O.T. analysis. Her son was allergic to the chemicals in standard laundry detergents. Her research showed that many other children had the same problem. So she started SoapWorks and developed a line of hypoallergenic cleaning products. Unlike the big firms, she didn't have relations with grocery chains or money for national TV ads. To get around these weaknesses, she used inexpensive radio ads in local markets and touted SoapWorks as a company created for moms by a mom who cared about kids. She had a credible claim that the big corporations couldn't make. Her ads also helped her get shelf space because they urged other mothers to ask for SoapWorks products and to tell friends about stores that carried them. This wasn't the fastest possible way to introduce a new product line, but her cash-strapped strategy played to her unique strengths with her specific target market.[4]

Exhibit 3-1 focuses on planning each strategy carefully. Of course, this same approach works well when several strategies are to be planned. Then, having an organized evaluation process is even more important. It forces everyone involved to think through how the various strategies fit together as part of an overall marketing program.[5]

Types of Opportunities to Pursue

Some alert marketers spot attractive opportunities everywhere they look. This seems reasonable when you recognize that most people have unsatisfied needs. Unfortunately, many opportunities seem "obvious" only after someone else identifies them. So, early in the marketing strategy planning process it's useful for marketers to have a framework for thinking about the broad kinds of opportunities they may find. Exhibit 3-2 shows four broad possibilities: market penetration, market development, product development, and diversification.

Market penetration

Market penetration means trying to increase sales of a firm's present products in its present markets—probably through a more aggressive marketing mix. The firm may try to strengthen its relationship with customers to increase their rate of use or repeat purchases, or try to attract competitors' customers or current nonusers. For example, Coleman got a 50 percent increase in sales of its outdoor equipment, like camping lanterns and stoves, by reaching its target market with special promotional displays at outdoor events like concerts, fishing tournaments, and campsites for Nascar races.[6]

New promotion appeals alone may not be effective. A firm may need to add an Internet website to make it easier for customers to place an order. Or, it may need to add more stores in present areas for greater convenience.

Exhibit 3-2
Four Basic Types of Opportunities

	Present products	New products
Present markets	Market penetration	Product development
New markets	Market development	Diversification

Market development

Market development means trying to increase sales by selling present products in new markets. This may involve searching for new uses for a product. E-Z-Go, a producer of golf carts, has done this. Its carts are now a quiet way for workers to get around malls, airports, big factories, and resorts. E-Z-Go even fits carts with ice compartments and cash drawers so they can be used for mobile food services.

Firms may also try advertising in different media to reach new target customers. Or they may add new stores in new areas. For example, to reach new customers, McDonald's has opened outlets in airports, zoos, casinos, and military bases. And it's rapidly expanded into international markets with outlets in places like Russia, Brazil, and China.[7]

Product development

Product development means offering new or improved products for present markets. By knowing the present market's needs, a firm may see new ways to satisfy customers. For example, Heinz figured out how ketchup could be more fun because kids are the biggest consumers. Producing ketchup in gross green and funky purple colors—in an EZ Squirt dispenser—increased sales so much that the factory had to run 24/7. Ski resorts have developed trails for hiking and biking to bring their winter ski customers back in the summer. Nike moved beyond shoes to offer its athletic target market a portable heart-rate monitor. And of course Intel boosts sales by developing newer and faster chips.[8]

Diversification

Diversification means moving into totally different lines of business—perhaps entirely unfamiliar products, markets, or even levels in the production-marketing system. McDonald's, for example, is opening two four-star hotels in Switzerland. The plan is to serve families on the weekend, but the target market during the week is business travelers.

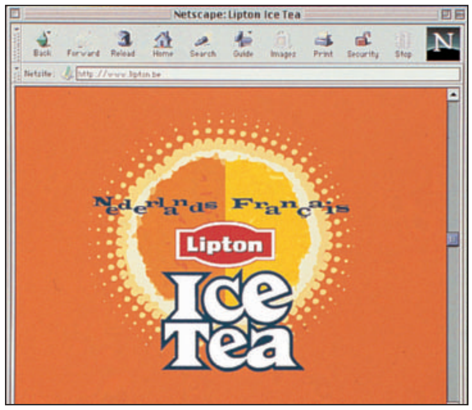
Products and customers that are very different from a firm's current base may look attractive to the optimists—but these opportunities are usually hard to evaluate. That's why diversification usually involves the biggest risk.[9]

Internet

Internet Exercise Go to the website for McDonald's hotel and review the information given (www.goldenarchhotel.com). Based on what you see, do you think that the hotels will appeal to the weekend target market of traveling families? Do you think they will appeal to business travelers during the week?

Which opportunities come first?

Most firms think first of greater market penetration. They want to increase profits where they already have experience and strengths. Many firms just try to do a better job of hanging onto the customers that they've already won. On the other hand, many firms are proving that market development—and the move into new international markets—is another profitable way to take advantage of current strengths.



Lipton is pursuing new customers and growth in over 100 countries. For example, its multilingual website in Belgium explains how to make exotic cocktails from Ice Tea, and in Asia it encourages consumer trial with free samples.

International Opportunities Should Be Considered

It's easy for a marketing manager to fall into the trap of ignoring international markets, especially when the firm's domestic market is prosperous. Yet, there are good reasons to go to the trouble of looking elsewhere for opportunities.

The world is getting smaller

International trade is increasing all around the world, and trade barriers are coming down. In addition, advances in e-commerce, transportation, and communications are making it easier and cheaper to reach international customers. With an Internet website, e-mail, and a fax machine, even the smallest firm can provide international customers with a great deal of information—and easy ways to order—at very little expense.

Develop a competitive advantage at home and abroad

If customers in other countries are interested in the products a firm offers—or could offer—serving them may improve economies of scale. Lower costs (and prices) may give a firm a competitive advantage both in its home markets *and* abroad. Black and Decker, for example, uses electric motors in many of its tools and appliances. By selling overseas as well as in the U.S., it gets economies of scale and the cost per motor is very low.

Many marketing managers who thought they could avoid the struggles of international competition have been rudely surprised to find that an aggressive, low-cost foreign producer is willing to pursue local customers. The owner of Purafil, a small firm in Atlanta that makes air purification equipment, puts it this way: "If I'm not [selling to an oil refinery] in Saudi Arabia, somebody else is going to solve their problem, then come attack me on my home turf."[10]

Get an early start in a new market

Different countries are at different stages of development, and their consumers have different needs at different times.

A company facing tough competition, thin profit margins, and slow sales growth at home may get a fresh start in another country where demand for its product is just beginning to grow. A marketing manager may be able to transfer marketing know-how—or some other competitive advantage—the firm has already developed. Consider JLG, a U.S.-based producer of equipment used to lift workers and tools at construction sites. In the early 1990s competition was tough and JLG's profits all but evaporated. By cutting costs, the company improved its domestic sales. But it got an even bigger boost from expanding overseas. By 2000 its international sales were greater than its total sales five years before. Now that JLG has stronger distribution, international sales should soon account for half of its business.[11]

Find better trends in variables

Unfavorable trends in the marketing environment at home—or favorable trends in other countries—may make international marketing particularly attractive. For example, population growth in the United States has slowed and income is leveling off. In other places in the world, population and income are increasing rapidly.[12]

Search for Opportunities Can Begin by Understanding Markets

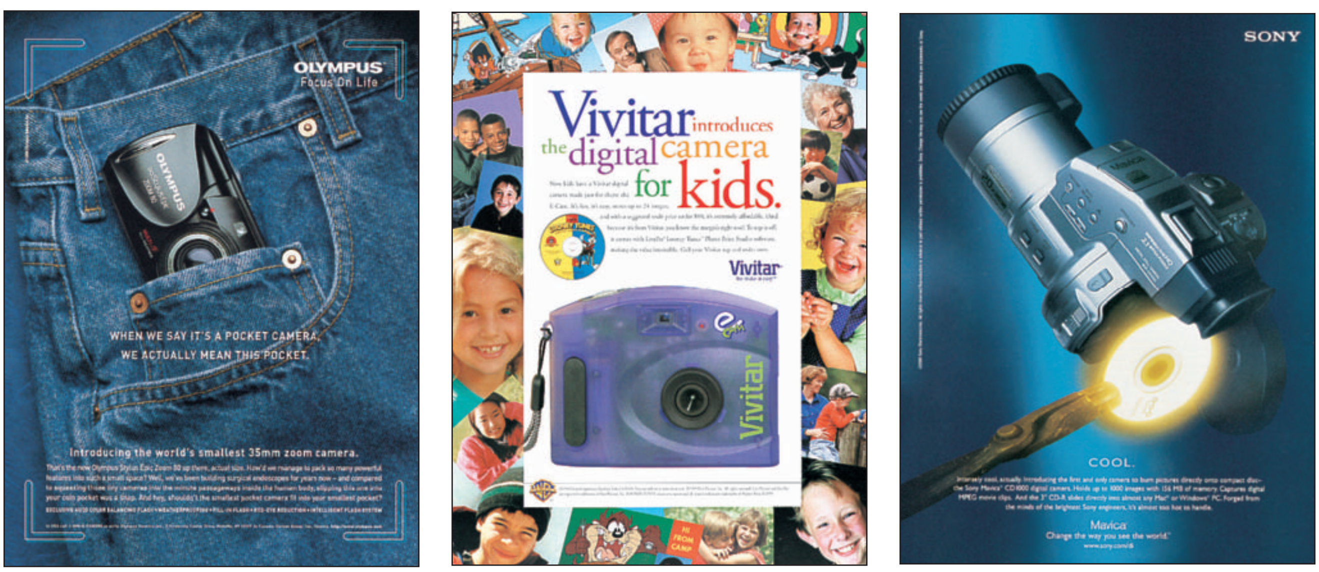
What is a company's market?

Identifying a company's market is an important but sticky issue. In general, a **market** is a group of potential customers with similar needs who are willing to exchange something of value with sellers offering various goods and/or services—that is, ways of satisfying those needs.

Marketing-oriented managers develop marketing mixes for *specific* target markets. Getting the firm to focus on specific target markets is vital. As shown in Exhibit 3-3, deciding on a specific target market involves a narrowing-down process—to get beyond production-oriented mass market thinking. But some managers don't understand this narrowing-down process.

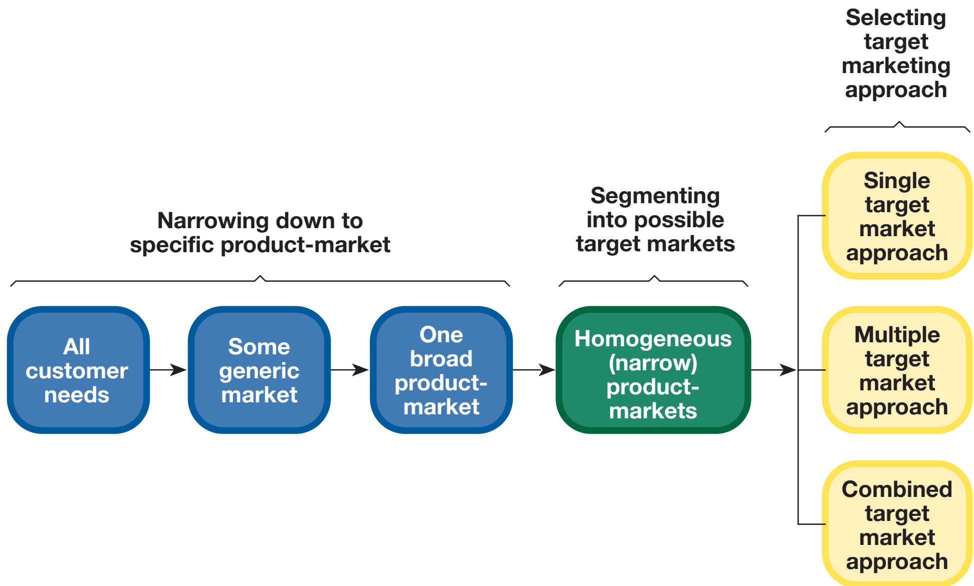
Don't just focus on the product

Some production-oriented managers get into trouble because they ignore the tough part of defining markets. To make the narrowing-down process easier, they just describe their markets in terms of *products* they sell. For example, producers and retailers of greeting cards might define their market as the "greeting-card" market. But this production-oriented approach ignores customers—and customers make a market! This also leads to missed opportunities. Hallmark isn't missing these opportunities. Instead, Hallmark aims at the "personal-expression" market. Hallmark stores offer all kinds of products that can be sent as "memory makers"—to express one person's feelings toward another. And as opportunities related to these needs change, Hallmark changes too. For example, at the Hallmark website (www.hallmark.com) it is easy to get shopping suggestions



The Olympus pocket camera competes directly with other 35-mm cameras, but it may also compete in a broader product-market against Vivitar's digital camera for kids or even Sony's innovative Mavica, which stores digital pictures on a 3-inch CD-R.

Exhibit 3-3
Narrowing Down to Target Markets



from an online "gift assistant," to order flowers, or to personalize an electronic greeting card to send over the Internet.[13]

From generic markets to product-markets

To understand the narrowing-down process, it's useful to think of two basic types of markets. A **generic market** is a market with *broadly* similar needs—and sellers offering various—*often diverse*—ways of satisfying those needs. In contrast, a **product-market** is a market with *very* similar needs and sellers offering various *close substitute* ways of satisfying those needs.[14]

A generic market description looks at markets broadly and from a customer's viewpoint. Entertainment-seekers, for example, have several very different ways to satisfy their needs. An entertainment-seeker might buy a Sony satellite receiving system for a TV, sign up for a cruise on the Carnival Line, or reserve season tickets for the symphony. Any one of these *very different* products may satisfy this entertainment need.

It is sometimes hard to understand and define generic markets because *quite different product types may compete with each other*. For example, a person on a business trip to Italy might want a convenient way to record memories of the trip. Minolta's APS camera, Sony's digital camcorder, Kodak's PalmPix digital accessory for a Palm, and even postcards from local shops may all compete to serve our traveler's needs. If customers see all these products as substitutes—as competitors in the same generic market—then marketers must deal with this complication.

Suppose, however, that our traveler decides to satisfy this need with an APS camera. Then—in this product-market—Minolta, Kodak, Nikon, and many other brands may compete with each other for the customer's dollars. In this *product*-market concerned with APS format cameras *and* needs to conveniently record memories, consumers compare similar products to satisfy their image needs.

Broaden market definitions to find opportunities

Broader market definitions—including both generic market definitions and product-market definitions—can help firms find opportunities. But deciding *how* broad to go isn't easy. Too narrow a definition limits a firm's opportunities—but too broad a definition makes the company's efforts and resources seem insignificant. Consider, for example, the mighty Coca-Cola Company. It has great success and a huge market share in the U.S. cola-drinkers' market. On the other hand, its share of all beverage drinking worldwide is very small.

Here we try to match opportunities to a firm's resources and objectives. So the *relevant market for finding opportunities* should be bigger than the firm's present product-market—but not so big that the firm couldn't expand and be an important competitor. A small manufacturer of screwdrivers in Mexico, for example, shouldn't define its market as broadly as "the worldwide tool users market" or as narrowly as "our present screwdriver customers." But it may have the production and/or marketing potential to consider "the handyman's hand-tool market in North America." Carefully naming your product-market can help you see possible opportunities.

Naming Product-Markets and Generic Markets

Some managers think about markets just in terms of the product they already produce and sell. But this approach can lead to missed opportunities. Think about all of the minivans and SUVs that you see and how many cars they've replaced on the road. If Chrysler had been thinking only about the "car" market, the minivan opportunity might have been missed altogether.

Product-related terms do not—by themselves—adequately describe a market. A complete product-market definition includes a four-part description.

What:	**1. Product type (type of good and type of service)**
To meet what:	**2. Customer (user) needs**
For whom:	**3. Customer types**
Where:	**4. Geographic area**

We refer to these four-part descriptions as product-market "names" because most managers label their markets when they think, write, or talk about them. Such a four-part definition can be clumsy, however, so we often use a nickname. And the nickname should refer to people—not products—because, as we emphasize, people make markets!

Product type should meet customer needs

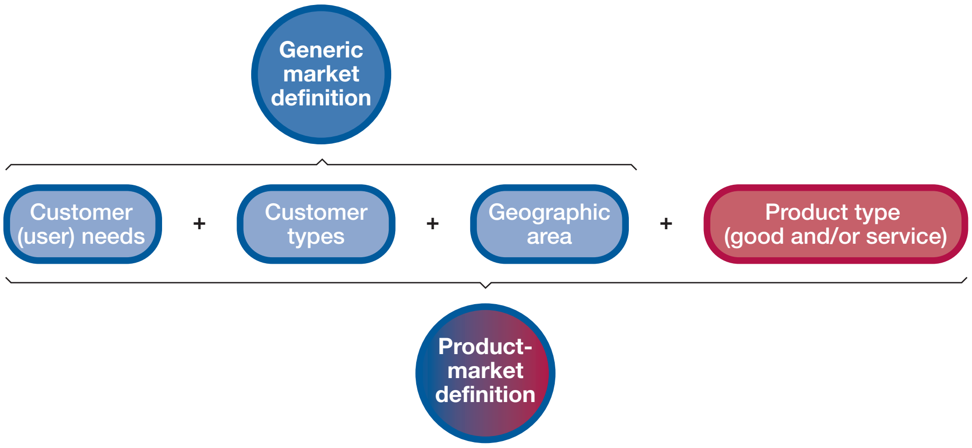
Product type describes the goods and/or services that customers want. Sometimes the product type is strictly a physical good or strictly a service. But marketing managers who ignore the possibility that *both* are important can miss opportunities.

Customer (user) needs refer to the needs the product type satisfies for the customer. At a very basic level, product types usually provide functional benefits such as nourishing, transporting, holding, saving time, and so forth. Although we need to identify such "basic" needs first, in advanced economies, we usually go on to emotional needs—such as needs for fun, excitement, or status. Correctly defining the need(s) relevant to a market is crucial and requires a good understanding of customers. We discuss these topics more fully in Chapters 5 and 6.

Customer type refers to the final consumer or user of a product type. Here we want to choose a name that describes all present (possible) types of customers. To define customer type, marketers should identify the final consumer or user of the product type, rather than the buyer—if they are different. For instance, producers should avoid treating middlemen as a customer type—unless middlemen actually use the product in their own business.

The *geographic area* is where a firm competes—or plans to compete—for customers. Naming the geographic area may seem trivial, but understanding geographic boundaries of a market can suggest new opportunities. A firm aiming only at the domestic market, for example, may want to expand into world markets.

Exhibit 3-4
Relationship between Generic and Product-Market Definitions



No product type in generic market names

A generic market description *doesn't include any product-type terms*. It consists of only three parts of the product-market definition—without the product type. This emphasizes that any product type that satisfies the customer's needs can compete in a generic market. Exhibit 3-4 shows the relationship between generic market and product-market definitions.

Later we'll study the many possible dimensions for segmenting markets. But for now you should see that defining markets only in terms of current products is not the best way to find new opportunities.

Market Segmentation Defines Possible Target Markets

Market segmentation is a two-step process

Market segmentation is a two-step process of: (1) *naming* broad product-markets and (2) *segmenting* these broad product-markets in order to select target markets and develop suitable marketing mixes.

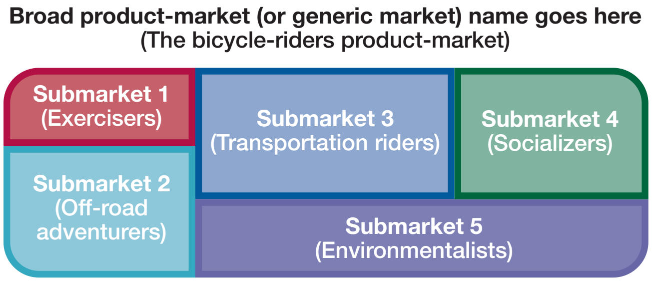
This two-step process isn't well understood. First-time market segmentation efforts often fail because beginners start with the whole mass market and try to find one or two demographic characteristics to segment this market. Customer behavior is usually too complex to be explained in terms of just one or two demographic characteristics. For example, not all elderly men buy the same products or brands. Other dimensions usually must be considered—starting with customer needs.

Naming broad product-markets is disaggregating

The first step in effective market segmentation involves naming a broad product-market of interest to the firm. Marketers must break apart—disaggregate—all possible needs into some generic markets and broad product-markets in which the firm may be able to operate profitably. See Exhibit 3-3. No one firm can satisfy everyone's needs. So the naming—disaggregating—step involves brainstorming about very different solutions to various generic needs and selecting some broad areas—broad product-markets—where the firm has some resources and experience. This means that a car manufacturer would probably ignore all the possible opportunities in food and clothing markets and focus on the generic market, "transporting people in the world," and probably on the broad product-market, "cars, trucks, and utility vehicles for transporting people in the world."

This approach tries to narrow down the marketing focus to product-market areas where the firm is more likely to have a competitive advantage or even to find breakthrough opportunities.

Exhibit 3-5
A Market Grid Diagram with Submarkets



Market grid is a visual aid to market segmentation

Assuming that any broad product-market (or generic market) may consist of submarkets, picture a market as a rectangle with boxes that represent the smaller, more homogeneous product-markets.

Exhibit 3-5, for example, represents the broad product-market of bicycle riders. The boxes show different submarkets. One submarket might focus on people who want basic transportation, another on people who want exercise, and so on. Alternatively, in the generic "transporting market" discussed earlier, we might see different product-markets of customers for bicycles, motorcycles, cars, airplanes, ships, buses, and "others."

Segmenting is an aggregating process

Marketing-oriented managers think of **segmenting** as an aggregating process—clustering people with similar needs into a "market segment." A **market segment** is a (relatively) homogeneous group of customers who will respond to a marketing mix in a similar way.

This part of the market segmentation process (see Exhibit 3-3) takes a different approach from the naming part. Here we look for similarities rather than basic differences in needs. Segmenters start with the idea that each person is one of a kind but that it may be possible to aggregate some similar people into a product-market.

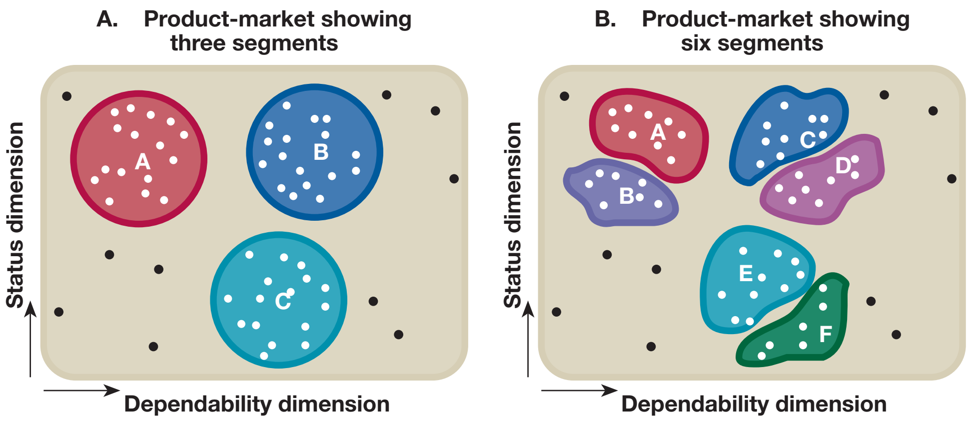
Segmenters see each of these one-of-a-kind people as having a unique set of dimensions. Consider a product-market in which customers' needs differ on two important segmenting dimensions: need for status and need for dependability. In Exhibit 3-6A, each dot shows a person's position on the two dimensions. While each person's position is unique, many of these people are similar in terms of how much status and dependability they want. So a segmenter may aggregate them into three (an arbitrary number) relatively homogeneous submarkets—A, B, and C. Group A might be called "status-oriented" and Group C "dependability-oriented." Members of Group B want both and might be called the "demanders."

How far should the aggregating go?

The segmenter wants to aggregate individual customers into some workable number of relatively homogeneous target markets and then treat each target market differently.

Look again at Exhibit 3-6A. Remember we talked about three segments. But this was an arbitrary number. As Exhibit 3-6B shows, there may really be six segments. What do you think—does this broad product-market consist of three segments or six?

Exhibit 3-6
Every Individual Has His or Her Own Unique Position in a Market—Those with Similar Positions Can Be Aggregated into Potential Target Markets



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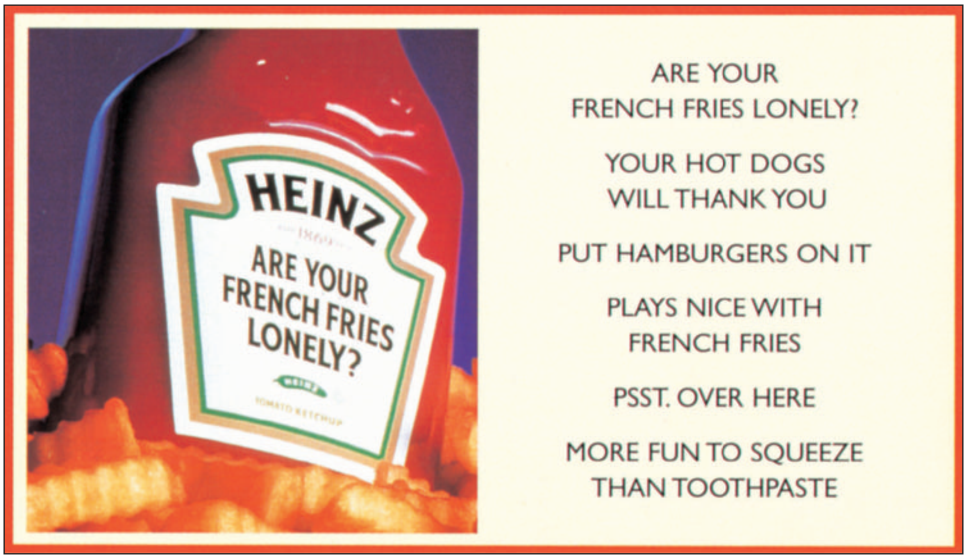


Heinz Introduced "talking labels" on the bottles of its popular ketchup—and featured the change in print ads—as part of a global campaign to give the brand an edgy attitude and increase consumption among Heinz's teen target market.

Another difficulty with segmenting is that some potential customers just don't fit neatly into market segments. For example, not everyone in Exhibit 3-6B was put into one of the groups. Forcing them into one of the groups would have made these segments more heterogeneous and harder to please. Further, forming additional segments for them probably wouldn't be profitable. They are too few and not very similar in terms of the two dimensions. These people are simply too unique to be catered to and may have to be ignored—unless they are willing to pay a high price for special treatment.

The number of segments that should be formed depends more on judgment than on some scientific rule. But the following guidelines can help.

Criteria for segmenting a broad product-market

Ideally, "good" market segments meet the following criteria:

1. *Homogeneous (similar) within*—the customers in a market segment should be as similar as possible with respect to their likely responses to marketing mix variables *and* their segmenting dimensions.
2. *Heterogeneous (different) between*—the customers in different segments should be as different as possible with respect to their likely responses to marketing mix variables *and* their segmenting dimensions.
3. *Substantial*—the segment should be big enough to be profitable.
4. *Operational*—the segmenting dimensions should be useful for identifying customers and deciding on marketing mix variables.

It is especially important that segments be *operational*. This leads marketers to include demographic dimensions such as age, sex, income, location, and family size. In fact, it is difficult to make some Place and Promotion decisions without such information.

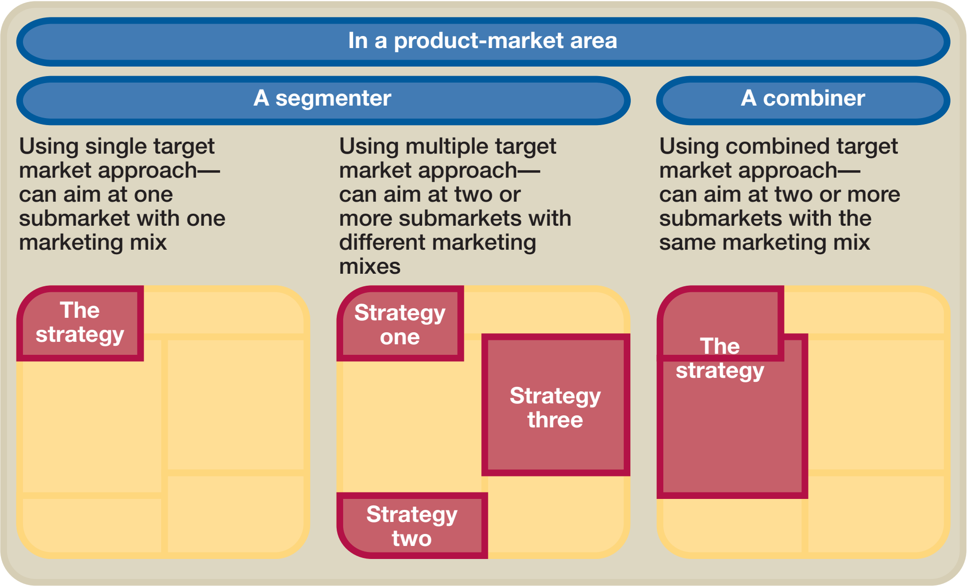
Target marketers aim at specific targets

Once you accept the idea that broad product-markets may have submarkets, you can see that target marketers usually have a choice among many possible target markets.

There are three basic ways to develop market-oriented strategies in a broad product-market.

1. The **single target market approach**—segmenting the market and picking one of the homogeneous segments as the firm's target market.
2. The **multiple target market approach**—segmenting the market and choosing two or more segments, then treating each as a separate target market needing a different marketing mix.
3. The **combined target market approach**—combining two or more submarkets into one larger target market as a basis for one strategy.

Exhibit 3-7
Target Marketers Have Specific Aims



Note that all three approaches involve target marketing. They all aim at specific, clearly defined target markets. See Exhibit 3-7. For convenience, we call people who follow the first two approaches the "segmenters" and people who use the third approach the "combiners."

Combiners try to satisfy "pretty well"

Combiners try to increase the size of their target markets by combining two or more segments. Combiners look at various submarkets for similarities rather than differences. Then they try to extend or modify their basic offering to appeal to these "combined" customers with just one marketing mix. See Exhibit 3-7.

A combined target market approach may help achieve some economies of scale. It may also require less investment than developing different marketing mixes for different segments—making it especially attractive for firms with limited resources.

Too much combining is risky

It is tempting to aim at larger combined markets instead of using different marketing mixes for smaller segmented markets. But this makes it harder to develop marketing mixes that can satisfy each potential customer. So, a combiner faces the continual risk of innovative segmenters chipping away at the various segments of the combined target market—by offering more attractive marketing mixes to more homogeneous submarkets. ATI Technologies, a firm that is a leader in making graphics chips for PCs, saw this happen. It produces high-quality products with features desired by a very wide variety of computer users. But ATI has lost business to more specialized competitors like Nvidia Corp. By focusing on the needs of video-game lovers who don't want to compromise when it comes to realistic special effects, Nvidia has developed chips that do fewer things. Still, Nividia's chips do those fewer specialized things really well.

Segmenters try to satisfy "very well"

Segmenters aim at one or more homogeneous segments and try to develop a different marketing mix for each segment. Segmenters usually adjust their marketing mixes for each target market—perhaps making basic changes in the product itself. They believe that aiming at one—or some—of these smaller markets makes it possible to provide superior value and satisfy them better.

Segmenting may produce bigger sales

Note that segmenters are not settling for a smaller sales potential or lower profits. Instead, they hope to increase sales by getting a much larger share of the business in the market(s) they target. A segmenter who really satisfies the target market can often build such a close relationship with customers that it faces no real competition.

A segmenter that offers a marketing mix precisely matched to the needs of the target market can often charge a higher price that produces higher profits.

Check Point Software Technologies, a company that makes firewall software to protect websites from hackers, is a good example. Microsoft, Cisco Systems, and most other firms that compete in Check Point's "computer security needs" market create sweeping sets of products to cover a host of corporate computing needs. But by focusing on a particular set of needs Check Point has become the leader in its market. The payoff is that its profit margins are even higher than those earned by Microsoft.[15]

Should you segment or combine?

Which approach should a firm use? This depends on the firm's resources, the nature of competition, and—most important—the similarity of customer needs, attitudes, and buying behavior.

In general, it's usually safer to be a segmenter—that is, to try to satisfy some customers *very* well instead of many just *fairly* well. That's why many firms use the single or multiple target market approach instead of the combined target market approach. Procter & Gamble, for example, offers many products that seem to compete directly with each other (e.g., Tide versus Cheer or Crest versus Gleem). However, P&G offers tailor-made marketing mixes to each submarket large—and profitable—enough to deserve a separate marketing mix. A smaller firm with more limited resources may have to use the single target market approach—focusing all its efforts at the one submarket niche where it sees the best opportunity.[16]

Profit is the balancing point

In practice, cost considerations probably encourage more aggregating—to obtain economies of scale—while demand considerations suggest less aggregating—to satisfy needs more exactly.

Profit is the balancing point. It determines how unique a marketing mix the firm can afford to offer to a particular group.

What Dimensions Are Used to Segment Markets?

Segmenting dimensions guide marketing mix planning

Market segmentation forces a marketing manager to decide which product-market dimensions might be useful for planning marketing strategies. The dimensions should help guide marketing mix planning. Exhibit 3-8 shows the basic kinds of dimensions we'll be talking about in Chapter 5—and their probable effect on the four Ps. Ideally, we want to describe any potential product-market in terms of all three types of customer-related dimensions—plus a product type description—because these dimensions help us develop better marketing mixes.

Exhibit 3-8 Relation of Potential Target Market Dimensions to Marketing Strategy Decision Areas

Potential Target Market Dimensions	Effects on Strategy Decision Areas
1. Behavioral needs, attitudes, and how present and potential goods and services fit into customers' consumption patterns.	Affects *Product* (features, packaging, product line assortment, branding) and *Promotion* (what potential customers need and want to know about the firm's offering, and what appeals should be used).
2. Urgency to get need satisfied and desire and willingness to seek information, compare, and shop.	Affects *Place* (how directly products are distributed from producer to customer, how extensively they are made available, and the level of service needed) and *Price* (how much potential customers are willing to pay).
3. Geographic location and other demographic characteristics of potential customers.	Affects size of *Target Markets* (economic potential), *Place* (where products should be made available), and *Promotion* (where and to whom to target advertising and personal selling).

Exhibit 3-9 Possible Segmenting Dimensions and Typical Breakdowns for Consumer Markets

Behavioral	
Needs	Economic, functional, physiological, psychological, social, and more detailed needs.
Benefits sought	Situation specific, but to satisfy specific or general needs.
Thoughts	Favorable or unfavorable attitudes, interests, opinions, beliefs.
Rate of use	Heavy, medium, light, nonusers.
Purchase relationship	Positive and ongoing, intermittent, no relationship, bad relationship.
Brand familiarity	Insistence, preference, recognition, nonrecognition, rejection.
Kind of shopping	Convenience, comparison shopping, specialty, none (unsought product).
Type of problem-solving	Routinized response, limited, extensive.
Information required	Low, medium, high.
Geographic	
Region of world, country	North America (United States, Canada), Europe (France, Italy, Germany), and so on.
Region in country	(Examples in United States): Pacific, Mountain, West North Central, West South Central, East North Central, East South Central, South Atlantic, Middle Atlantic, New England.
Size of city	No city; population under 5,000; 5,000–19,999; 20,000–49,999; 50,000–99,999; 100,000–249,999; 250,000–499,999; 500,000–999,999; 1,000,000–3,999,999; 4,000,000 or over.
Demographic	
Income	Under $5,000; $5,000–9,999; $10,000–14,999; $15,000–19,999; $20,000–29,999; $30,000–39,999; $40,000–59,999; $60,000 and over.
Sex	Male, female.
Age	Infant; under 6; 6–11; 12–17; 18–24; 25–34; 35–49; 50–64; 65 or over.
Family size	1, 2, 3–4, 5 or more.
Family life cycle	Young, single; young, married, no children; young, married, youngest child under 6; young, married, youngest child over 6; older, married, with children; older, married, no children under 18; older, single; other variations for single parents, divorced, etc.
Occupation	Professional and technical; managers, officials, and proprietors; clerical sales; craftspeople, foremen; operatives; farmers; retired; students; housewives; unemployed.
Education	Grade school or less; some high school; high school graduate; some college; college graduate.
Ethnicity	Asian, Black, Hispanic, Native American, White, Multiracial.
Social class	Lower-lower, upper-lower, lower-middle, upper-middle, lower-upper, upper-upper.

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

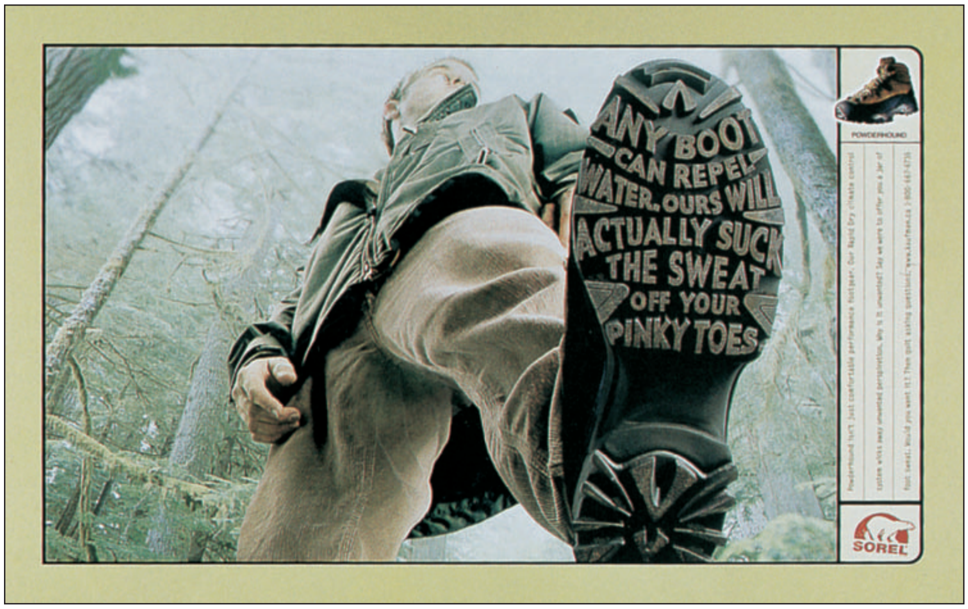
Many segmenting dimensions may be considered

Customers can be described by many specific dimensions. Exhibit 3-9 shows some dimensions useful for segmenting consumer markets. A few are behavioral dimensions, others are geographic and demographic. Exhibit 3-10 shows some additional dimensions for segmenting markets when the customers are businesses, government agencies, or other types of organizations. Regardless of whether customers are final consumers or organizations, segmenting a broad product-market may require using several different dimensions at the same time.[17]

What are the qualifying and determining dimensions?

To select the important segmenting dimensions, think about two different types of dimensions. **Qualifying dimensions** are those relevant to including a customer type in a product-market. **Determining dimensions** are those that actually affect the customer's purchase of a specific product or brand in a product-market.

A prospective car buyer, for example, has to have enough money—or credit—to buy a car and insure it. Our buyer also needs a driver's license. This still doesn't guarantee a purchase. He or she must have a real need—like a job that requires



Any hiking boot should repel water, and a product that doesn't meet that "qualifying need" probably wouldn't appeal to many hikers. Sorel wants its target customers to know that its boots go further in keeping feet dry because that difference may determine which brand of boot they buy.

"wheels" or kids who have to be carpooled. This need may motivate the purchase of *some* car. But these qualifying dimensions don't determine what specific brand or model car the person might buy. That depends on more specific interests—such as the kind of safety, performance, or appearance the customer wants. Determining dimensions related to these needs affect the specific car the customer purchases. If safety is a determining dimension for a customer, a Volvo wagon that offers side impact protection, airbags, and all-wheel drive might be the customer's first choice.

Determining dimensions may be very specific

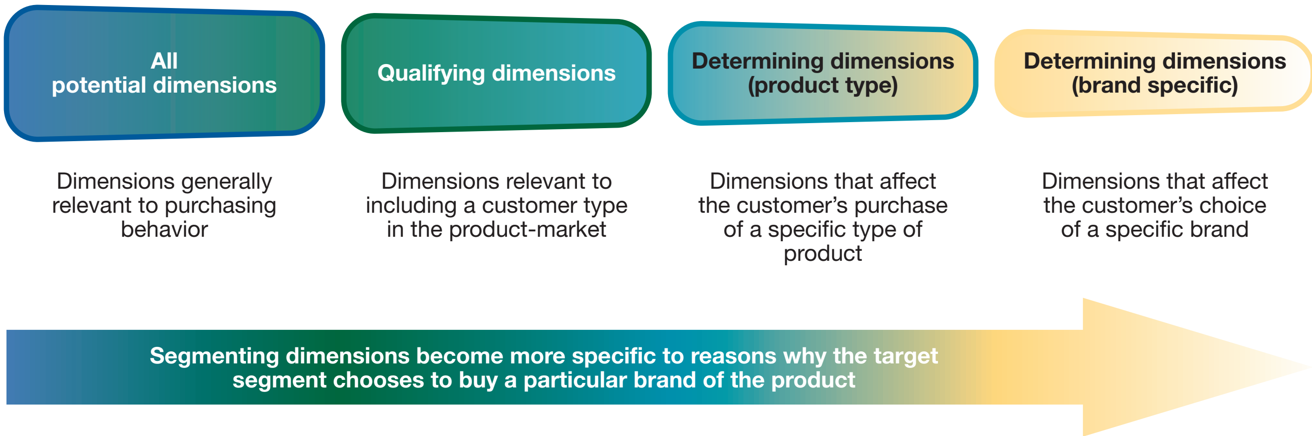
How specific the determining dimensions are depends on whether you are concerned with a general product type or a specific brand. See Exhibit 3-11. The more

Exhibit 3-10 Possible Segmenting Dimensions for Business/Organizational Markets

Kind of relationship	Weak loyalty → strong loyalty to vendor Single source → multiple vendors "Arm's length" dealings → close partnership No reciprocity → complete reciprocity
Type of customer	Manufacturer, service producer, government agency, military, nonprofit, wholesaler or retailer (when end user), and so on.
Demographics	Geographic location (region of world, country, region within country, urban → rural) Size (number of employees, sales volume) Primary business or industry (North American Industry Classification System) Number of facilities
How customer will use product	Installations, components, accessories, raw materials, supplies, professional services
Type of buying situation	Decentralized → centralized Buyer → multiple buying influence Straight rebuy → modified rebuy → new-task buying
Purchasing methods	Vendor analysis, purchasing specifications, Internet bids, negotiated contracts, long-term contracts, e-commerce websites

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

Exhibit 3-11 Finding the Relevant Segmenting Dimensions



specific you want to be, the more particular the determining dimensions may be. In a particular case, the determining dimensions may seem minor. But they are important because they *are* the determining dimensions.

Marketers at General Mills know this. Lots of people try to check e-mail or drive a car while eating breakfast or lunch. General Mills has figured out that for many of these target customers the real determining dimension in picking a snack is whether it can be eaten "one-handed."[18]

Different dimensions needed for different submarkets

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

Ethical issues in selecting segmenting dimensions

Marketing managers sometimes face ethical decisions when selecting segmenting dimensions. Problems may arise if a firm targets customers who are somehow at a disadvantage in dealing with the firm or who are unlikely to see the negative effects of their own choices. For example, some people criticize shoe companies for targeting poor, inner-city kids who see expensive athletic shoes as an important status symbol. Encyclopedia publishers have been criticized for aggressive selling to less-educated parents who don't realize that the "pennies a day" credit terms are more than they can afford. Some nutritionists criticize firms that market snack foods to children.

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

People often disagree about what segmenting dimensions are ethical in a given situation. A marketing manager needs to consider not only his or her own views but also the views of other groups in society. Even when there is no clear "right" answer, negative publicity may be very damaging. This is what Amazon.com encountered when it was revealed that it was charging some regular customers higher prices than new customers at its site.[19]

International marketing requires even more segmenting

Success in international marketing requires even more attention to segmenting. There are over 228 nations with their own unique cultures! And they differ greatly in language, customs (including business ethics), beliefs, religions, race, and income distribution patterns. (We'll discuss some of these differences in Chapters 4 and 5.) These additional differences can complicate the segmenting process. Even worse, critical data are often less available as firms move into international markets. This is one reason why some firms insist that local operations and decisions be handled by natives. They, at least, have a feel for their markets.

There are more dimensions—but there is a way

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

More Sophisticated Techniques May Help in Segmenting

Marketing researchers and managers often turn to computer-aided methods for help with the segmenting job. A detailed review of the possibilities is beyond the scope of this book. But a brief discussion will give you a flavor of how computer-aided methods work.

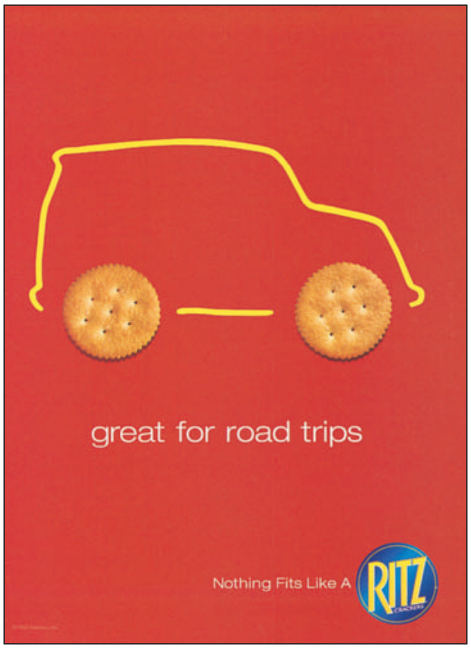
Clustering usually requires a computer

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

The data to be clustered might include such dimensions as demographic characteristics, the importance of different needs, attitudes toward the product, and past buying behavior. The computer searches all the data for homogeneous groups of people. The results sometimes suggest new, or better, marketing strategies.[20]

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

It is usually better to focus on the needs satisfied by products rather than on the product characteristics themselves.



Herman Miller Takes a Back Seat to No One

Herman Miller (HM) is a 75-year-old company that makes office furniture. Boring stuff? Marketing managers at HM know that some office furniture customers feel that way. So, they decided to do something about it. Consider the success of the company's Aeron desk chair. In an e-commerce world even top executives sit at computers and need a desk chair created for both work and looks. To satisfy this upscale segment, HM designed a new type of chair from scratch. There's no fabric or padding, but everything about it adjusts to your body. It's so comfortable that HM positions it as "the chair you can wear." With a price tag close to $1,000, it became a status symbol for high-tech managers and was as profitable as it was popular. But with the cooling off of the economy and collapse of the dot-coms, HM is looking for other new opportunities for growth. It's finding them with a new line, called Red, that targets new firms and small businesses. HM created a new division, SQA (which stands for Simple, Quick, Affordable), to serve this segment. The SQA factory does not offer the thousands of choices in fabrics and styles that were popular with HM's traditional, big corporate buyers. Nor do customers get extensive help from sales reps and dealers. However, HM's Red product line does offer bold colors and chic styles that give HM an advantage over suppliers like OfficeMax. Buyers place orders at a slick website (www.hermanmillerred.com) that displays a 3-D drawing of the buyer's office space and furniture choices. The orders are immediately linked into the factory production schedule, so delivery times are very fast. This system also reduces selling costs, so the line is profitable even at Red's affordable price point. Competing firms are now chasing this same market segment, but with HM's head start a lot of them are just taking a back seat.[21]

Customer database can focus the effort

A variation of the clustering approach is based on customer relationship management methods. With **customer relationship management (CRM),** the seller fine-tunes the marketing effort with information from a detailed customer database. This usually includes data on a customer's past purchases as well as other segmenting information. For example, a florist that keeps a database of customers who have ordered flowers for Mother's Day or Valentine's Day can call them in advance with a special offer. Firms that operate over the Internet may have a special advantage with these database-focused approaches. They are able to communicate with customers via a website or e-mail, which means that the whole effort is not only targeted but also very inexpensive. Further, it's fast and easy for a customer to reply.[22]

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

Differentiation and Positioning Take the Customer Point of View

Differentiate the marketing mix—to serve customers better

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

Positioning is based on customers' views

Positioning refers to how customers think about proposed and/or present brands in a market. A marketing manager needs a realistic view of how customers think about offerings in the market. Without that, it's hard to differentiate. At the same time, the manager should know how he or she *wants* target customers to think about the firm's marketing mix. Positioning issues are especially important when competitors in a market appear to be very similar. For example, many people think that there isn't much difference between one brand of TV and another. But Sony wants TV buyers to see its Wega flat-screen as offering the very best picture.

Firms often use promotion to help "position" how a marketing mix meets target customers' specific needs. For example, Bic ads along the roadside in Thailand highlight an ultra-close shave. In the U.S., Target wants consumers to remember not only its soft goods but also its houseware lines.

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

Internet

Internet Exercise For years, Volvo has had a reputation as a particularly safe car and much of its advertising has reinforced that positioning. Go to the website for Volvo cars (www.volvocars.com) and select the link for the U.S. website. Consider whether the U.S. website successfully reinforces a positioning of Volvo as a "safe" alternative. Why or why not?

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

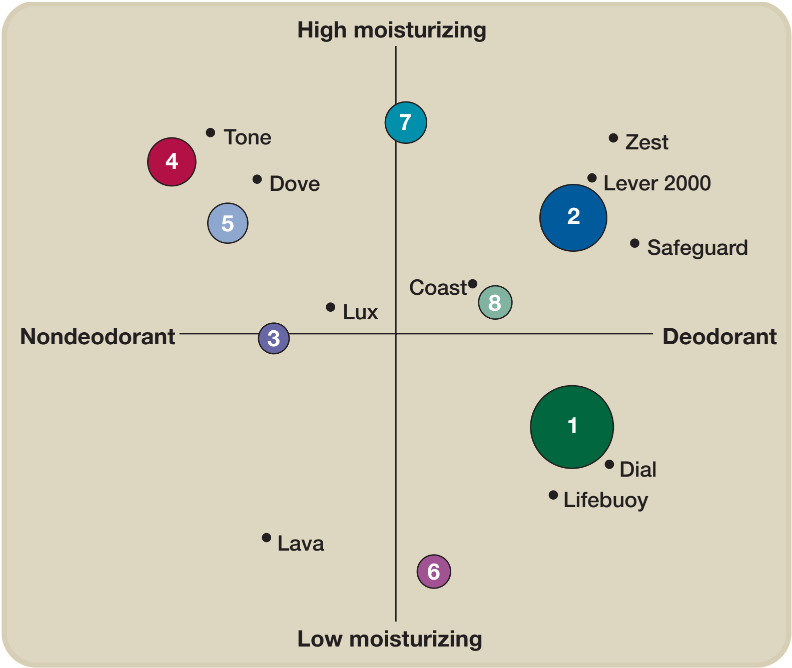
Managers make the graphs for positioning decisions by asking consumers to make judgments about different brands—including their "ideal" brand—and then use computer programs to summarize the ratings and plot the results. The details of positioning techniques—sometimes called "perceptual mapping"—are beyond the scope of this text. But Exhibit 3-12 shows the possibilities.[23]

Exhibit 3-12 shows the "product space" for different brands of bar soap using two dimensions—the extent to which consumers think the soaps moisturize and deodorize their skin. For example, consumers see Dial as quite low on moisturizing but high on deodorizing. Lifebuoy and Dial are close together—implying that consumers think of them as similar on these characteristics. Dove is viewed as different and is further away on the graph. Remember that positioning maps are based on *customers' perceptions*. The actual characteristics of the products (as determined by a chemical test) might be different!

Each segment may have its own preferences

The circles in Exhibit 3-12 show different segments (submarkets) of consumers clustered near their ideal soap preferences. Groups of respondents with a similar ideal product are circled to show apparent customer concentrations. In

Exhibit 3-12
"Product Space" Representing Consumers' Perceptions for Different Brands of Bar Soap



this graph, the size of the circles suggests the size of the segments for the different ideals.

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

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

Combining versus segmenting

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

Positioning as part of broader analysis

A positioning analysis helps managers understand how customers see their market. It is a visual aid to understanding a product-market. The first time such an analysis is done, managers may be shocked to see how much customers' perceptions of a market differ from their own. For this reason alone, positioning analysis may be crucial. But, a positioning analysis usually focuses on specific product features and brands that are close competitors in the product-market. Thus, it is a product-oriented approach. Important *customer*-related dimensions—including needs and attitudes—may be overlooked.

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

It's also important to realize that the way consumers look at a product isn't just a matter of chance. Let's return to our bar soap example. While many consumers do think about soap in terms of moisturizing and deodorizing, other needs shouldn't be overlooked. For example, some consumers are especially concerned about wiping out germs. Marketers for Dial soap recognized this need and developed ads that positioned Dial as "the choice" for these target customers.

Customers won't always be conscious of all of the detailed ways that a firm's marketing mix might be different, but careful positioning can help highlight a unifying theme or benefits that relate to the determining dimensions of the target market. Thus, positioning should be part of the broader strategy planning process and ensure that the whole marketing mix is viewed as offering target customers superior value.

Conclusion

Firms need creative strategy planning to survive in our increasingly competitive markets. In this chapter, we discussed how to find attractive target market opportunities. We started by considering four basic types of opportunities—market penetration, market development, product development, and diversification—with special emphasis on opportunities in international markets. We also saw that carefully defining generic markets and product-markets can help find new opportunities. We stressed the shortcomings of a too narrow, product-oriented view of markets.

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

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

We also discussed some computer-aided approaches—clustering techniques, CRM, and positioning.

In summary, good marketers should be experts on markets and likely segmenting dimensions. By creatively segmenting markets, they may spot opportunities—even breakthrough opportunities—and help their firms succeed against aggressive competitors offering similar products. Segmenting is basic to target marketing.

Questions and Problems

1. Distinguish between an attractive opportunity and a breakthrough opportunity. Give an example.
2. Explain how new opportunities may be seen by defining a firm's markets more precisely. Illustrate for a situation where you feel there is an opportunity—namely, an unsatisfied market segment—even if it is not very large.
3. In your own words, explain why the book suggests that you should think of marketing strategy planning as a narrowing down process.

4. Distinguish between a generic market and a product-market. Illustrate your answer.
5. Explain the major differences among the four basic types of opportunities discussed in the text and cite examples for two of these types of opportunities.
6. Explain why a firm may want to pursue a market penetration opportunity before pursuing one involving product development or diversification.
7. In your own words, explain several reasons why marketing managers should consider international markets when evaluating possible opportunities.
8. Give an example of a foreign-made product (other than an automobile) that you personally have purchased. Give some reasons why you purchased that product. Do you think that there was a good opportunity for a domestic firm to get your business? Explain why or why not.
9. Explain what market segmentation is.
10. List the types of potential segmenting dimensions and explain which you would try to apply first, second, and third in a particular situation. If the nature of the situation would affect your answer, explain how.
11. Explain why segmentation efforts based on attempts to divide the mass market using a few demographic dimensions may be very disappointing.
12. Illustrate the concept that segmenting is an aggregating process by referring to the admissions policies of your own college and a nearby college or university.
13. Review the types of segmenting dimensions listed in Exhibits 3-9 and 3-10, and select the ones you think should be combined to fully explain the market segment you personally would be in if you were planning to buy a new watch today. List several dimensions and try to develop a shorthand name, like "fashion-oriented," to describe your own personal market segment. Then try to estimate what proportion of the total watch market would be accounted for by your market segment. Next, explain if there are any offerings that come close to meeting the needs of your market. If not, what sort of a marketing mix is needed? Would it be economically attractive for anyone to try to satisfy your market segment? Why or why not?
14. Identify the determining dimension or dimensions that explain why you bought the specific brand you did in your most recent purchase of a *(a)* soft drink, *(b)* shampoo, *(c)* shirt or blouse, and *(d)* larger, more expensive item, such as a bicycle, camera, or boat. Try to express the determining dimension(s) in terms of your own personal characteristics rather than the product's characteristics. Estimate what share of the market would probably be motivated by the same determining dimension(s).
15. Consider the market for off-campus apartments in your city. Identify some submarkets that have different needs and determining dimensions. Then evaluate how well the needs in these market segments are being met in your geographic area. Is there an obvious breakthrough opportunity waiting for someone?
16. Explain how positioning analysis can help a marketing manager identify target market opportunities.

Suggested Cases

7. Lilybank Lodge
10. Runners World
25. Metal Works, Inc.
26. Deluxe Foods, Ltd.

Computer-Aided Problem

3. Segmenting Customers

The marketing manager for Audiotronics Software Company is seeking new market opportunities. He is focusing on the voice recognition market and has narrowed down to three segments: the Fearful Typists, the Power Users, and the Professional Specialists. The Fearful Typists don't know much about computers—they just want a fast way to create e-mail messages, letters, and simple reports without errors. They don't need a lot of special features. They want simple instructions and a program that's easy to learn. The Power Users know a lot about computers, use them often, and want a voice recognition program with many special features. All computer programs seem easy to them—so they aren't worried about learning to use the various features. The Professional Specialists have jobs that require a lot of writing. They don't know much about computers but are willing to learn. They want special features needed for their work—but only if they aren't too hard to learn and use.

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

	Importance of Need (1 = Not Important; 10 = Very Important)		
Market Segment	Features	Easy to Use	Easy to Learn
Fearful Typists	3	8	9
Power Users	9	2	2
Professional Specialists	7	5	6

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

a. *The ratings for a potential customer appear on the first spreadsheet. Into which segment would you aggregate this person?*
b. *The responses for seven potential customers who were interviewed are listed in the table below. Enter the ratings for a customer in the spreadsheet and then write down the similarity score for each segment. Repeat the process for each customer. Based on your analysis, indicate the segment into which you would aggregate each customer. Indicate the size (number of customers) of each segment.*
c. *In the interview, each potential customer was also asked what type of computer he or she would be using. The responses are shown in the table along with the ratings. Group the responses based on the customer's segment. If you were targeting the Fearful Typists segment, what type of computer would you focus on when developing your software?*
d. *Based on your analysis, which customer would you say is least like any of the segments? Briefly explain the reason for your choice.*

For additional questions related to this problem, see Exercise 3-4 in the *Learning Aid for Use with Essentials of Marketing*, 9th edition.

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