# Market Customization: Segmentation, Targeting, and Positioning

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# 4

# Market Customization

*Segmentation, Targeting, and Positioning*

## Key Topics Covered in This Chapter

- *Gaining focus through market segmentation*
- *The basics of multifactor, relevant, and effective segmentation*
- *Targeting the right segments*
- *Positioning the product or service in the minds of customers*

Early in the twentieth century, producers in the industrial economies of Europe and North America faced high, undifferentiated demand for manufactured goods, and relatively few competitors. For many product categories it was a mass market, and sellers satisfied it with high volumes of standardized goods. Perhaps the classic example was Ford's Model T automobile, identical versions of which were cranked out by the millions for a car-crazy society. Henry Ford famously remarked that customers could buy the Model T in any color they wished—as long as it was black.

Greater competition and more demanding customers have largely ended the era of mass marketing in many product categories. They have spurred producers to differentiate their products in ways that meet the unique needs of smaller customer groups, or market segments. Ford's standard black Model Ts gave way in the late 1920s to General Motors' strategy of producing different models to accommodate different pocketbooks, with the Chevrolet at the bottom and the Cadillac at the top.

The move away from mass marketing has affected almost every industry. If you need convincing, take a look at the pet food section of your local supermarket. Whereas individual pet food producers once offered only one type of dry cat food, they now offer many. You have your choice of standard and special formulations—for kittens, adult cats, elderly cats, overweight cats, cats subject to hairballs, and cats with kidney problems. Among the canned cat foods, each producer now offers at least ten flavors.

The upshot of the trend away from mass marketing is that companies are seeking to identify the unique needs and preferences of customers in ever smaller segments. If this strategy were carried to its logical conclusion—something that would be counterproductive in most industries—companies would design and produce goods and services for individual customers.

Generally, you'll find most companies operating along the continuum between the extremes of mass production and "markets of one." For example, Dell will build a computer customized to your specifications within a fairly broad range of components and software. Peachtree accounting software has special versions for manufacturers, retailers, and nonprofit businesses. Automakers allow you to order your new vehicle in the color you want and with the set of options you prefer (within limits), and they are working toward the day when you will be able to do all this online and have the new automobile delivered to your door in a few weeks.

Among manufacturers, this customizing capability is a function of advances in flexible manufacturing and modular product design and generally goes under the term *mass customization,* a production approach that uses those advances to create goods and services that meet the unique needs of specific customers. As described by B. Joseph Pine II in his landmark book on the subject, mass customization is the production of individually customized goods and services at mass production prices.[1] In reality, true market-of-one producers are relatively few: the personal fitness trainer, the local tailor who makes you a suit from scratch, the business consultant who works closely with you to help you develop an online e-commerce site that meets your unique requirements.

The same forces that push companies along the continuum from mass market to market-of-one require that they think deeply about segmentation, targeting, and positioning, the tools of the trade described in this chapter.

## Segmentation

*Segmentation* is a practice that seeks out pieces of the total market that contain customers with identifiable characteristics, as defined by income, age, personal interests, ethnic background, special needs, and so forth. The point of segmentation is to break a mass market into submarkets of customers who have common needs. Identifying these segments makes it possible to do two things: (1) create goods and services that are better tailored to the needs of specific customers and (2) focus marketing resources more efficiently.

The unsolicited seminar invitation you received in the mail today from a retirement planning firm you never heard of is one example of segmenting in action. You were in the pool of people to receive that invitation because a database determined that you have one or more of the following characteristics:

- You have assets (as indicated by the property tax rolls of your community).
- You are in the age group of people who should be thinking about retirement.
- You live in or near the community where the seminar will be held.

These characteristics have put you into a segment of interest to the retirement planners, who believe that their direct mail exhortation ("Let our experts help you plan your future!") has a chance to produce a response from you and people like you. Obviously, they want to focus their marketing resources on a group of people who are likely to have an interest in what they have to offer *and* the financial capacity to act.

Conceptually, the point of segmentation is obvious. It's not what you'd call rocket science. But below the conceptual level—at the level where the actual searching and sifting go on—it gets more complicated. There are plenty of ways to segment markets, as shown in table 4-1. Of these, demographics, behavior or interests, and affil-

TABLE 4-1

**Segmenting markets**

| Demographics | Behavior or interests | Affiliation or occupation |
|---|---|---|
| Age | Golfers | Members of the armed forces |
| Gender | Wine aficionados | Teachers |
| Income | Pet owners | Republicans |
| Ethnic groups | Recent homebuyers | Farmers |

iation or occupation are often the most productive. Even though people may not always define themselves in these categories, being part of a category can tell the marketer something about their needs, spending proclivities, and spending capacities.

### Multifactor Segmentation

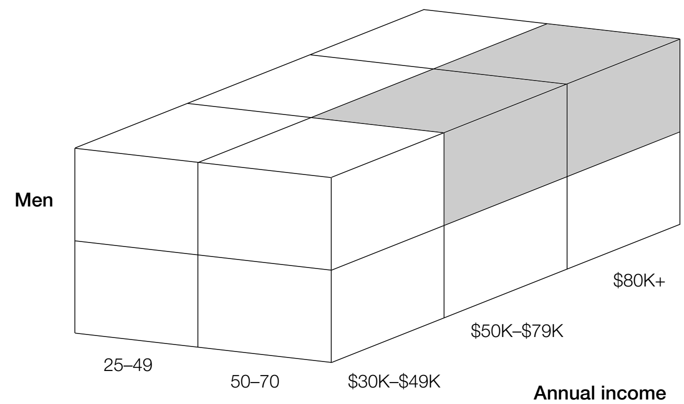
Naturally, one-dimensional labels such as "golfer" or "recent home-buyer" seldom tell a marketer enough to understand people or their needs. A great deal of complexity is missed. A golfer, for example, may be male or female, age sixteen with an annual income of $800 or age fifty-six with an annual income of $180,000. Consequently, the marketer must sift through the golfing population in terms of other characteristics to find the subsegment to which he or she can target a businesslike offer.

Consider figure 4-1, where the golfing population of the country is segmented in terms of three factors: annual income, gender, and age. Depending on the nature of the marketer's business and on previous research on the golfing population, she may determine that the two shaded segments in the figure—men aged 50–70 with annual incomes greater than $50,000—are the segments of greatest interest to her company, which manufactures sportswear.

Her initial research may indicate, for example, that people in these segments are the largest spenders on men's golfing apparel.

FIGURE 4-1

**Multifactor golfing segments**




This fact should spur the marketer to do more research on these specific segments. The sportswear company might, for example, use focus groups to determine which particular clothing items would appeal to male golfers in these age and income groups. Indeed, a great deal must be learned about the different segments in terms of their buying power, their product or service preferences, and their attractiveness as potential market targets.

## Relevant and Effective Segmenting

Once you understand segmentation, you'll be in a better position to concentrate your resources. But not all definable segments are relevant. For example, if your business produces fluorescent lightbulbs, there is not much point in segmenting the total market by gender, income, education, political affiliations, or most other characteristics. None of those characteristics is relevant to the purchase and use of lightbulbs. Commercial use versus residential use might be the most relevant approach to segmenting for this market.

Beyond relevance, there is the issue of effectiveness. Philip Kotler suggests that to be effective and useful to your business, a market segment must have certain characteristics.[2] It must be

- **Measurable.** You need to know its size, key characteristics, purchasing power, and preferences.
- **Substantial.** The segment of interest must be large enough to be profitably served by you.
- **Accessible.** There is no point in segmenting if you know in advance that there is no practical way to access a segment's members.
- **Differentiable.** Segments must respond differently to different marketing programs. Kotler gives the example of married and unmarried women's response to perfumes. If there is no difference in their responses, then there is no effective segmentation.
- **Actionable.** There must be a practical and cost-effective way to attract and serve customers in the segment.

## Segmenting Business Markets

Companies whose business is to serve other businesses—and not individual consumers—also segment their markets. In some cases they go beyond simply identifying relevant and effective segments. For example, the marketing departments of large banks are very interested in the owners and managers of small to midsized businesses, to whom they can sell trust services, cash management services, retirement plans, and commercial loans. Banks actually organize their operations to better focus their offers and delivery to these customers.

Segmenting, as noted earlier, lets you do a better job of tailoring products and services to the specific requirements of a group of customers. That's a good thing. But remember that focusing on narrow segments inevitably reduces the number of people for whom your offering will represent value. Keep this trade-off in mind.

## From Segmentation to Targeting

Once you understand the populations, behaviors, and profit potential of different market segments, you must target the ones that represent the greatest potential. But what is the basis for this targeting? There are many, including the following.

**THE NUMBER OF CUSTOMERS IN THE SEGMENT AND THEIR TOTAL SPENDING POTENTIAL.** Considering the costs of marketing and sales fulfillment, the segment should contain enough individuals with enough spending power to make the effort worthwhile. Ideally, the people in the segment will be heavy users of whatever you aim to sell. Better still, the number of potential buyers in the segment should be growing.

**YOUR ABILITY TO REACH CUSTOMERS IN THE SEGMENT—AND THE COST OF DOING SO.** A segment is not attractive if its members are difficult to reach or if the cost of doing so is prohibitive. Members of private golf courses are an ideal segment for retail investment management companies. These people typically have plenty of money for investments and discretionary spending. But reaching them is another story, because these clubs protect the privacy of their members. Similarly, a business book publisher figured that readers of the *Wall Street Journal* would be a perfect segment to target. However, the cost of ad space in the *Journal* relative to actual responses and sales revenues was such that this segment proved unattractive, at least through advertising.

**THE INTENSITY OF EXISTING COMPETITION IN THE SEGMENT.** Late-entry firms often discover that the segments with the greatest overall profit potential have already been targeted by an army of competitors. Some of these vendors may be well entrenched.

**THE LEVEL OF CUSTOMERS' SATISFACTION WITH COMPETITORS' CURRENT OFFERINGS.** Even when a segment bristles with competitors, research may reveal that customers are dissatisfied with current offerings and would welcome something different. On the other hand, if the satisfaction level is high, you should have second thoughts about targeting the segment. What you're looking for is a high likelihood of a positive response.

**FORECASTED GROWTH.** Is the segment forecasted to grow in size and spending power, or is it stagnant? You should consider not only the current situation but also the trend. For example, in early 2005 the U.S. population of hybrid-engine vehicles was only about 400,000—small by the standards of the industry. But that number was expected to grow rapidly in the following years. Anyone contemplating a marketing campaign to this market segment—perhaps for parts or after-sale service—would want to know the dimensions of that growth.

**POTENTIAL PROFITABILITY.** This is the bottom line of each of the preceding bases of segment targeting. You must estimate the profit potential, net of costs, of addressing a particular segment, as well as the likely direction of profit potential in the years ahead.

**BARRIERS TO ENTRY.** What are the entry barriers to a particular segment for you and for likely new competitors? Obviously, if barriers are low, there is little to stop other opportunistic firms from invading the segment—and driving down profitability.

Clearly, there is much to consider in targeting particular market segments, and you should proceed with caution. Segmenting allows you to concentrate scarce marketing resources and gives you opportunities to understand your customers at a level seldom available to mass marketers. For business-to-business vendors, there is no mass-market opportunity in any case; they must target defined segments.

The downside of segmenting, of course, is that it limits the number of potential customers who will learn about your product or service. It also ties the future of your product line to the fortunes of a particular segment. Growth may decline in that segment, taking your sales down with it. Customer preferences may change sharply, leaving your company holding an empty bag. So approach segmentation with a great deal of thought and caution. And if you're considering marketing to specific individuals, see "Are Micro-Segments the Next Big Thing?"

## Positioning

Once you've completed the related tasks of segmenting and targeting, you must develop a plan for your product or product line. As described in chapter 3, a marketing plan should engage each of the four P's: product, place, price, and promotion. Among the objects of

### *Are Micro-Segments the Next Big Thing?*

The emergence of powerful databases has raised expectations that the day is near when many companies will be able to directly target and serve individual customers on a one-to-one, "as you like it" basis. With computers now able to capture abundant purchasing information from individuals, analysis should make it possible to observe buying patterns, understand preferences, and then pursue sales to individuals through a strategy of micro-segment marketing. Some companies already do this. Hotel chains like Four Seasons, for example, keep track of guest preferences: how they like their morning coffee, which daily newspaper they prefer in the morning, and so forth.

Nevertheless, the day of micro-segment marketing appears to be no closer to reality than it did at the turn of this century. One reason may be that people do not want relationships with faceless corporations that exist solely to sell them things. And consumers resent Big Brother collecting information about them and using it to push products and services on them.

the plan is to position the product or service in the minds of potential customers.

*Positioning* is an attempt to manage how potential customers perceive a product or service. (It's really an aspect of differentiation, which we'll cover in detail later.) Volvo, for example, positions its vehicles in terms of durability and safety. Apple positions its products as elegant in design and user friendly. Vanguard Group mutual funds are positioned as well-managed funds with the lowest transaction costs.

The goal of positioning is to underscore one or two characteristics that make the product or service stand out in the minds of customers. Nirvana comes for the marketer when positioning takes the form of a slogan that sticks in the minds of customers. Consider the following:

Great taste!

It's good for your health.

Instant relief.

The best value for your money.

Reliability you can count on.

Safe and effective.

Built to last.

For young-looking hair.

State-of-the-art engineering at your fingertips.

Long-lasting.

Some positioning slogans stick in the public consciousness for decades. Consider Zenith Radio's 1927 slogan "The quality goes in before the name goes on." Or Timex's famous "It takes a licking and keeps on ticking." Or Ivory soap's "99 44/100% pure." Or Quaker Oatmeal's "It's the right thing to do." If you can get one of these positioning slogans into the public vocabulary, it may persist under its own power for decades.

Positioning should be the consequence of market research and a great deal of thought. It's one of those things you want to get right the first time, because *re*positioning is expensive and causes a great deal of confusion in the minds of customers. Once you decide on a position strategy, you should then apply resources through the marketing plan with the goal of implanting and reinforcing that positioning concept in the minds of customers.

One caveat: trying to position your product in a mental space occupied by a strong incumbent often ends in failure. Al Ries and Jack Trout, who literally wrote the book on positioning, refer to this as the Law of Exclusivity, stating, "When a competitor owns a word or position in the prospect's mind, it is futile to attempt to own the same word."[3] Thus, no one has been able to budge the public perception of Volvo as the "safe" car, or Duracell as the "long-lasting" battery. Ries and Trout's caveat assumes that customers can maintain only a single-dimensional mental fix on a product or service; in practical terms this means that only one brand can stand for one thing. This may represent an advertising person's view of buyer behavior, however, and may not rise to the level of an immutable law.

Take a minute to think about how your product or service is positioned—if it is positioned at all. Have you found a word or phrase that plants it firmly in the minds of customers in a positive or attractive way? Are you trying to position yourself in the same winner-takes-all space occupied by a competitor—and losing the battle?

Segmentation, targeting, and positioning—these three marketing tools usually work together. But be careful. Don't get too excited about them; segmenting and targeting narrow the market and limit your potential sales. Positioning assumes that customers are interested in only one thing, but reality may indicate that they are not. If you are truly customer focused, there will be times when segmenting is inappropriate and when positioning is self-defeating. So keep an open mind about these concepts.

## Summing Up

- Segmentation aims to break a mass market into submarkets of customers who have common needs. Successful segmenting allows a firm to focus its resources and to create goods and services that better meet customer needs.
- Demographics, behavior, interests, and affiliation or occupation are among the usual bases of segmentation.
- In many cases multifactor segmentation is called for—for example, not just homeowners, but high-income female homeowners.
- Once a market is segmented into relevant submarkets, you must identify those that have the greatest profit potential. Total spending potential, accessibility, and the intensity of competition in the segments are among the bases for targeting some segments and not others.
- Positioning is an attempt to manage how potential customers perceive a product or service. For example, Quaker Oatmeal ("It's the right thing to do") is positioned as the smart and healthy choice among breakfast cereals.

### Chapter 4

1. B. Joseph Pine II, *Mass Customization* (Boston: Harvard Business School Press, 1993), xiii.

2. Philip Kotler, *Marketing Management,* millennium edition (Upper Saddle River, NJ: Prentice Hall, 2000), 274.

3. Al Ries and Jack Trout, *The 22 Immutable Laws of Marketing* (New York: HarperBusiness, 1993), 35.

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