CHAPTER 6
CUSTOMER DRIVEN STRATEGY

PREVIEWING THE CONCEPTS – CHAPTER OBJECTIVES

1. Define the major steps in designing a customer-driven marketing strategy: market segmentation, market targeting, differentiation, and positioning.
2. List and discuss the major bases for segmenting consumer and business markets.
3. Explain how companies identify attractive market segments and choose a market-targeting strategy.
4. Discuss how companies differentiate and position their products for maximum competitive advantage.

CHAPTER OVERVIEW

This chapter looks further into key customer value-driven marketing strategy decisions—how to divide up markets into meaningful customer groups (***segmentation***), choose which customer groups to serve (***targeting***), create market offerings that best serve targeted customers (***differentiation***), and position the offerings in the minds of consumers (***positioning***).

Then, the chapters that follow explore the tactical marketing tools—**the Four Ps**—by which marketers bring these strategies to life.

Market segmentation involves dividing a market into smaller groups of buyers with distinct needs, characteristics, or behaviors that might require separate marketing strategies or mixes.

Market targeting (or **targeting**) consists of evaluating each market segment's attractiveness and selecting one or more market segments to enter.

Differentiation involves actually differentiating the firm's market offering to create superior customer value.

Positioning consists of arranging for a market offering to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers.

MARKET SEGMENTATION

Through market segmentation, companies divide large, heterogeneous markets into smaller segments that can be reached more efficiently and effectively with products and services that match their unique needs.

Segmenting Consumer Markets

Geographic Segmentation

Geographic segmentation calls for dividing the market into different geographical units such as nations, regions, states, counties, cities, or even neighborhoods.

Demographic Segmentation

Demographic segmentation divides the market into groups based on variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race, generation, and nationality.

Demographic factors are the most popular bases for segmenting customer groups.

With **age and life-cycle segmentation,** firms offer different products or use different marketing approaches for different age and life-cycle groups.

Gender segmentation has long been used in clothing, cosmetics, toiletries, and magazines.

Income segmentation has long been used by the marketers of products and services such as automobiles, clothing, cosmetics, financial services, and travel.

Psychographic Segmentation

Psychographic segmentation divides buyers into different groups based on social class, lifestyle, or personality characteristics.

Marketers use ***personality*** variables to segment markets.

Behavioral Segmentation

Behavioral segmentation divides buyers into groups based on their knowledge, attitudes, uses, or responses concerning a product.

Occasion segmentation involves grouping buyers according to occasions when they get the idea to buy, actually make their purchase, or use the purchased item.

Benefit segmentation is grouping buyers according to the different *benefits* that they seek from the product.

User status refers to segmenting markets into nonusers, ex-users, potential users, first-time users, and regular users of a product.

Usage rate involves grouping markets into light, medium, and heavy product users.

Loyalty status is dividing buyers into groups according to their degree of loyalty.

Using Multiple Segmentation Bases

Marketers rarely limit their segmentation analysis to only one or a few variables.

Experian's Mosaic USA system (one of the leading segmentation systems) classifies every American household into one of 71 lifestyle segments and 19 levels of affluence.

Segmenting Business Markets

Consumer and business marketers use many of the same variables to segment their markets.

Business marketers also use some additional variables, such as customer *operating characteristics*, *purchasing approaches*, *situational factors*, and *personal characteristics*.

Segmenting International Markets

Companies can segment international markets using one or a combination of several variables.

- ***Geographic factors:*** Nations close to one another will have many common traits and behaviors.
- ***Economic factors:*** Countries may be grouped by population income levels or by their overall level of economic development.
- ***Political and legal factors:*** Type and stability of government, receptivity to foreign firms, monetary regulations, and the amount of bureaucracy should be considered.
- ***Cultural factors:*** Markets can be grouped according to common languages, religions, values and attitudes, customs, and behavioral patterns.

Intermarket segmentation is segmenting consumers who have similar needs and buying behaviors even though they are located in different countries.

Requirements for Effective Segmentation

To be useful, market segments must be:

- *Measurable:* The size, purchasing power, and profiles of the segments can be measured.
- *Accessible:* The market segments can be effectively reached and served.
- *Substantial:* The market segments are large or profitable enough to serve.
- *Differentiable:* The segments are conceptually distinguishable and respond differently to different marketing mix elements and programs.
- *Actionable:* Effective programs can be designed for attracting and serving the segments.

MARKET TARGETING

Evaluating Market Segments

In evaluating different market segments, a firm must look at three factors:

1. Segment size and growth,
2. Segment structural attractiveness, and
3. Company objectives and resources.

The largest, fastest-growing segments are not always the most attractive ones for every company. The company also needs to examine major structural factors that affect long-run segment attractiveness.

- A segment is less attractive if it already contains many strong and aggressive ***competitors***.
- The existence of many actual or potential ***substitute products*** may limit prices and the profits.
- The relative ***power of buyers*** also affects segment attractiveness.
- A segment may be less attractive if it contains ***powerful suppliers*** who can control prices.

Selecting Target Market Segments

Undifferentiated Marketing

Using an **undifferentiated marketing** (or **mass-marketing**) strategy, a firm might decide to ignore market segment differences and target the whole market with one offer.

This mass-marketing strategy focuses on what is ***common*** in the needs of consumers rather than on what is ***different***.

Differentiated Marketing

Using a **differentiated marketing** (or **segmented marketing**) strategy, a firm decides to target several market segments and designs separate offers for each.

Concentrated Marketing

When using a **concentrated marketing** (or **niche marketing**) strategy, instead of going after a small share of a large market, the firm goes after a large share of one or a few smaller segments or niches.

It can market more ***effectively*** by fine-tuning its products, prices, and programs to the needs of carefully defined segments.

It can market more ***efficiently***, targeting its products or services, channels, and communications programs toward only consumers that it can serve best and most profitably.

Micromarketing

Micromarketing is the practice of tailoring products and marketing programs to suit the tastes of specific individuals and locations.

Micromarketing includes ***local marketing*** and ***individual marketing***.

Local marketing involves tailoring brands and promotions to the needs and wants of local customer groups—cities, neighborhoods, and even specific stores.

Local marketing has drawbacks.

- It can drive up manufacturing and marketing costs by reducing economies of scale.
- It can create logistics problems.
- The brand's overall image might be diluted if the product and message vary too much in different localities.

Individual marketing is the tailoring of products and marketing programs to the needs and preferences of individual customers.

Individual marketing has also been labeled ***one-to-one marketing, mass customization***, and ***markets-of-one marketing***.

Choosing a Targeting Strategy

Which strategy is best depends on:

- *Company resources;*
- *Product variability;*
- *Product's life-cycle stage;*
- *Market variability; and*
- *Competitors' marketing strategies*.

Socially Responsible Target Marketing

Target marketing sometimes generates controversy and concern. Issues usually involve the targeting of vulnerable or disadvantaged consumers with controversial or potentially harmful products.

Problems arise when marketing adult products to kids, whether intentionally or unintentionally.

The growth of the Internet and other carefully targeted direct media has raised concerns about potential targeting abuses.

The issue is not so much who is targeted, but how and for what. Controversies arise when marketers attempt to profit when they unfairly target vulnerable segments or target them with questionable products or tactics.

Socially responsible marketing calls for segmentation and targeting that serve not just the interests of the company, but also the interests of those targeted.

DIFFERENTIATION AND POSITIONING

Value proposition: How a company will create differentiated value for targeted segments and what positions it wants to occupy in those segments.

A **product's position** is the way the product is ***defined by consumers*** on important attributes.

Positioning Maps

Perceptual positioning maps show consumer perceptions of their brands versus competing products on important buying dimensions.

Choosing a Differentiation and Positioning Strategy

The differentiation and positioning task consists of three steps:

1. Identifying a set of differentiating competitive advantages upon which to build a position,
2. Choosing the right competitive advantages, and
3. Selecting an overall positioning strategy.

Identifying Possible Value Differences and Competitive Advantages

To the extent that a company can differentiate and position itself as providing superior customer value, it gains **competitive advantage**.

It can differentiate along the lines of *product*, *services*, *channels*, *people*, or *image*.

Choosing the Right Competitive Advantages

How Many Differences to Promote

Ad man Rosser Reeves believes a company should develop a *unique selling proposition* (USP) for each brand and stick to it.

Other marketers think that companies should position themselves on more than one differentiator.

Which Differences to Promote

A difference is worth establishing to the extent that it satisfies the following criteria:

- *Important*: The difference delivers a highly valued benefit to target buyers.
- *Distinctive*: Competitors do not offer the difference, or the company can offer it in a more distinctive way.
- *Superior*: The difference is superior to other ways that customers might obtain the same benefit.
- *Communicable*: The difference is communicable and visible to buyers.
- *Preemptive*: Competitors cannot easily copy the difference.
- *Affordable*: Buyers can afford to pay for the difference.
- *Profitable*: The company can introduce the difference profitably.

Selecting an Overall Positioning Strategy

More for More positioning involves providing the most upscale product or service and charging a higher price to cover the higher costs.

More for the Same positioning involves introducing a brand offering comparable quality but at a lower price.

The Same for Less positioning can be a powerful value proposition—everyone likes a good deal.

Less for Much Less positioning is offering products that offer less and therefore cost less.

"Less-for-much-less" positioning involves meeting consumers' lower performance or quality requirements at a much lower price.

More for Less positioning is the winning value proposition.

In the long run, companies will find it very difficult to sustain such best-of-both positioning.

Developing a Positioning Statement

Company and brand positioning should be summed up in a **positioning statement**.

The statement should follow the form: *To (target segment and need) our (brand) is (concept) that (point of difference).*

Communicating and Delivering the Chosen Position

Once it has chosen a position, the company must take strong steps to deliver and communicate the desired position to target consumers. All the company's marketing mix efforts must support the positioning strategy.

<u>Self-Check Questions</u>

6-1. Name and briefly describe the four major steps in designing a customer value-driven marketing strategy.

6-2. How can marketers use behavioral segmentation in consumer markets? Give an example for each method of behavioral segmentation.

6-3. Discuss the three factors firms consider when evaluating market segments. Which is most important?