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9 Market Segmentation, Targeting, and Positioning

LEARNING OBJECTIVES

After reading this chapter you should be able to:

LO 9-1	Explain what market segmentation is and when to use it.
LO 9-2	Identify the five steps involved in segmenting and targeting markets.
LO 9-3	Recognize the bases used to segment consumer and organizational (business) markets.
LO 9-4	Develop a market-product grid to identify a target market and recommend resulting marketing actions.
LO 9-5	Explain how marketing managers position products in the marketplace.

Zappos.com Is Powered by Service—and Segmentation!

Tony Hsieh (opposite page) showed signs of being an entrepreneur early in life. In middle school he started a mail-order pin-on button-making business, in high school he developed software for filling out forms on a computer, and in college he sold pizzas out of his dorm room. Now he's running the extraordinarily entrepreneurial online shoe retailer Zappos.com![1]

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Segmentation Is a Key to Success

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Zappos was founded by Nick Swinmurn when he couldn't find a pair of Airwalk desert boots at a local mall. Tony invested in the company and as an advisor helped it develop its segmentation strategy: focus on people who will shop for and buy shoes online and like to use mobile technology. From a limited initial selection of shoes, Zappos grew to offer more than 1,000 brands, and eventually added lines of clothes, accessories, beauty aids, and housewares. This focus on the segment of online buyers generates more than $1 billion in sales annually.[2] Today, Tony is CEO of Zappos.com, which was acquired by Amazon.com for more than $1 billion.

In addition to a huge selection, Zappos provides extraordinary customer service and free shipping both ways. Pamela Leo, a New Jersey customer, says, "With Zappos I can try the shoes in the comfort of my own home...it's fabulous."[3]

***

Delivering WOW Customer Service

***

"We try to spend most of our time on stuff that will improve customer-service levels," Hsieh explains.[4] This customer-service obsession for its market segment of online customers means that all new Zappos.com employees—whether the chief financial officer or the children's footwear buyer—go through four weeks of customer-loyalty training. Hsieh offers $2,000 to anyone completing the training who wants to leave Zappos.com. The theory: If you take the money and run, you're not right for Zappos.com. Few take the money!

Ten "core values" are the foundation for the Zappos.com culture, brand, and business strategies. Some examples:[5]

#1. Deliver WOW through service. This focus on exemplary customer service encompasses all 10 core values.

#3. Create fun and a little weirdness. In a Zappos.com day, cowbells ring, parades appear, and modified-blaster gunfights arise.

#6. Build open and honest relationships with communication. Employees are told to say what they think.

© Brad Swonetz/Redux

The other Zappos.com core values appear on its website:
www.zappos.com.[6]

The Zappos.com strategy illustrates successful market segmentation and targeting, the first topics in **Chapter 9**. The chapter ends with the topic of positioning the organization, product, or brand.

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WHY SEGMENT MARKETS?

> **LO 9-1**
>
> Explain what market segmentation is and when to use it.

A business firm segments its markets so it can respond more effectively to the wants of groups of potential buyers and thus increase its sales and profits. Not-for-profit organizations also segment the clients they serve to satisfy client needs more effectively while achieving the organization's goals. Let's describe (1) what market segmentation is and (2) when to segment markets, sometimes using the Zappos.com

segmentation strategy as an example.

What Market Segmentation Means

People have different needs and wants, even though it would be easier for marketers if they didn't. **Market segmentation** involves aggregating prospective buyers into groups, or segments, that (1) have common needs and (2) will respond similarly to a marketing action. As defined in **Chapter 1**, *market segments* are the relatively homogeneous groups of prospective buyers that result from the market segmentation process. Each market segment consists of people who are relatively similar to each other in terms of their consumption behavior.

The existence of different market segments has caused firms to use a marketing strategy of **product differentiation**. This strategy involves a firm using different marketing mix actions, such as product features and advertising, to help consumers perceive the product as being different and better than competing products. The perceived differences may involve physical features, such as size or color, or nonphysical ones, such as image or price.

Segmentation: Linking Needs to Actions

The process of segmenting a market and selecting specific segments as targets is the link between the various buyers' needs and the organization's marketing program, as shown in

Figure 9–1. Market segmentation is only a means to an end: It leads to tangible marketing actions that can increase sales and profitability.

Figure 9–1 Market segmentation links market needs to an organization's marketing program—its specific marketing mix actions designed to satisfy those needs.

Market segmentation first stresses the importance of grouping people or organizations in a market according to the similarity of their needs and the benefits they are looking for in making a purchase. Second, such needs and benefits must be related to specific marketing actions that the organization can take, such as a new product or special promotion.

The Zappos.com Segmentation Strategy

VIDEO 9-1

Zappos TV
kerin.tv/13e/v9-1

The Zappos.com target customer segment originally consisted of people who wanted to (1) have a wide selection of shoes, (2) shop online in the convenience of their own homes, and (3) receive quick delivery and free returns. Zappos's actions include offering a huge inventory of shoes using an online selling strategy and providing overnight delivery. These actions have enabled Zappos.com to create a positive customer experience and generate repeat purchases. Zappos's success in selling footwear has enabled it to add lines of clothing, handbags, accessories (such as sunglasses), and housewares to reach new segments of buyers.
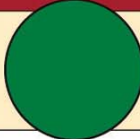
With over 8 million customers and 5,000 calls daily to Zappos's service center, its executives believe the speed with which a customer receives an online purchase plays a big role in gaining repeat customers.[7] The company continues to stress this point of difference of providing the absolute best service among online sellers.

Zappos.com is reaching new market segments with new products and edgy, attention-getting ads.

Source: Zappos

Using Market Product Grids

How do you sleep—on your side, your back, or your stomach? These are really the key market segments of sleepers. Sleep researchers have discovered that you'll probably get a better night's sleep if you have the right firmness of pillow under your head. So we can develop the market-product grid shown in **Figure 9–2**.[8]

MARKET SEGMENTS	BED PILLOW PRODUCTS		
	Firm Pillows	Medium Pillows	Soft Pillows
Side sleepers	=73%		
Back sleepers		=22%	
Stomach sleepers			=5%

Figure 9–2 This market-product grid shows the kind of sleeper that is targeted for each of the bed pillow products. The percentages and sizes of the circles show that side sleepers are the dominant market segment and that they prefer firm pillows.

A **market-product grid** is a framework to relate the market segments of potential buyers to products offered or potential marketing actions. The market-product grid in **Figure 9–2**

shows the different market segments for bed pillows—the side, back, and stomach sleepers—in the horizontal rows. The product offerings—the pillows—appear in the vertical columns and are based on three different pillow firmnesses—firm, medium, and soft.

Market research reveals the size of each sleeper segment, as shown by both the percentages and circles in **Figure 9–2**. This tells pillow manufacturers the relative importance of each of the three market segments, which is critical information when scheduling production. It also emphasizes the importance of firm pillows, a product targeted at the side sleeper market segment. As **Figure 9–2** shows, this segment is almost three times the size of the other two combined. Therefore, meeting the needs of this market segment with the right firmness of pillow is especially important.

When and How to Segment Markets

One-size-fits-all mass markets—like that for Tide laundry detergent 40 years ago—no longer exist. The marketing officer at Procter & Gamble, which markets Tide, says, "Every one of our brands is targeted." Due to the recent recession, the size of the middle-income market is shrinking. In response, P&G has begun implementing a new segmentation strategy: Offer different products to reach (1) high-income and (2) low-income families.[9]

A business goes to the trouble and expense of segmenting its markets when it expects that this extra effort will increase its sales, profit, and return on investment.

When expenses are greater than the potentially increased sales from segmentation, a firm should not attempt to segment its market. Three specific segmentation strategies that illustrate this point are (1) one product and multiple market segments, (2) multiple products and multiple market segments, and (3) segments of one, or mass customization.

These *different* covers for the *same* magazine issue show a very effective market segmentation strategy. For which strategy it is and why it works, see the text.
© McGraw-Hill Education/Editorial Image, LLC, photographer

One Product and Multiple Market Segments

When an organization produces only a single product or service and attempts to sell it to two or more market segments, it avoids the extra costs of developing and producing additional versions of the product. In this case, the incremental costs of taking the product into new market segments are typically those of a separate promotional campaign or a new channel of distribution.

Magazines are single products frequently directed at two or more distinct market segments. The annual *Sporting News Baseball Yearbook* uses 17 different covers featuring a baseball star from each of its regions in the United States. Yet each regional issue has the same magazine content.

Other examples of a single offering for multiple segments include books, movies, and many services. Book series such as *Harry Potter, The Twilight Saga,* and *The Hunger Games* have phenomenal success in part due to the publishers' creativity in marketing to preteen, teen, and adult segments. Movies have a similar challenge, particularly since different segments are

reached through different channels such as movie theaters, streaming services, and pay-per-view cable channels. Finally, services such as Disney's resorts offer the same basic experience to at least three distinct segments—children, parents, and grandparents. Although separate advertising, promotion, and distribution for these offerings can be expensive, these expenses are minor compared with the costs of producing a different version of the offerings for each segment.[10]

Multiple Products and Multiple Market Segments

Ford's different lines of cars, SUVs, and pickup trucks are each targeted at a different type of customer—examples of multiple products aimed at multiple market segments. Producing these different vehicles is clearly more expensive than producing only a single vehicle. But this strategy is very effective *if* it meets customers' needs better, doesn't reduce quality or increase price, and adds to Ford's sales revenues and profits.

Unfortunately, this product differentiation strategy in the auto industry has a huge potential downside: The proliferation of different models and options can reduce quality and raise prices—especially in relation to foreign imports. Perhaps the extreme was in 1982, when the Ford Thunderbird had exactly 69,120 options compared with 32 (including colors) on the 1982 Honda Accord.[11]

More than three decades later Ford is relearning its models and options lessons. Its current successful turnaround is partly related to a reduction in the number of frames, engines, and brands offered. As a result, Ford has reduced its number of

models from 97 to 36 and sold off the Jaguar, Land Rover, and Volvo brands, and discontinued the Mercury brand. Although there are fewer choices, Ford's simplified product line provides two benefits to consumers: (1) lower prices through producing a higher volume of fewer models and (2) higher quality because of the ability to debug fewer basic designs.[12]

Segments of One: Mass Customization

American marketers are rediscovering today what their ancestors running the corner general store knew a century ago: Each customer has unique needs and wants and desires special tender loving care. Economies of scale in manufacturing and marketing during the past century made mass-produced products so affordable that most customers were willing to compromise their individual tastes and settle for standardized products. Today's Internet ordering and flexible manufacturing and marketing processes have made *mass customization* possible, which means tailoring products or services to the tastes of individual customers on a high-volume scale.

Mass customization is the next step beyond *build-to-order (BTO)*, manufacturing a product only when there is an order from a customer. Apple uses BTO systems that trim work-in-progress inventories and shorten delivery times to customers. To do this, Apple restricts its computer manufacturing line to only a few basic models that can be assembled in four minutes. This gives customers a good choice with quick delivery. But even this system falls a bit short of total mass customization because customers do not have an unlimited number of features from which to choose.

The Segmentation Trade-Off: Synergies versus Cannibalization

The key to successful product differentiation and market segmentation strategies is finding the ideal balance between satisfying a customer's individual wants and achieving *organizational synergy*, the increased customer value achieved through performing organizational functions such as marketing or manufacturing more efficiently. The "increased customer value" can take many forms: more products, improved quality of existing products, lower prices, easier access to products through improved distribution, and so on. So the

ultimate criterion for an organization's marketing success is that customers should be better off as a result of the increased synergies.

The organization should also achieve increased revenues and profits from the product differentiation and market segmentation strategies it uses. When the increased customer value involves adding new products or a new chain of stores, the product differentiation –market segmentation trade-off raises a critical issue: Are the new products or new chain simply stealing customers and sales from the older, existing ones? This is known as *cannibalization*.

Marketers increasingly emphasize a two-tier, "Tiffany/Walmart" strategy. Many firms now offer different variations of the same basic offering to high-end and low-end segments. Gap's Banana Republic chain sells blue jeans for $58, whereas Old Navy stores sell a slightly different version for $22.

ANN INC.'s LOFT chain tries to reach younger and value-conscious women with a casual lifestyle, while its Ann Taylor chain targets more sophisticated and relatively affluent women. For the potential dangers of this two-segment strategy, see the text.
© McGraw-Hill Education/Jill Braaten, photographer

The smaller Walmart Neighborhood Market format offers convenient locations to discount shoppers.
© Scott Olson/Getty Images

Unfortunately, the lines between customer segments can often blur and lead to problems. For example, consider the competition within the ANN INC. organization between stores in its two chains—Ann Taylor and LOFT. The Ann Taylor chain targets "successful, relatively affluent, fashion-conscious women," while its sister Ann Taylor LOFT chain targets "value-conscious women who want a casual lifestyle at work and home." The LOFT stores wound up stealing sales from the Ann Taylor chain. The result: More than 100 stores from both chains were recently closed.[13] Both chains are now aggressively targeting their customers by stressing online sales and opening new factory outlet stores.

Walmart has been opening Walmart Neighborhood Market stores that are about one-fifth the size of its supercenters. These smaller stores are intended to compete for the segments that shop at discount chains such as Dollar General. Walmart

Neighborhood Markets are designed to meet a range of needs by offering fresh produce, health and beauty supplies, household items, gasoline, and a pharmacy. Walmart plans to open between 180 and 200 of the new format stores this year. Will its own Tiffany/Walmart strategy—or perhaps "Walmart/Dollar General" strategy—prove successful or lead to cannibalization of the larger stores? Watch for new stores near you during the next few years to determine the answer.[14]

learning review

9-1. Market segmentation involves aggregating prospective buyers into groups that have two key characteristics. What are they?

9-2. In terms of market segments and products, what are the three market segmentation strategies?

STEPS IN SEGMENTING AND TARGETING MARKETS

LO 9-2

Identify the five steps involved in segmenting and targeting markets.

Figure 9–3 identifies the five-step process used to segment a market and select the target segments on which an organization wants to focus. Segmenting a market requires both detailed analysis and large doses of common sense and managerial judgment. So market segmentation is both science and art!

Figure 9–3 The five key steps in segmenting and targeting markets link the market needs of customers to the organization's marketing program.

A local Wendy's restaurant—like yours!
© Reed Saxon/AP Images

For the purposes of our discussion, assume that you have just purchased a Wendy's restaurant. Your Wendy's is located next to a large urban university, one that offers both day and evening classes. Your restaurant offers the basic Wendy's fare: hamburgers, chicken and deli sandwiches, salads, french fries, and Frosty desserts.

Even though you are part of a chain that has some restrictions on menu and decor, you are free to set your hours of business and to develop local advertising. How can market segmentation help? In the sections that follow, you will apply the five-step process for segmenting and targeting markets to arrive at marketing actions for your Wendy's restaurant.

Step 1: Group Potential Buyers into Segments

It's not always a good idea to segment a market. Grouping potential buyers into meaningful segments involves meeting some specific criteria that answer the questions,

"Would segmentation be worth doing?" and "Is it possible?" If so, a marketer must find specific variables that can be used to create these various segments.

Criteria to Use in Forming the Segments

A marketing manager should develop market segments that meet five essential criteria:[15]

- *Simplicity and cost-effectiveness of assigning potential buyers to segments.* A marketing manager must be able to put a market segmentation plan into effect. This means identifying the characteristics of potential buyers in a market and then cost-effectively assigning them to a segment.

- *Potential for increased profit.* The best segmentation approach is the one that maximizes the opportunity for future profit and return on investment (ROI). If this potential is maximized without segmentation, don't segment. For nonprofit organizations, the criterion is the potential for serving clients more effectively.

- *Similarity of needs of potential buyers within a segment.* Potential buyers within a segment should be similar in terms of common needs that, in turn, lead to common marketing actions, such as product features sought or advertising media used.

- *Difference of needs of buyers among segments.* If the needs of the various segments aren't very different, combine them into fewer segments. A different segment usually requires a different marketing action that, in turn, means greater costs. If increased sales don't offset extra costs, combine segments and reduce the number of marketing actions.

- *Potential of a marketing action to reach a segment.* Reaching a segment requires a simple but effective marketing action. If no such action exists, don't segment.

Ways to Segment Consumer Markets

LO 9-3

Recognize the bases used to segment consumer and organizational (business) markets.

Figure 9–4 shows four general bases of segmentation and the typical variables that can be used to segment U.S. consumer markets. These four segmentation bases are (1) *geographic segmentation*, which is based on where prospective customers live

or work (region, city size); (2) *demographic segmentation*, which is based on some *objective* physical (gender, race), measurable (age, income), or other classification attribute (birth era, occupation) of prospective customers; (3) *psychographic segmentation*, which is based on some *subjective* mental or emotional attributes (personality), aspirations (lifestyle), or needs of prospective customers; and (4) *behavioral segmentation*, which is based on some observable actions or attitudes by prospective customers—such as where they buy, what benefits they seek, how frequently they buy, and why they buy. Some examples are:

- This MicroFridge appliance includes everything from a small refrigerator, freezer, and microwave oven to a charging station for laptops and mobile phones. To which market segment might this appeal? The answer appears in the text.
Source: Intirion Corporation

- *Geographic segmentation: Region.* Campbell Soup Company found that its canned nacho cheese sauce, which could be heated and poured directly onto nacho chips, was too spicy for Americans in the East and not spicy enough for those in the West and Southwest. The result: Campbell's plants in Texas and California now produce a hotter nacho cheese sauce to serve their regions better.

Demographic segmentation: Household size. More than half of all U.S. households are made up of only one or two persons, so Campbell packages meals with only one or two servings for this market segment.

- *Psychographic segmentation: Lifestyle.* Nielsen's lifestyle segmentation is based on the belief that "birds of a feather flock together." Thus, people of similar lifestyles tend to live near one another, have similar interests, and buy similar offerings. This is of great value to marketers. Nielsen PRIZM® classifies every household in the United States into

one of 66 unique market segments. See the Marketing Insights About Me box for a profile of where you live.

- *Behavioral segmentation: Product features.* Understanding what features are important to different customers is a useful way to segment markets because it can lead directly to specific marketing actions, such as a new product, an ad campaign, or a distribution channel. For example, college dorm residents frequently want to keep and prepare their own food to save money or have a late-night snack. However, their dorm rooms are often woefully short of space. MicroFridge understands this and markets a combination microwave, refrigerator, freezer, and charging station appliance targeted to these students.

- *Behavioral segmentation: Usage rate.* **Usage rate** is the quantity consumed or patronage—store visits—during a specific period. It varies significantly among different customer groups. Airlines have developed frequent-flyer programs to encourage passengers to use the same airline repeatedly to create loyal customers. This technique, sometimes called *frequency marketing*, focuses on usage rate. One key conclusion emerges about usage: In market segmentation studies, some measurement of usage by, or sales obtained from, various segments is central to the analysis.

***

Basis of Segmentation	Segmentation Variables	Typical Breakdowns
Geographic	Region	Northeast; Midwest; South; West; etc.
	City size	Under 10,000; 10,000–24,999; 25,000–49,999; 50,000–99,999; etc.
	Statistical area	Metropolitan and micropolitan statistical areas; Census tract; etc.
	Media-television	210 designated market areas (DMA) in the U.S. (Nielsen)
	Density	Urban; suburban; small town; rural
Demographic	Gender	Male; female
	Age	Under 6 yrs; 6–11 yrs; 12–17 yrs; 18–24 yrs; 25–34 yrs; etc.
	Race/ethnicity	African American; Asian; Hispanic; White/Caucasian; etc.
	Life stage	Infant; preschool; child; youth; collegiate; adult; senior
	Birth era	Baby boomer (1946–1964); Generation X (1965–1976); etc.
	Household size	1; 2; 3–4; 5 or more
	Marital status	Never married; married; separated; divorced; widowed; domestic partner
	Income	Under $15,000; $15,000–$24,999; $25,000–$34,999; etc.
	Education	Some high school or less; high school graduate (or GED); etc.
	Occupation	

		Managerial & professional; technical, sales; farming; etc.
Psychographic	Personality	Gregarious; compulsive; extroverted; aggressive; ambitious; etc.
	Values (VALS2)	Innovators; Thinkers; Achievers; Experiencers; Believers; Strivers; etc.
	Lifestyle (Nielsen PRIZM)	Blue Blood Estates; Single City Blues; etc. (66 total neighborhood clusters)
	Needs	Quality; service; price/value; health; convenience; etc.
Behavioral	Retail store type	Department; specialty; outlet; convenience; mass merchandiser; etc.
	Direct marketing	Mail order/catalog; door-to-door; direct response; Internet
	Product features	Situation-specific; general
	Usage rate	Light user; medium user; heavy user
	User status	Nonuser; ex-user; prospect; first-time user; regular user
	Awareness/intentions	Unaware; aware; interested; intending to buy; purchaser; rejection

***

Figure 9–4 Segmentation bases, variables, and breakdowns for U.S. consumer markets. Marketing managers should select segmentation variables that lead to marketing actions.

Marketing Insights About Me

To Which "Flock" Do You Belong?

There is an old saying that "birds of a feather flock together." This also applies to the formation of market segments and gives rise to the following questions marketers must ask and answer: Who are your target customers? What are they like? Where do they live? How can you reach them?

24 Up-and-Comers

Upper Mid Younger w/o Kids

Source: The Nielsen Company

These questions are answered in part by Nielsen, whose PRIZM® consumer segmentation system classifies every household into one of 66 demographically and behaviorally distinct neighborhood segments to identify lifestyles and purchase behavior within a defined geographic market area, such as zip code. Many organizations today use these neighborhood segments, especially with social media.

Want to know what your neighborhood is like? Go to **www.claritas.com/MyBestSegments/Default.jsp** and click the "ZIP Code Look-up" link or "Enter ZIP Code" button on the MyBestSegments home page. Then, type in your five-digit zip code and security code. Last, click the "Submit" button to find out what the most common segments are in your neighborhood.

For a description of these segments, click the "Segment Explorer" tab. Is this your "flock"? What specific product or service organizations might be interested in targeting these segments?

The Aberdeen Group recently analyzed which segmentation bases were used by the 20 percent most profitable organizations of the 220 surveyed. From highest to lowest, these were the segmentation bases they used:

- Geographic bases—88 percent.
- Behavioral bases—65 percent.
- Demographic bases—53 percent.
- Psychographic bases—43 percent.

The top 20 percent often use more than one of these bases in their market segmentation studies, plus measures such as purchase histories and usage rates of customers.[16]

Experian Simmons continuously surveys over 25,000 adults each year to obtain quarterly, projectable usage rate data from the U.S. national population for more than 500 consumer product categories and 8,000-plus brands. Its purpose is to discover how the products and services they buy and the media they use relate to their behavioral, psychographic, and demographic characteristics.

Patronage of Fast-Food Restaurants

Figure 9–5 shows the results of a question Experian Simmons asked about adult respondents' frequency of use (or patronage)

of fast-food restaurants.[17] As shown by the arrow in the far right column of **Figure** Page 246 **9–5**, the importance of the segment increases as we move up the table. Among nonusers of these restaurants, prospects (who might become users) are more important than nonprospects (who are never likely to become users). Moving up the rows to users, it seems logical that light users of these restaurants (0 to 5 times per month) are important but less so than medium users (6 to 13 times per month), who, in turn, are a less important segment than the critical group: heavy users (14 or more times per month). The Actual Consumption column in **Figure 9–5** shows how much of the total monthly usage of these restaurants is accounted for by heavy, medium, and light users.

User or Nonuser	Specific Segment	Number (1,000s)	Percent	Actual Consumption Percent	Usage Index per Person	Importance of Segment
Users	Heavy users (14 + per month)	82,502	36.1%	63.6%	640	High
	Medium users (6–13 per month)	68,634	30.0%	31.4%	380	
	Light users (0–5 per month)	41,264	18.1%	5.0%	100	
Total Users		192,400	84.2%	100.0%	—	
Nonusers	Prospects	2,708	1.2%	—	—	
	Nonprospects	33,459	14.6%	—	—	
Total Nonusers		36,167	15.8%	—	—	Low
Total	Users + Nonusers	228,567	100.0%	—	—	

Figure 9–5 Patronage of fast-food restaurants by adults 18 years and older. The table shows the critical importance of attracting heavy users and medium users to a fast-food restaurant.

Source: Experian Marketing Services Simmons Winter 2013 NHCS Full-Year Adult Survey 12-Month OneView[SM] Crosstabulation Report, Experian Marketing Services, 2013. See **http://www.experian.com/marketing-services/consumer-insights.html**.

Usage rate is sometimes referred to in terms of the **80/20 rule**, a concept that suggests 80 percent of a firm's sales are obtained from 20 percent of its customers. The percentages in the 80/20 rule are not really fixed at exactly 80 percent and 20 percent, but they suggest that a small fraction of customers provides most of a firm's sales. For example, the orange shading in

Figure 9–5 shows that the 36.1 percent of the U.S. population who are heavy users of fast-food restaurants provide 63.6 percent of the actual consumption volume. This high percentage illustrates the situation where one group of customers is responsible for a disproportionately high percentage of sales.

The Usage Index per Person column in **Figure 9–5** emphasizes the importance of the heavy-user segment even more. Giving the light users (0 to 5 restaurant visits per month) an index of 100, the heavy users have an index of 640. In other words, for every $1.00 spent by a light user in one of these restaurants in a month, each heavy user spends $6.40. This is the reason that as a Wendy's restaurant owner, you want to focus most of your marketing efforts on reaching the highly attractive heavy-user market segment.

As part of its survey, Experian Simmons asked adults which fast-food restaurant(s) was (were) (1) the sole or only restaurant, (2) the primary one, or (3) one of several secondary ones they patronized. As a Wendy's restaurant owner, the information depicted in **Figure 9–6** should give you some ideas in developing a marketing

program for your local market. For example, the Wendy's bar graph in **Figure 9–6** shows that your sole (0.7 percent) and primary (12.5 percent) user segments are somewhat behind Burger King and far behind McDonald's. Thus, your challenge is to look at these two competitors and devise a marketing program to win customers from them.
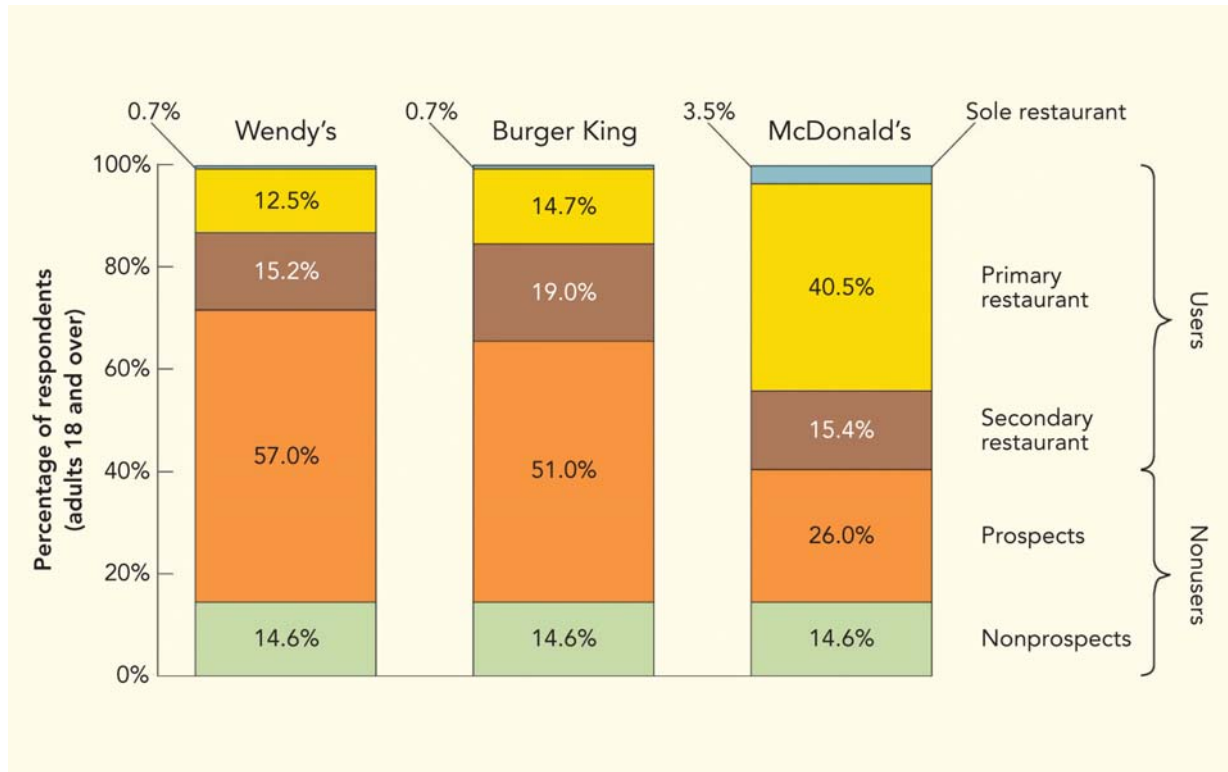
Figure 9–6 Comparison of various kinds of users and nonusers for Wendy's, Burger King, and McDonald's fast-food restaurants. This figure gives Wendy's restaurants a snapshot of its customers compared to those of its major competitors.

The nonusers part of the Wendy's bar graph in **Figure 9–6** shows that 14.6 percent of adult Americans don't go to fast-food restaurants in a typical month and are really nonprospects—unlikely to ever patronize any fast-food restaurant. However, 57.0 percent of nonusers are prospects who may be worth a targeted marketing program. These adults use the product category (fast food) but do not yet patronize Wendy's. New menu items or promotional strategies may succeed in converting these prospects into users that patronize Wendy's.

Variables to Use in Forming Segments for Wendy's

To analyze your Wendy's customers, you need to identify which variables to use to segment them. Because the restaurant is located near a large urban university, the most logical starting point for segmentation is really behavioral: Are the prospective customers students or nonstudents?

To segment the students, you could try a variety of (1) geographic variables, such as city or zip code; (2) demographic variables, such as gender, age, year in school, or college major; or (3) psychographic variables, such as personality or needs. But none of these variables really meets the five criteria listed previously—particularly, the fifth criterion about leading to a doable marketing action to reach the various segments. The behavioral basis of segmentation for the "students" segment really combines two variables: (1) where students live and (2) when they are on campus. This results in four "student" segments:

- Students living in dormitories (residence halls, sororities, fraternities).
- Students living near the university in apartments.
- Day commuter students living outside the area.
- Night commuter students living outside the area.

The three main segments of "nonstudents" include:

- Faculty and staff members who work at the university.
- People who live in the area but aren't connected with the university.
- People who work in the area but aren't connected with the university.

People in each of these nonstudent segments aren't quite as similar as those in the student segments, which makes them harder to reach with a marketing program or action. Think about (1) whether the needs of all these segments are different and (2) how various advertising media can be used to reach these groups effectively.

Ways to Segment Organizational (Business) Markets

A number of variables can be used to segment organizational (business) markets (see **Figure 9–7**). For example, a product manager at Xerox responsible for its new line of multifunction color printers (MFPs) might use these segmentation bases and corresponding variables:

What variables might Xerox use to segment organizational markets to respond to a firm's color copying problems? For the possible answer and related marketing actions, see the text.
Courtesy of Xerox

Geographic segmentation: Statistical area. Firms located in a metropolitan statistical area might receive a personal sales call, whereas those in a micropolitan statistical area might be contacted by telephone.

Demographic segmentation: NAICS code. Firms categorized by the North American Industry Classification System code as manufacturers that deal with customers throughout the world might have different document printing needs than retailers or lawyers serving local customers.

Demographic segmentation: Number of employees. The size of the firm is related to the volume of digital documents produced, so firms with varying numbers of employees might be specific target markets for different Xerox MFPs.

- *Behavioral segmentation: Usage rate.* Similar to this segmentation variable for consumer markets, features are often of major importance in organizational markets. So Xerox can target organizations needing fast printing, copying, faxing, and scanning in color—the benefits and features emphasized in the ad for its Xerox Color WorkCentre 7775/7765/7775 Multifunction System.

***

Basis of Segmentation	Segmentation Variables	Typical Breakdowns
Geographic	Global region or country	European Union, South America, etc.; U.S., Japan, India, etc.
	Statistical area	Metropolitan and micropolitan statistical areas; Census tract; etc.
	Density	Urban; suburban; small town; rural
Demographic	NAICS code	2 digit: sector; 3 digit: subsector; 4 digit: industry group; etc.
	NAICS sector	Agriculture, forestry (11); mining (21); utilities (22); etc.
	Number of employees	1–99; 100–499; 500–999; 1,000–4,999; 5,000+
	Annual sales	Under $1 million; $1 million–$9.9 million; $10 million–$49.9 million; etc.
Behavioral	Number of locations	1–9; 10–49; 50–99; 100–499; 500–999;
	Kind	1,000+
	Where used	Product; service
	Application	Installation; component; supplies; etc.
	Purchase location	Office; production; etc.
	Who buys	Centralized; decentralized
	Type of buy	Individual buyer; industrial buying group
		New buy; modified rebuy; straight rebuy

***

Figure 9–7 Segmentation bases, variables, and breakdowns for U.S. organizational markets. These variables are used in business-to-business marketing.

learning review

9-3. The process of segmenting and targeting markets is a bridge between which two marketing activities?

9-4. What is the difference between the demographic and behavioral bases of market segmentation?

Step 2: Group Products to Be Sold into Categories

VIDEO 9-2

Dave's Hot 'N' Juicy Ad

kerin.tv/13e/v9-2

What does your Wendy's restaurant sell? Of course you are selling individual products such as Frostys, hamburgers, and fries. But for marketing purposes you're really selling combinations of individual products that become a "meal." This distinction is critical, so let's discuss both (1) individual Wendy's products and (2) groupings of Wendy's products.

Individual Wendy's Products

When Dave Thomas founded Wendy's in 1969, he offered only four basic items: "Hot 'N' Juicy" hamburgers, Frosty Dairy Desserts (Frostys), french fries, and soft drinks. Since then, Wendy's has introduced many new products and innovations to compete for customers' fast-food dollars. Some of these are shown in **Figure 9–8**. New products include salads, low trans fat chicken sandwiches, natural-cut fries with sea salt, and the "Dave's Hot 'N' Juicy" hamburger. But

there are also nonproduct innovations to increase consumer convenience like drive- thru services and E-Pay to enable credit card purchases.

MARKET SEGMENT		PRODUCT OR INNOVATION								
GENERAL	GROUP WITH NEED	HOT 'N JUICY HAMBURGER (1969)	DRIVE-THRU (1970)	99¢ SUPER VALUE MEALS (1989)	SALAD SENSATIONS (2002)	E-PAY (2003)	BREAKFAST SANDWICHES (2007)	NATURAL-CUT FRIES WITH SEA SALT (2010)	DAVE'S HOT 'N JUICY HAMBURGERS (2011)	MY WENDY'S MOBILE APP (2014)
GENDER	Male	P	P	P	S	P	P	P	P	P
	Female				P	P				P
NEEDS	Price/Value			P	S					
	Health-Conscious				P					
	Convenience	S	P		S	P	P		S	P
	Meat Lovers	P		S			S	S	P	
UNIVERSITY AFFILIATION	Affiliated (students, faculty, staff)	P	S	P	P	P	S		P	P
	Nonaffiliated (residents, workers)	S	P	S	S	S	P		S	S

Key: P = Primary market   S = Secondary market

Figure 9–8 Wendy's new products and other innovations target specific market segments based on a customer's gender, needs, or university affiliation.
Source: Wendy's International, LLC.

Figure 9–8 also shows that each product or innovation is not targeted equally to all market segments based on gender, needs, or university affiliation. The cells in **Figure 9–8** labeled "P" represent Wendy's primary target market segments when it introduced each product or innovation. The boxes labeled "S" represent the secondary target market segments that also bought these products or used these innovations. In some cases, Wendy's discovered that large numbers of people in a segment not originally targeted for a particular product or innovation bought or used it anyway.

Groupings of Wendy's Products: Meals

Finding a means of grouping the products a firm sells into meaningful categories is as important as grouping customers into segments. If the firm has only one product or service,

this isn't a problem. But when it has many, these must be grouped in some way so buyers can relate to them. This is why department stores and supermarkets are organized into product groups, with the departments or aisles containing related merchandise. Likewise, manufacturers organize products into groupings in the catalogs they send to customers.

What are the product groupings for your Wendy's restaurant? It could be the item purchased, such as hamburgers, salads, Frostys, and french fries. This is where judgment—the qualitative aspect of marketing—comes in. Customers really buy an eating experience—a meal occasion that satisfies a need at a particular time of day. So the product groupings that make the most marketing sense are the five "meals" based on the time of day consumers buy them: breakfast, lunch, between-meal snack, dinner, and after-dinner snack. These groupings are more closely related to the way purchases

are actually made and permit you to market the entire meal, not just your individual Page 250
items such as french fries or hamburgers.

Step 3: Develop a Market-Product Grid and Estimate the Size of Markets

LO 9-4

Develop a market-product grid to identify a target market and recommend resulting marketing actions.

As noted earlier in the chapter, a market-product grid is a framework to relate the market segments of potential buyers to products offered or potential marketing actions by an organization. In a complete market-product grid analysis, each cell in the grid can show the estimated market size of a given product sold to a specific market segment. Let's first look at forming a market-product grid for your Wendy's restaurant and then estimate market sizes.

Forming a Market-Product Grid for Wendy's

Developing a market-product grid means identifying and labeling the markets (or horizontal rows) and product groupings (or vertical columns), as shown in **Figure 9–9**. From our earlier discussion, we've chosen to divide the market segments into students versus nonstudents, with subdivisions of each. The columns—or "products"—are really the meals (or eating occasions) customers enjoy at the restaurant.

MARKET SEGMENTS		PRODUCT OR INNOVATION				
General	Where They Live	Break-fast	Lunch	Between-Meal Snack	Dinner	After-Dinner Snack
Student	Dormitory	0	1	3	0	3
Student	Apartment	1	3	3	1	1
Student	Day Commuter	0	3	2	1	0
Student	Night Commuter	0	0	1	3	2
Nonstudent	Faculty or Staff	0	3	1	1	0
Nonstudent	Live in Area	0	1	2	2	1
Nonstudent	Work in Area	1	3	0	1	0

Key: 3 = Large market; 2 = Medium market; 1 = Small market; and 0 = No market

Figure 9–9 A market-product grid for your Wendy's fast-food restaurant next to an urban university. The numbers in the grid show the estimated size of the market in each cell, which leads to selecting the shaded target market.

Estimating Market Sizes for Wendy's

Now the size of the market in each cell (the unique market-product combination) of the market-product grid must be estimated. For your Wendy's restaurant, this involves estimating the sales of each kind of meal expected to be sold to each student and nonstudent market segment.

The market size estimates in **Figure 9–9** vary from a large market ("3") to no market at all ("0") for each cell in the market-product grid. These may be simple guesstimates if you don't have the time or money to conduct formal marketing research (as discussed in **Chapter 8**). But even such crude estimates of the size of specific markets using a market-product grid are helpful in determining which target market segments to select and which product groupings to offer.

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Step 4: Select Target Markets

Wendy's has been aggressive in introducing new menu items to appeal to customers—such as making its classic cheeseburger thicker and offering new premium toppings.
Source: Wendy's International, LLC

A firm must take care to choose its target market segments carefully. If it picks too narrow a set of segments, it may fail to reach the volume of sales and profits it needs. If it selects too broad a set of segments, it may spread its marketing efforts so thin that the extra expense exceeds the increased sales and profits.

Criteria to Use in Selecting the Target Segments

Two kinds of criteria in the market segmentation process are those used to (1) divide the market into segments (discussed earlier) and (2) actually pick the target segments. Even experienced marketing executives often confuse them. Five criteria can be used to select the target segments for your Wendy's restaurant:

- *Market size.* The estimated size of the market in the segment is an important factor in deciding whether it's worth going after. There is really no market for breakfasts among dormitory students with meal plans, so you should not devote any marketing effort toward reaching this tiny segment. In your market-product grid (**Figure 9–9**), this market segment is given a "0" to indicate there is no market.

- *Expected growth.* Although the size of the market in the segment may be small now, perhaps it is growing significantly or is expected to grow in the future. Sales of fast-food meals eaten outside the restaurants are projected to exceed those eaten inside. And Wendy's has been shown to be the fast-food leader in average time to serve a drive-thru order—faster than McDonald's. This speed and convenience is potentially very important to night commuters in adult education programs.

- *Competitive position.* Is there a lot of competition in the segment now or is there likely to be in the future? The less the competition, the more attractive the segment is. For example, if the college dormitories announce a new policy of "no meals on weekends," this segment is suddenly more promising for your restaurant. Wendy's recently introduced its "My Wendy's" mobile app for ordering and payments at its restaurants to keep up with a similar service at Burger King.

- *Cost of reaching the segment.* A segment that is inaccessible to a firm's marketing actions should not be pursued. For example, the few nonstudents who live in the area may not be reachable with ads in newspapers or other media. As a result, you should not waste money trying to advertise to them.
- *Compatibility with the organization's objectives and resources.* If your Wendy's restaurant doesn't yet have the cooking equipment to make breakfasts and has a policy against spending more money on restaurant equipment, then don't try to reach the breakfast segment. As is often the case in marketing decisions, a particular segment may appear attractive according to some criteria and very unattractive according to others.

Choose the Wendy's Segments

Ultimately, a marketing executive has to use these criteria to choose the segments for special marketing efforts. As shown in **Figure 9–9**, let's assume you've written off the breakfast product grouping for two reasons: It's too small a market and it's incompatible with your objectives and resources. In terms of competitive position and cost of reaching the segment, you focus on the four student segments and *not* the three nonstudent segments (although you're certainly not going to turn their business away!). This combination of market-product segments—your target market—is shaded in **Figure 9–9**.

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Step 5: Take Marketing Actions to Reach Target Markets

The purpose of developing a market-product grid is to trigger marketing actions to increase sales and profits. This means that someone must develop and execute an action plan in the form of a marketing program.

Your Immediate Wendy's Segmentation Strategy

With your Wendy's restaurant you've already reached one significant decision: There is a limited market for breakfast, so you won't open for business until 10:30 A.M. In fact, Wendy's first attempt at a breakfast menu was a disaster and was discontinued in 1986. However, that strategy has changed yet again, with its new "fresh made breakfast" menu now being offered in most locations.

Another essential decision is where and what meals to advertise to reach specific market segments. An ad in the student newspaper could reach all the student segments, but it might be too expensive. If you choose three segments for special attention (**Figure 9–10**), advertising actions to reach them might include:

- *Day commuters* (an entire market segment). Run ads inside commuter buses and put flyers under the windshield wipers of cars in parking lots used by day commuters. These ads and flyers promote all the meals at your restaurant to the day commuter segment of students, a horizontal orange row through the product groupings or "meals" in your market-product grid.

- *Between-meal snacks* (directed to all four student market segments). To promote eating during this downtime for your restaurant, offer "Ten percent off all purchases between 2:00 and 4:30 P.M. during spring semester." This ad promotes a single meal to all four student segments, a vertical blue column through the market-product grid.

- *Dinners to night commuters* (selecting a unique market-product combination). The most focused of all three campaigns, this strategy promotes a single meal to the single segment of night commuter students shaded green. The campaign uses flyers placed under the windshield wipers of cars in

parking lots. To encourage eating dinner at Wendy's, offer a free Frosty with the coupon when the person buys a meal between 5 and 8 P.M. using the drive-thru window.

MARKET SEGMENTS	PRODUCT GROUPINGS: MEAL OCCASION			
Behavioral: Where They Live	Lunch	Between- Meal Snack	Dinner	After- Dinner Snack
Dormitory Students	1	3	0	3
Apartment Students	3	3	1	1
Day Commuter Students	3	2	1	0
Night Commuter Students	0	1	3	2

Ads in buses; flyers under windshield wipers of cars in parking lots

Ad campaign: "10% off all purchases between 2:00 and 4:30 P.M. during spring semester"

Ad on flyer under windshield wipers of cars in night parking lots: "Free Frosty with this coupon when you buy a drive-thru meal between 5:00 and 8:00 P.M."

Key: 3 = Large market; 2 = Medium market; 1 = Small market; and 0 = No market

Figure 9–10 Advertising actions to market various meals to a range of possible market segments of students.

Depending on how your advertising actions work, you can repeat, modify, or drop them and design new campaigns for other segments you deem are worth the effort. This advertising example is just a small piece of a complete marketing program for your Wendy's restaurant.

Keeping an Eye on Competition

Competitors will not be sitting still, so in running your Wendy's you must be aware of their strategies as well. McDonald's, for example, is testing a breakfast burrito bowl with kale as an offering for consumers seeking healthier foods. In addition, McDonald's is testing its new

There's always plenty of competition in the hamburger business. Five Guys Burgers and Fries has grown to more than 1,000 outlets.
© ZUMA Press, Inc./Alamy

home delivery service called "McDelivery" in 88 locations, and it is also testing a hands-free payment app that requires customers simply to say their name. Meanwhile, Burger King tested and then added chicken fries to its year-round menu after a surge in demand for the product, and it stopped advertising soft drinks on its kids menu in response to concerns expressed by parents.[18]

Even new hamburger chains are popping up. In 1986, a Virginia husband-and-wife team started the Five Guys Burgers and Fries hamburger restaurant and 15 years later had only five restaurants in the Washington, D.C., area. But from 2003 to 2015, Five Guys exploded, with more than 1,000 locations nationwide and 1,500 new restaurants planned. Some of its points of difference: simple menu and decor, modest prices, only fresh ground beef (none frozen), and a trans-fat-free menu (cooking with peanut oil). But who's keeping track? The Big Three of McDonald's, Burger King, and Wendy's certainly are.[19]

In addition to competition from traditional hamburger chains like Five Guys, all three are responding aggressively to reach the new "fast-casual" market segment. These customers want healthier food and lower prices in sit-down restaurants—a market segment being successfully targeted by fast-casual restaurants like Chipotle Mexican Grill and Panera Bread.[20]

Finally, a new source of competition is emerging from a variety of chains that aren't necessarily classified as restaurants at all. These include convenience store chains like 7-Eleven, coffee shops like Starbucks, smoothie outlets like Jamba Juice, and gas stations with prepared and reheatable packaged food.[21] Many of these outlets are now selling food items and trying to gain market share from the Big Three.

Future Strategies for Your Wendy's Restaurant

Changing customer tastes and competition mean you must alter your strategies when necessary. This involves looking at (1) what Wendy's headquarters is doing, (2) what competitors are doing, and (3) what might be changing in the area served by your restaurant.

Wendy's recently introduced aggressive new marketing programs that include:[22]

- Testing new menu items such as a veggie burger and organic tea for health-conscious consumers.

- Increasing its digital marketing activities through a partnership with Facebook's Global Marketing Services. Recent campaigns included the use of social media to develop lyrics for a song about its new pretzel bun and a script for a movie about the new Tuscan chicken sandwich.

- Offering a beacon-based mobile app in some locations. The free app can detect when a diner who placed an order via a smartphone has arrived at the restaurant.

The Wendy's strategy has been remarkably successful, replacing Burger King as the #2 burger chain in terms of sales behind McDonald's, and it has reported sales growth during a period when McDonald's has experienced declining demand. In addition, a recent *Consumer Reports* survey of the best and worst fast-food restaurants in America ranked Wendy's burgers higher than McDonald's, Burger King, and five other fast-food options.[23]

With these corporate Wendy's plans and new actions from competitors, maybe you'd better rethink your market segmentation decisions on hours of operation. Also, if new businesses have moved into your area, what about a new strategy to reach people that work in the area? Or you might consider a new promotion for the night owls and early birds—the 12 A.M. to 5 A.M. customers.

Apple's Ever-Changing Segmentation Strategy

How has Apple moved from its 1977 Apple II to today's iMac? The Marketing Matters box provides insights.
© SSPL via Getty Images

Steve Jobs and Steve Wozniak didn't realize they were developing today's multibillion-dollar PC industry when they invented the Apple I in a garage on April Fool's Day in 1976. However, when the Apple II was displayed at a computer trade show in 1977, consumers loved it and Apple Computer was born. Typical of young companies, Apple focused on its products and had little concern for its markets. Its creative, young engineers were often likened to "Boy Scouts without adult supervision."[24] Yet in 1984 the new Apple Macintosh revolutionized computers, and its 1984 Super Bowl TV ad is generally recognized as the best TV ad in history.

In 1997, Steve Jobs detailed his vision for a reincarnated Apple by describing a new market segmentation strategy that he called the "Apple Product Matrix." This strategy consisted of developing two general types of computer products (desktops and laptops) targeted at two market segments—the consumer and professional sectors.

In most segmentation situations, a single product does not fit into an exclusive market niche. Rather, product lines and market segments overlap. So Apple's market segmentation strategy

enables it to offer different products to meet the needs of different market segments, as shown in the Marketing Matters box.

Marketing Matters   technology

Apple's Segmentation Strategy—Camp Runamok No Longer

Camp Runamok was the nickname given to Apple in the early 1980s because the innovative company had no coherent series of product lines directed at identifiable market segments. Today, Apple has targeted its various lines of Macintosh computers at specific market segments, as shown in the accompanying market-product grid.

Because the market-product grid shifts as a firm's strategy changes, the one here is based on Apple's product lines in mid-2015. The grid suggests the market segmentation strategy Apple is using to compete in the digital age.

MARKETS		COMPUTER PRODUCTS				
SECTOR	SEGMENT	Mac Pro	MacBook Pro	iMac	MacBook Air	Mac Mini
CONSUMER	Individuals			✓	✓	✓
	Small/home office		✓	✓	✓	
	Students			✓	✓	✓
	Teachers		✓	✓		
PROFESSIONAL	Medium/large business	✓	✓	✓	✓	✓
	Creative	✓	✓	✓		
	College faculty		✓	✓	✓	
	College staff			✓	✓	

Source: Apple Inc.

Market-Product Synergies: A Balancing Act

VIDEO 9-3

Apple's 1984 Super Bowl Ad
kerin.tv/13e/v9-3

Recognizing opportunities for key synergies—that is, efficiencies—is vital to success in selecting target market segments and making marketing decisions. Market-product grids illustrate where such synergies can be found. How? Let's consider Apple's market-product grid in the Marketing Matters box and examine the difference between marketing synergies and product synergies shown there.

-

  What market-product synergies does Apple's iMac satisfy? Read the text to find out.
  Source: Apple Inc.

Marketing synergies. Running horizontally across the grid, each row represents an opportunity for efficiency in terms of a market segment. Were Apple to focus on just one group of consumers, such as the medium/large business segment, its marketing efforts could be streamlined. Apple would not have to spend time learning about the buying habits of students or college faculty. So it could probably create a single ad to reach the medium/large business target

segment (the yellow row), highlighting the only products it would need to worry about developing: the Mac Pro, the MacBook Pro, the iMac, the MacBook Air, and the Mac mini. Although clearly not Apple's strategy today, new firms often focus only on a single customer segment.

- *Product synergies.* Running vertically down the market-product grid, each column represents an opportunity for efficiency in research and development (R&D) and production. If Apple wanted to simplify its product line, reduce R&D and production expenses, and manufacture only one computer, which might it choose? Based on the market-product grid, Apple might do well to focus on the iMac (the orange column), because every segment purchases it.

Marketing synergies often come at the expense of product synergies because a single customer segment will likely require a variety of products, each of which will have to be designed and manufactured. The company saves money on marketing but spends more on production. Conversely, if product synergies are emphasized, marketing will have to address the concerns of a wide variety of consumers, which costs more time and money. Marketing managers responsible for developing a company's product line must balance both product and marketing synergies as they try to increase the company's profits.

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9-5. What factor is estimated or measured for each of the cells in a market-product grid?

9-6. What are some criteria used to decide which segments to choose for targets?

9-7. How are marketing and product synergies different in a market-product grid?

POSITIONING THE PRODUCT

LO 9-5

Explain how marketing managers position products in the marketplace.

When a company introduces a new product, a decision critical to its long-term success is how prospective buyers view it in relation to those products offered by its competitors. **Product positioning** refers to the place a product occupies in consumers' minds based on important attributes relative to competitive products. By understanding where consumers see a company's product or brand today, a marketing manager can seek to change its future position in their minds. This requires **product repositioning**, or *changing* the place a product occupies in a consumer's mind relative to competitive products.

Two Approaches to Product Positioning

Marketers follow two main approaches to positioning a new product in the market. *Head-to-head positioning* involves competing directly with competitors on similar product attributes in the same target market. Using this strategy, Dollar Rent A Car competes directly with Avis and Hertz.

Differentiation positioning involves seeking a less-competitive, smaller market niche in which to locate a brand. McDonald's tried to appeal to the health-conscious segment with its low-fat

More "zip" for chocolate milk? The text and **Figure 9–11** describe how American dairies have successfully repositioned chocolate milk to appeal to adults.
© Mike Hruby

McLean Deluxe hamburger to avoid competing directly with Wendy's and Burger King. But this item was eventually dropped from the menu.

Writing a Positioning Statement

Marketing managers often convert their positioning ideas for the offering into a succinct written positioning statement. The positioning statement is used not only internally within the marketing department, but also for others outside it, such as research and development engineers or advertising agencies.[25] Here is the Volvo positioning statement for the North American market:

For upscale American families who desire a carefree driving experience, Volvo is a premium-priced automobile that offers the utmost in safety and dependability.

This focuses Volvo's North American marketing strategy, so Volvo advertising almost always mentions safety and dependability.

Product Positioning Using Perceptual Maps

A key to positioning a product or brand effectively is discovering the perceptions in the minds of potential customers by taking four steps:

1. Identify the important attributes for a product or brand class.
2. Discover how target customers rate competing products or brands with respect to these attributes.

Discover where the company's product or brand is on these attributes in the minds of potential customers.

4. Reposition the company's product or brand in the minds of potential customers.

As shown in **Figure 9–11**, from these data it is possible to develop a **perceptual map** , a means of displaying in two dimensions the location of products or brands in the minds of consumers. This enables a manager to see how consumers perceive competing products or brands, as well as the firm's own product or brand.
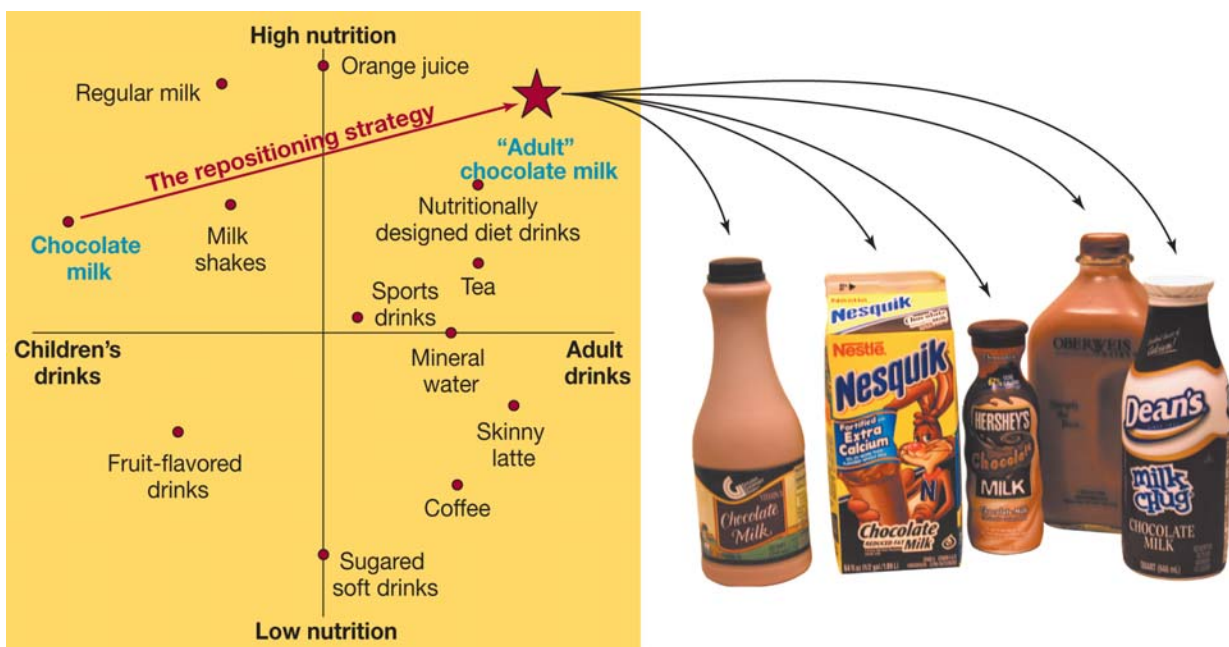
Figure 9–11 The strategy American dairies are using to reposition chocolate milk to reach adults: Have adults view chocolate milk as both more nutritional and more "adult."
© Mike Hruby

A Perceptual Map to Reposition Chocolate Milk for Adults

Recently, U.S. dairies decided to reposition chocolate milk in the minds of American adults to increase its sales. This is how dairies repositioned chocolate milk for American adults using the four steps listed on the previous page:

1. *Identify the important attributes (or scales) for adult drinks.* Research reveals the key attributes adults use to judge various drinks are (*a*) low versus high nutrition and (*b*) children's drinks versus adult drinks, as shown by the two axes in **Figure 9–11**.

2. *Discover how adults see various competing drinks.* Locate various adult drinks on these axes, as shown in **Figure 9–11**.

3. *Discover how adults see chocolate milk.* **Figure 9–11** shows adults see chocolate milk as moderately nutritious (on the vertical axis) but as mainly a child's drink (on the horizontal axis).

4. *Reposition chocolate milk to make it more appealing to adults.* What actions did U.S. dairies take to increase sales? They repositioned chocolate milk to the location of the red star shown in the perceptual map in **Figure 9–11**.

The dairies' arguments are nutritionally powerful. For women, chocolate milk provides calcium, critically important in female diets. And dieters get a more filling, nutritious beverage than with a soft drink for about the same calories. The result: Chocolate milk sales increased dramatically, much of it because of adult consumption.[26] Part of this is due to giving chocolate milk "nutritional respectability" for adults, but another part is due to the innovative packaging that enables many new chocolate milk containers to fit in a car's cup holders.

learning review

9-8. What is the difference between product positioning and product repositioning?

9-9. Why do marketers use perceptual maps in product positioning decisions?

LEARNING OBJECTIVES REVIEW

LO 9-1 *Explain what market segmentation is and when to use it.*

Market segmentation involves aggregating prospective buyers into groups that (*a*) have common needs and (*b*) will respond similarly to a marketing action. Organizations go to the expense of segmenting their markets when it increases their sales, profits, and ability to serve customers better.

LO 9-2 *Identify the five steps involved in segmenting and targeting markets.*

Step 1 is to group potential buyers into segments. Buyers within a segment should have similar characteristics to each other and respond similarly to marketing actions like a new product or a lower price. Step 2 involves putting related products to be sold into meaningful groups. In step 3, organizations develop a market-product grid with estimated sizes of markets in each of the market-product cells of the resulting table. Step 4 involves selecting the target market segments on which the organization should focus. Finally, step 5 involves taking marketing mix actions—often in the form of a marketing program—to reach the target market segments.

LO 9-3 *Recognize the bases used to segment consumer and organizational (business) markets.*

Bases used to segment consumer markets include geographic, demographic, psychographic, and behavioral ones. Organizational markets use the same bases except for psychographic ones.

LO 9-4 *Develop a market-product grid to identify a target market and recommend resulting marketing actions.*

Organizations use five key criteria to segment markets, whose groupings appear in the rows of the market-product grid. Groups of related products appear in the columns. After estimating the size of the market in each cell in the grid, they select the target market segments on which to focus. They then identify marketing mix actions—often in a marketing program—to reach the target market most efficiently.

LO 9-5 *Explain how marketing managers position products in the marketplace.*

Marketing managers often locate competing products on two-dimensional perceptual maps to visualize the products in the minds of consumers. They then try to position new products or reposition existing products in this space to attain maximum sales and profits.

LEARNING REVIEW ANSWERS

9-1 **Market segmentation involves aggregating prospective buyers into groups that have two key characteristics. What are they?**
Answer: The groups (1) should have common needs and (2) will respond similarly to a marketing action.

9-2 **In terms of market segments and products, what are the three market segmentation strategies?**
Answer: The three market segmentation strategies are: (1) one product and multiple market segments; (2) multiple products and multiple market segments; and (3) "segments of one," or mass customization—the next step beyond build-to-order.

9-3 **The process of segmenting and targeting markets is a bridge between which two marketing activities?**
Answer: identifying market needs and executing the marketing program

9-4 **What is the difference between the demographic and behavioral bases of market segmentation?**
Answer: Demographic segmentation is based on some objective physical

(gender, race), measurable (age, income), or other classification attribute (birth era, occupation) of prospective customers. Behavioral segmentation is based on some observable actions or attitudes by prospective customers—such as where they buy, what benefits they seek, how frequently they buy, and why they buy.

9-5 **What factor is estimated or measured for each of the cells in a market-product grid?**

Answer: Each cell in the grid can show the estimated market size of a given product sold to a specific market segment.

9-6 **What are some criteria used to decide which segments to choose for targets?**

Answer: Possible criteria include market size, expected growth, competitive position, cost of reaching the segment, and compatibility with the organization's objectives and resources.

9-7 **How are marketing and product synergies different in a market-product grid?**

Answer: Marketing synergies run horizontally across a market-product grid. Each row represents an opportunity for efficiency in the marketing efforts to a market segment. Product synergies run vertically down the market-product grid. Each column represents an opportunity for efficiency in

research and development (R&D) and production. Marketing synergies often come at the expense of product synergies because a single customer segment will likely require a variety of products, each of which will have to be designed and manufactured. The company saves money on marketing but spends more on production. Conversely, if product synergies are emphasized, marketing will have to address the concerns of a wide variety of consumers, which costs more time and money.

9-8 What is the difference between product positioning and product repositioning?

Answer: Product positioning refers to the place a product occupies in consumers' minds based on important attributes relative to competitive products. Product repositioning involves changing the place a product occupies in a consumer's mind relative to competitive products.

9-9 Why do marketers use perceptual maps in product positioning decisions?

Answer: Perceptual maps are a means of displaying in two dimensions the location of products or brands in the minds of consumers. Marketers use perceptual maps to see how consumers perceive competing products or brands as well as their own product or brand. Then they can develop marketing actions to move their product or brand to the ideal position.

FOCUSING ON KEY TERMS

80/20 rule , 246

market segmentation , 238

market-product grid , 239

perceptual map , 257

product differentiation , 238

product positioning , 256

product repositioning , 256

usage rate , 244

APPLYING MARKETING KNOWLEDGE

1. What variables might be used to segment these consumer markets? (*a*) lawn mowers, (*b*) frozen dinners, (*c*) dry breakfast cereals, and (*d*) soft drinks.

2. What variables might be used to segment these industrial markets? (*a*) industrial sweepers, (*b*) photocopiers, (*c*) computerized production control systems, and (*d*) car rental agencies.

3. In **Figure 9–9**, the dormitory market segment includes students living in college-owned residence halls, sororities, and fraternities. What market needs are common to these students that justify combining them into a single segment in studying the market for your Wendy's restaurant?

4. You may disagree with the estimates of market size given for the rows in the market-product grid in **Figure 9–9**. Estimate the market size, and give a brief justification for these market segments: (*a*) dormitory students, (*b*) day commuters, and (*c*) people who work in the area.

5. Suppose you want to increase revenues for your fast-food restaurant even further. Referring to **Figure 9–10**, what advertising actions might you take to increase revenues from (*a*) dormitory students, (*b*) dinners, and (*c*) after-dinner snacks consumed by night commuter students?

6. Locate these drinks on the perceptual map in **Figure 9–11**: (*a*) cappuccino, (*b*) beer, and (*c*) soy milk.

BUILDING YOUR MARKETING PLAN

Your marketing plan needs a market-product grid to (*a*) focus your marketing efforts and (*b*) help you create a forecast of sales for the company. Use these steps:

1. Define the market segments (the rows in your grid) using the bases of segmentation used to segment consumer and organizational markets.

2. Define the groupings of related products (the columns in your grid).

3. Form your grid and estimate the size of the market in each market-product cell.

4. Select the target market segments on which to focus your efforts with your marketing program.

5. Use the information and the lost-horse forecasting technique (discussed in **Chapter 8**) to make a sales forecast (company forecast).

6. Draft your positioning statement.

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Video Case 9   Video Case 9: Prince Sports, Inc.: Tennis Racquets for Every Segment

VIDEO 9-4

Prince Sports Video Case

kerin.tv/13e/v9-4

"Over the last decade we've seen a dramatic change in the media to reach consumers," says Linda Glassel, vice president of sports marketing and brand image of Prince Sports, Inc.

PRINCE SPORTS IN TODAY'S CHANGING WORLD

"Today—particularly in reaching younger consumers—we're now focusing so much more on social marketing and social networks, be it Facebook, Twitter, or internationally with Hi5, Bebo, and Orkut," she adds.

Linda Glassel's comments are a snapshot look at what Prince Sports faces in the changing world of tennis in the 21st century.

Prince Sports is a racquet sports company whose portfolio of brands includes Prince (tennis, squash, and badminton), Ektelon (racquetball), and Viking (platform/paddle tennis). Its complete line of tennis products alone is astounding: more than 150 racquet models; more than 50 tennis strings; over 50 footwear models; and countless types of bags, apparel, and other accessories.

Prince prides itself on its history of innovation in tennis—including inventing the first "oversize" and "longbody" racquets, the first "synthetic gut" tennis string, and the first

"Natural Foot Shape" tennis shoe. Its challenge today is to continue to innovate to meet the needs of all levels of tennis players.

"One favorable thing for Prince these days is the dramatic growth in tennis participation—higher than it's been in many years," says Nick Skally, senior marketing manager. A recent study by the Sporting Goods Manufacturers Association confirms this point: Tennis participation in the United States was up 43 percent—the fastest-growing traditional individual sport in the country.

TAMING TECHNOLOGY TO MEET PLAYERS' NEEDS

Every tennis player wants the same thing: to play better. But they don't all have the same skills, or the same ability to swing a racquet fast. So adult tennis players fall very broadly into three groups, each with special needs:

- *Those with shorter, slower strokes.* They want maximum power in a lightweight frame.
- *Those with moderate to full strokes.* They want the perfect blend of power and control.
- *Those with longer, faster strokes.* They want greater control with less power.

To satisfy all these needs in one racquet is a big order.

"When we design tennis racquets, it involves an extensive amount of market research on players at all levels," explains Tyler Herring, global business director for performance tennis racquets. Prince's research led it to introduce its breakthrough O³ technology. "Our O³ technology solved an inherent contradiction between racquet speed and sweet spot," he says. Never before had a racquet been designed that simultaneously delivers faster racquet speed with a dramatically increased "sweet spot." The "sweet spot" in a racquet is the middle of the frame that gives the most power and consistency when hitting. Recently, Prince introduced its latest evolution of the O³ platform called EXO[3]. Its newly patented design suspends the string bed from the racquet frame—thereby increasing the sweet spot by up to 83 percent while reducing frame vibration up to 50 percent.

SEGMENTING THE TENNIS MARKET

"The three primary market segments for our tennis racquets are our performance line, our recreational line, and our junior line," says Herring. He explains that within each of these segments Prince makes difficult design trade-offs to balance (1) the price a player is willing

to pay, (2) what playing features (speed versus spin, sweet spot versus control, and so on) they want, and (3) what technology can be built into the racquet for the price point.

Within each of these three primary market segments, there are at least two subsegments—sometimes overlapping! **Figure 1** gives an overview of Prince's market segmentation strategy and identifies sample racquet models. The three right-hand columns show the design variations of length, unstrung weight, and head size. The figure shows the complexities Prince faces in converting its technology into a racquet with physical features that satisfy players' needs.

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MARKET SEGMENTS			PRODUCT FEATURES IN RACQUET			
Main Segments	Subsegments	Segment Characteristics (Skill level, age)	Brand Name	Length (Inches)	Unstrung Weight (Ounces)	Head Size (Sq. in.)
Performance	Precision	For touring professional players wanting great feel, control, and spin	EXO³ Ignite 95	27.0	11.8	95
	Thunder	For competitive players wanting a bigger sweet spot and added power	EXO³ Red 95	27.25	9.9	105
Recreational	Small head size	For players looking for a forgiving racquet with added control	AirO Lightning MP	27.0	9.9	100
	Larger head size	For players looking for a larger sweet spot and added power	AirO Maria Lite OS	27.0	9.7	110
Junior	More experienced young players	For ages 8 to 15; somewhat shorter and lighter racquets than high school or adult players	AirO Team Maria 23	23.0	8.1	100
	Beginner			19.0	7.1	82

For ages 5 to 11; much shorter and lighter racquets; tennis balls with 50% to 75% less speed for young beginners	Air Team Maria 19

Figure 1 Prince targets racquets at specific market segments.

DISTRIBUTION AND PROMOTION STRATEGIES

"Prince has a number of different distribution channels—from mass merchants like Walmart and Target, to sporting goods chains, to smaller specialty tennis shops," says Nick Skally. For the large chains, Prince contributes co-op advertising for its in-store circulars, point-of-purchase displays, in-store signage, consumer brochures, and even "space planograms" to help the retailer plan the layout of Prince products in its tennis area. Prince aids for small tennis specialty shops include a supply of demo racquets, detailed catalogs, posters, racquet and string guides, merchandising fixtures, and hardware, such as racquet hooks and footwear shelves, in addition to other items. Prince also provides these shops with "player standees," which are corregated life-size cutouts of professional tennis players.

Prince reaches tennis players directly through its website (**www.princetennis.com**), which gives product information, tennis tips, and the latest tennis news. Besides using social networks like Facebook and Twitter, Prince runs ads in regional and national tennis publications and develops advertising campaigns for online sites and broadcast outlets.

In addition to its in-store activities, advertising, and online marketing, Prince invests heavily in its Teaching Pro program. These sponsored teaching pros receive all the

latest product information, demo racquets, and equipment from Prince, so they Page 262 can truly be Prince ambassadors in their community. Aside from their regular lessons, instructors and teaching professionals hold local "Prince Demo events" around the country to give potential customers a hands-on opportunity to see and try various Prince racquets, strings, and grips.

Prince also sponsors over 100 professional tennis players who appear in marquee events such as the four Grand Slam tournaments (Wimbledon and the Australian, French, and U.S. Opens). TV viewers can watch Russia's Maria Sharapova walk onto a tennis court carrying a Prince racquet bag or France's Gael Monfils hit a service ace using his Prince racquet.

Where is Prince headed in the 21st century? "As a marketer, one of the biggest challenges is staying ahead of the curve," says Glassel. And she stresses, "It's learning, it's studying, it's talking to people who understand where the market is going."[27]

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Questions

1. In the 21st century what trends in the environmental forces (social, economic, technological, competitive, and regulatory) (*a*) work for and (*b*) work against success for Prince Sports in the tennis industry?

2. Because sales of Prince Sports in tennis-related products depends heavily on growth of the tennis industry, what marketing activities might it use in the United States to promote tennis playing?

3. What promotional activities might Prince use to reach (*a*) recreational players and (*b*) junior players?

4. What might Prince do to gain distribution and sales in (*a*) mass merchandisers like Target and Walmart and (*b*) specialty tennis shops?

5. In reaching global markets outside the United States (*a*) what are some criteria that Prince should use to select countries in which to market aggressively, (*b*) what three or four countries meet these criteria best, and (*c*) what are some marketing actions Prince might use to reach these markets?

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