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Targeting, Segments and Positioning

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MARKET SEGMENTATION

High-growth companies succeed by identifying and meeting the needs of certain kinds of customer, not all customers, for special kinds of products and service, not all products or all services. Business academics call this market segmentation. Entrepreneurs call it common sense[1].

Different consumers have varying desires and interests: witness the extensive array of products on supermarket shelves. This variety stems from diverse buying practices and basic variations of customers' needs and the benefits they seek from products. It is almost impossible to satisfy all customers in a market with a single product or service. Companies have responded by offering a proliferation of products and brands. Increasingly, therefore, companies have found it essential to move away from mass marketing towards a target marketing strategy where the focus is on a particular group of customers. This identification of target customer groups is market segmentation, where customers are aggregated into groups with similar requirements and buying characteristics. The Henry Ford Model "T" philosophy — you can have any colour as long as it is black — is no longer an appropriate one!

Even some of the last remaining bastions of mass marketing have fallen, adopting — for a variety of reasons — a target marketing approach based on clearly defined market segments. Boots used to have a uniform concept; now there is Boots Pharmacy versus Boots Health and Beauty versus the Boots variety store. With the advent of the "green" movement, consumers have been targeted with products like unleaded petrol, increasingly branded separately from the major petroleum companies' leading brands. The market for high volume products has moved with the times: the classic case is salt, with low sodium substitutes being offered to satisfy the increasingly health conscious. In retailing, one of the last bastions of mass marketing, Woolworths, gave in to targeting and focusing during the 1980s.

The rationale for using market segmentation has attracted considerable interest in both the popular and academic marketing press[2-6]. Many companies, such as Aldi, British Shoe Corporation, Burtons, Next, Oddbins, Toys R Us and TSB have demonstrated that the effective implementation of market segmentation and subsequent targeting leads to success. By itself, effective segmentation does not sustain success — Sock Shop and Next testify to that — but it is a necessary prerequisite!

The Segmentation Process

The process by which segmentation takes place consists of three main elements: segmentation, targeting and positioning[7]. Figure 1 gives an overview of these elements.

From a tactical view point, positioning represents the "sharp end" for marketers: the product's image relative to its competitors in the consumer's view[8]. The challenge here is to translate the needs and wants of the targeted customers into a tangible mix of product, price, promotion, distribution and service levels with maximum appeal. The number of segments being targeted will, of course, vary from market to market, for different products, and from company to company. It is critical, though, that the impact on those segments selected is high and well defined[9].

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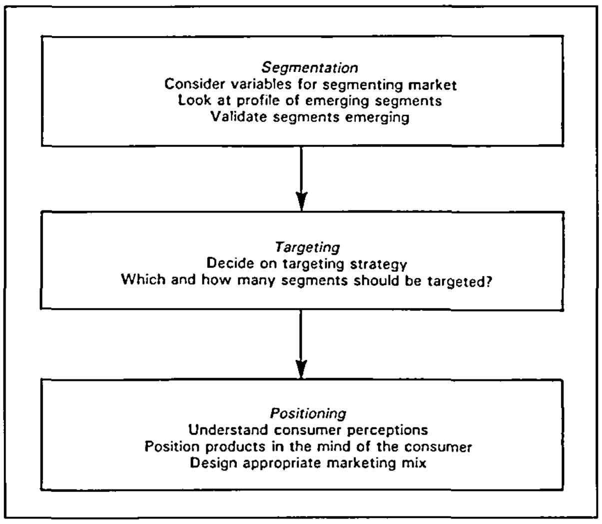

FIGURE 1.
The Basic Elements of Segmentation

The search for effective positioning needs to be tempered: there is sometimes a tendency to forget that it is the customer's wants and expectations which are the key. The particular product, service or retail brand itself may be of low importance; what matters is the particular need satisfied and the benefit offered (e.g. a typewriter ribbon by itself is of low value, but the finished document is of importance; painkillers, where the product is unimportant but pain relief is the focus; the Harrods shopping experience). The product or brand positions will depend on the company's capabilities, on the tangible and practical nature of the product or service in question, and on how well the competition can match the targeted segment's requirements. Success, after all, depends on how customers prefer one particular product or retail brand, its marketing strategy and perceived image, to those products offered by competing companies.

Careful segmentation of a market can identify distinct market opportunities. Tactical insight as to how these opportunities can be exploited comes from the improved understanding of customer needs in the targeted group. For example, more appropriate product styling or promotional activity, different price points or service levels may be introduced. Benefits like these are clearly demonstrated by the case of Adams Childrenswear.

Adams

Originally an independently owned private family company, Adams is now the chidren's wear division of the mighty Sears. From being a loss making "me too" in a market dominated by Conran's Mothercare, Woolworth and Boots, Adams has emerged as market leader in its sector and one of the few retailers in the UK to be improving on its financial performance during the current retailing recession. In 1987/88 net sales were £18 million. Now they are approaching a four-fold increase and by 1991/92 year end, sales are projected to be £180 million. During the same 1987/92 period, the number of outlets is likely to rise from 126 to around 285 giving full national coverage. The company is now evaluating the viability of franchising its brand and expanding overseas.

What has led to the success and turnaround of Adams? Clear thinking and the development of a marketing strategy have enabled the management to take advantage of range omissions in Marks & Spencer and BhS and of the managerial and financial troubles of Mothercare. Adams examined its market, evaluating each competitor to determine the positioning of the major players. This analysis was in the light of extensive market research designed to understand the needs and expectations of consumers; children up to the age of eight and their parents/grandparents — a clearly defined market segment.

Traditionally Adams' differential advantage had been price but the company knew that "price alone will not be sufficient differential advantage to take Adams forward to market leadership". Adams opted to focus on design (of stores and merchandise), quality, value and convenience. Consumer research revealed that product quality and durability dominate the buyers' decision making: the company's in-house Quality Control Department is well resourced and increasingly sets industry standards. Young mothers often lack time and mobility — convenience of location and store layout is a key choice determinant. Adams has also geared up to catering for the relatively inexperienced shopper, with an emphasis on customer service and extensive training facilities and programmes for all personnel. Through product choice and design, customer service, store design and image, Adams has created a distinctive positioning, catering for a specific segment.

How to Segment the Market

In the case of Adams, customer demographics and the product benefits sought were used as the basis for segmenting the market. This is one of the many ways in which customers can be grouped. In consumer markets, general characteristics like customer age, sex and personality are often used[10]. A more comprehensive breakdown of options for the marketer of consumer goods is shown in Table I.

Basic Customer Characteristics

Because of the ease with which information concerning basic customer characteristics can be obtained and measured, the use of these variables is widespread.

Demographics

Age
Sex
Family
Race
Religion

The family life-cycle concept is an imaginative way of combining demographic variables[11]. The impact of family life cycle can be seen in markets ranging from tourism to housing and financial services.

Socioeconomics

Income
Occupation
Education
Social class

Different income groups have different aspirations not only in terms of the products they buy, but also in the shopping locations which they visit.

Geographic location

Country
Region
Type of urban area (conurbation — village)
Type of housing (affluent suburbs — inner city)

Personality, motives and life style

Holiday companies often use life style[12], to segment the market. Club Med, for example, concentrates on young singles while other tour operators cater especially for senior citizens or young families.

Product-related Behavioural Characteristics

Purchase behaviour
Marks & Spencer shoppers may be highly brand loyal, Kwik Save shoppers probably shop purely on the basis of price.

Purchase occasion
A motorist making an emergency purchase of a replacement tyre, while on a trip far from home, is less likely to haggle about price than the customer who has chance to "shop around". Distress purchases of this kind rely particularly on fast distribution and availability.

Benefits sought
When customers buy toothpaste they seek different benefits[13]. For some, fresh breath and taste are essential while for others, fluoride protection is the key. The product Macleans Sensitive caters for a minority group which requires protection for sensitive teeth.

Consumption behaviour and user status
Examining consumption patterns can indicate where companies should be concentrating their efforts. Light or non-users are often neglected. The important question to ask is why consumption in these groups is low.

Attitude to product
Different customers have different perceptions and preferences of products on offer. As all retailers do, car manufacturers, from Skoda to Porsche, are in the business of designing their total offering, from the product itself, to the retail showroom in which it is displayed, to match preferences, changing perceptions as necessary.

TABLE I.
Variables for Segmenting Consumer Markets

Sketchley

Sketchley is the largest UK dry cleaning operation, with over 500 retail outlets in the Midlands and South East of the country. It had an up-to-date retail image with high street shops aimed at the middle market male and female user. Market research, examining customer types and usage behaviour, showed that the only growth likely in the marketplace — a begrudged consumer activity — was from executives, wearers of business suits. The current high street operation was not convenient in terms of location or opening hours for such users. Sketchley developed a free-standing separate retail operation, initially in London, called Sketchley Executive, with a narrow product range, premium pricing, longer opening hours and different service levels. Pitched clearly at commuters and office workers, the retail concept allowed the company to target specifically the major segment in the marketplace gaining non-users of dry cleaners and users of competing operations. Sketchley's mainstream operation now also caters for the growth segment on a national scale.

Dry cleaning company Sketchley recognised the particular needs of a certain customer group in its market. In this case, the segment identified could be distinguished primarily in terms of socioeconomic factors.

Uses of Effective Segmentation

Market segmentation can be used by minor players in the market to gain a foothold in a particular niche; i.e. by identifying an opportunity not directly concentrated on by the brand or market leaders (e.g. Ecover washing-up liquid or Tie Rack). However, even market leaders, whether Burtons or Sainsbury, use market segmentation profitably and effectively. There are four types of product and market opportunities which can be pursued:

(1) *Market penetration*: increasing the percentage of sales in present markets by taking sales from competitors (the development of the Range Rover as a yuppie vehicle or the strategy of Burtons, Sainsbury or Ratners).

(2) *Product development*: offering newer, improved products to current markets, through the expansion of the product range (launch of the Land Rover Discovery, the introduction of squeezy Heinz ketchup containers, Sears' clothes and shoes).

(3) *Market development*: selling existing products to new markets by finding new applications (the offering of Evian mineral water in a mist spray — a new concept in skin care, Ryman stationery, Dixons' business computers).

(4) *Diversification*: moving into new markets by offering new products (the once consumer-oriented Amstrad launching office equipment such as fax machines, Marks & Spencer into housewares and furniture, Dixons into office equipment).

A Note of Caution

Segmentation can undoubtedly help to identify a diversity of market opportunities, but haphazard implementation will lead to failure. To be effective, segmentation must satisfy several criteria[7]. Segments must be:

- identifiable — easy to define and measure;
- viable — large enough to be potentially profitable;
- marketable and controllable — easy to pinpoint with sales and promotional effort;
- stable — remain the same long enough for action to be taken.

It is also essential to avoid the dangers of tunnel vision. Companies must recognise that there is rarely only one "right" way to segment a particular market. It is inevitable, too, that changing consumer trends and stagnant sales sometime signal the need for a change in targeting policy.

TARGETING

Having identified market segments, marketers must decide which, if any, they intend to enter. A marketing programme which covers all elements of the marketing mix can then be designed to suit the particular requirements of those segments targeted. Sears-owned British Shoe Corporation dominates the UK footwear retailing sector, mainly through medium- and budget-priced chains such as Dolcis, Saxone, Freeman Hardy Willis. The company realised it was not catering for the upper end of the market which had lower volumes but higher unit margins. Cable & Co. was duly launched to cater for this segment of the market.

Once segments have been identified, decisions about how many and which customer groups to target can be made[14]. Options include:

- concentrating on a single segment with one product/retail brand
- offering one product/retail brand to a number of segments
- targeting a different product/retail brand at each of a number of segments.

The choices which companies make must take into consideration the resource implications of following a particular strategy. The actions of Adams and Sketchley described above confirm that it is not always possible or appropriate to target the whole of a particular market. The success of Body Shop, one of the fastest growing niche retailers, is based on a single segment strategy. By focusing resources on a well-defined customer group the company has been able to develop a concept and mix of offerings with particularly strong appeal.

Body Shop

From a single shop in Brighton, financed with a £4,000 loan, Body Shop has grown to a company valued at around £450 million, with close to 550 stores in nearly 40 countries. The original Body Shop sold just 15 products. Today, the shops stock more than 300 soaps, gels, scrubs and the like. Described in 1984 by *Investors Chronicle* as cashing in "on the trendy phobia that the major brands of shampoo, soap and make-up contain nasty chemicals that do more harm than good", Body Shop has shown that as a niche retailer the fate of Tie Rack or Sock Shop is not inevitable. Led by Anita Roddick, Body Shop has become the most successful of the "green" retailers, based on the ethos, "the most honest cosmetics company in the world".

Roddick believes the cosmetic industry is run by men who create needs that do not exist, making women feel incredibly dissatisfied. The Body Shop philosophy is based on healthy products, rather than their purely cosmetic value. It is also one of the few companies that has put issues such as acid rain, waste and pollution as shop window issues to educate its customers. Body Shop has always used recycled paper for packaging, and is a corporate member of Friends of the Earth.

The Body Shop ethos includes a determination to cut out hype and packaging. Using natural products, it aims to promote health rather than glamour. Based on a clear understanding of certain customers' needs and a very distinctive positioning strategy, Body Shop is one of the world's fastest growing and most successful niche retailers.

POSITIONING

Companies must decide precisely how and where in targeted segments to aim a product or products, brand or brands. The needs and wants of targeted customers must be translated into a tangible mix of product, price, promotion and distribution. The consumers' view of the product and where it is positioned relative to the competition is particularly critical. After all, the paying public does not always perceive a product or brand in the way the manufacturer would like. Yugo and Lada cars are, to the chagrin of management, widely perceived with ridicule by the car-buying public. Despite the efforts of Littlewoods Stores or BhS, the retailers have yet to live up to analysts' expectations.

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THE PRODUCT MUST BE PERCEIVED BY THE SELECTED TARGET CUSTOMERS TO HAVE A DISTINCT IMAGE

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According to Wind[15], "a product's positioning is the place a product occupies in a given market, as perceived by the relevant group of customers; that group of customers is known as the target segment of the market". Harrison[16] states that the position of a product is,

> the sum of those attributes normally ascribed to it by the consumers — its standing, its quality, the type of people who use it, its strengths, its weaknesses, any other unusual or memorable characteristics it may possess, its price and the value it represents.

Positioning starts with a product — a piece of merchandise, a service, a company, an institution, or even a person. Positioning is not what is done to the product or retail brand, it is what is created in the minds of the target customers; the product is positioned in the minds of these customers and is given an image. There may be a few "cosmetic" changes to the product/brand — to its name, price, packaging, styling or location — but these are to facilitate the successful promotion of the image desired by the target customers. The product must be perceived by the selected target customers to have a distinct image and position *vis à vis* its competitors, as in the Aldi example. Product or retail brand differentiation is widely viewed as the key to successful retail marketing; the brand must stand out and have a clearly defined position[6].

Determining a Position

Positions are described by variables and within parameters which are important to the customers and which essentially are selected by them. Price may be the key in grocery shopping, service level in selecting a hotel, quality and reliability when purchasing an electrical appliance such as a washing machine, value for money when choosing

Aldi Expansion

As the major UK grocery retailers positioned themselves increasingly middle/upmarket with extensive ranges, own label goods, customer service a priority and large stores with carefully conceived facilities and atmospherics, the budget-conscious sector of the market was left in the hands of Kwik Save.

With only 2,500 lines, concentrating on manufacturer brands, no frills service and small supermarkets in town or in the suburbs, Kwik Save has become one of the UK's most successful companies.

Now, however, the market is changing. Aldi, the German discounter, has already opened its first branches in the Midlands. Already one of Europe's largest grocery retailers, Aldi offers no luxuries, no customer services and secondary sites with no expense devoted to store design and fitting out. Aldi concentrates on many of its own label products but they — along with manufacturer brands — are displayed in their shipping containers — in boxes. A limited range of essentials for C2, D, E shoppers, where price is the key, is the Aldi approach.

Discount grocery retailing has not been successful in the UK. Tesco is still shaking off its former discount image. Supasave went into liquidation in 1982, Pricerite was carved up by Shoppers Paradise and Argyll. Shoppers Paradise itself was devoured and rebranded by Gateway in 1986. The only success story has been Kwik Save. For Aldi, however, UK grocery margins of 5-7 per cent are perceived as high, enticing Aldi into the UK. It remains to be seen if Aldi can create a network of branches large enough to give it the necessary scale economies to trade on price. UK consumers have yet to accept the discount, limited range positioning in a market led by such high profile retailers as Sainsbury, Tesco, Gateway, Argyll (Safeway), Asda and Marks & Spencer.

which theme park to visit. In-depth market research (often focus group discussions) is required to understand customer motivations and expectations adequately in a particular market. Management's intuition is not always sufficient. For example, research revealed that Cl, C2, D, E social group consumers often have to decide between replacement lounge or dining room furniture and a family overseas package holiday. Management at most leading furniture retailers perceived other furniture retailers to be their competitors when in reality they were additionally competing for consumers' disposable income against other diverse product areas. In this budget-conscious sector of the furniture buying market, retailers believed only price to be important. In-depth research proved that value for money was perceived to be the main purchase consideration, which included product quality and durability in addition to price.

RESEARCH EXAMINES CONSUMER PERCEPTIONS OF VARIOUS BRANDS WHICH OPERATE IN THE MARKET

In-depth market research leads to an understanding of how consumers perceive products, which marketing variables they believe to be most important and by what magnitude. Such research examines consumer perceptions of various brands — or companies — which operate in the market under scrutiny. Perceptual mapping is a tool commonly adopted by marketers and market researchers visually to depict such consumer perceptions and "prioritising" of brands and their perceived attributes. Figure 2 illustrates an example where consumers thought product range width and price were the key characteristics of the market. X marks the "ideal" position: high product range width and above average price (typical of high quality shopping goods such as cameras or hifi systems). Brands (or companies) A and C are perceived as relatively close to the ideal — their pricing policy does not fully match the image required — but brand (or company) B is viewed as being too cheap with inadequate product range width. Figure 3 illustrates how consumers of children's wear in the UK realised that the positioning of Adams had shifted to reflect the quality improvements of merchandise, stores and

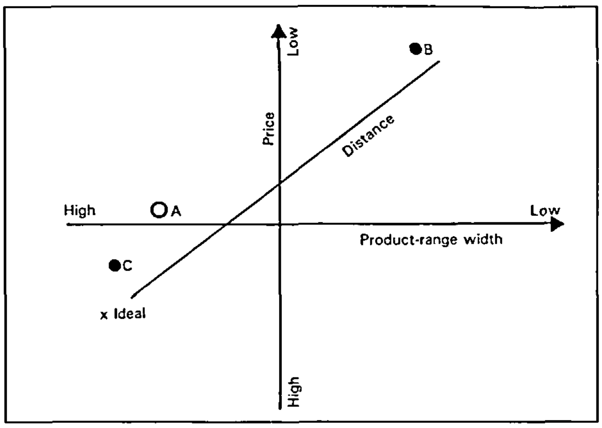

FIGURE 2.
Positioning Map of Hypothetical Consumer Preferences

personnel. Adams had successfully repositioned its brand to move away from being perceived as a budget-oriented retailer.

Steps in Determining a Positioning Plan

(1) Define the segments in a particular market.

(2) Decide which segment to target.

(3) Understand what the target consumers expect and believe to be most important when deciding on the purchase.

(4) Develop a product or retail brand which caters specifically for these needs and expectations.

(5) Evaluate the positioning and images, as perceived by the target customers, of

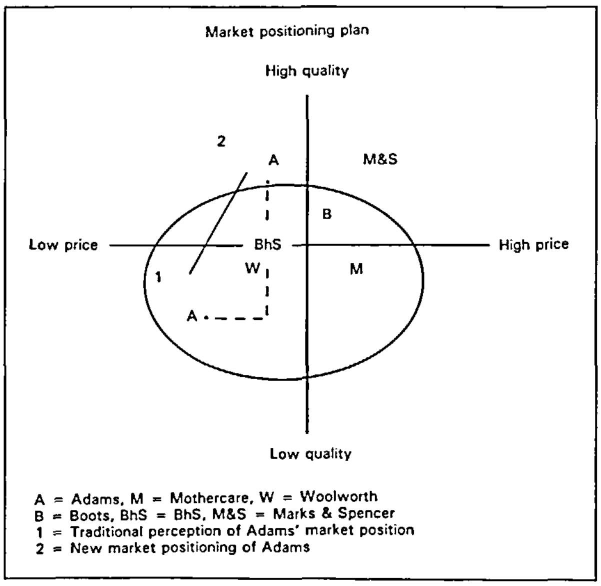

FIGURE 3.
UK Children's Wear — Positioning of Major Retailers Featuring the Repositioning of Adams

competing products/retail brands in the selected market segment (or segments).

(6) With knowledge of your product/brand, the needs and expectations of target customers, their perception of competing brands' positioning select an image which sets your brands apart from the competing brands, ensuring the chosen image matches the aspirations of the target customers. The selected positioning and imagery must be credible: consumers would not believe Lada or Skoda if they promoted their cars in the same manner as Porsche or Lotus, or Owen Owen as the provincial Harrods.

(7) The marketer must then tell his/her target consumers about the product — promotion — as well as making it readily available at the right price: the development of the full marketing mix.

Whether positioning or repositioning it is essential to have a good understanding of those targeted[17]. Having recognised intrinsic differences between customers the opportunity to use this to improve targeting effectiveness must not be lost. With this kind of information companies, like Boots with Children's World or Sears with Adams, can find themselves better equipped to tailor the mix of product/service offering, price, promotion and distribution strategies to maximise appeal.

CONCLUSION

Whatever method is eventually adopted, the key issue is the utility of the final solution. From management's viewpoint segments where it is possible to develop an edge over competitors are especially attractive. This means carefully considering customer groups and the organisation's capability for operating in the particular area. Johnson and Johnson, as a brand, for example has chosen to focus on baby care toiletries, while TSB has identified niche markets amongst elderly customers. The bottom line is that meaningful, accessible groups of customers, demonstrating similar product/service requirements, are identified, with product and marketing geared accordingly.

Of course, not all segments and associated marketing lead to continued success: the demise of Next and Sock Shop illustrate the need for continual updating and revision of strategies. Consumers' needs change, competitor activity is progressing continuously and the trading environment is dynamic. Concepts and strategies must be revised and, if necessary, replaced to avoid consumers growing tired with the brand and its perceived qualities[14].

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