**MARKET SEGMENTATION, TARGETING AND POSITIONING (STP)**

**Market segmentation: meaning and definitions**

**Levels of market segmentation**

**Bases for segmentation**

**Criteria for effective targeting of market segments**

**Approaches for selecting target markets**

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**INTRODUCTION**

Marketers can not be all things to all consumers. A firm can not satisfy every consumer with the same product, no matter how effectively it designs the product and its marketing mix. It happens because customers are too numerous and diverse in their buying requirements

For example, if you ask ten people about their favourite level of music or perfume, you might get ten different answers. In such a case it would be difficult for one company to meet the needs of each and every consumer. At the same there, most of the companies can not often a customized product for every consumer in a market at a cost that all consumers could afford. In order to develop a successful marketing strategy, marketers must group consumers into segments that each can be satisfied by a specific product.

When a firm decides to design a new product, it makes decisions that it knows it will appeal to some consumers and not to others. Marketers such as P&G and HLL offer many products in the same category, each of which is designed to appeal to a specific consumer segment, so that the company can profit from sales to many diverse segments. Such multiple product marketers must understand the consumer segments and which appeals to each of man so not they can design their products accordingly. In doing so, marketers must adopt three steps of target marketing:

* (a)  Identify and profile different group of consumers who differ in their preferences (segmentation).
* (b)  Select one or more market to enter (market targeting)
* (c)  For each target segment, establish and communicate the major distinctive benefits of the company’s market offering (market positioning)

(*Source*: Philip Kotler, Marketing Management)

**MARKET SEGMENTATION: MEANING AND DEFINITIONS**

Market segmentation can be defined as the process of dividing a market into distinct subsets of consumers with common needs or characteristics and selecting one or more segments to target with a distinct marketing mix. –Schiffman and Kanuk

As per S.J. Skinner: *Market segmentation is the process of dividing a total market into groups of consumers who have relatively similar product needs.*

Rajan Saxena defines segmentation as *the process of dividing a heterogeneous market into homogenous sub units*.

So, on the basis of the above definitions, it can be concluded that segmentation is to divide a market consists of consumers with diverse characteristic and behaviours into homogenous segments that contain persons who will all respond similarly to a firm’s marketing effort. When this is done, the company is in a position to answer “What are our target markets.”

**LEVELS OF MARKET SEGMENTATION**

The number of possible segments that will result from a segmentation analysis can be as few as one or as many as the total number of consumers that are in the total market. The marketer’s choice of segments should reflect actual similarities in consumer background characteristics and behaviours that will result similar purchase decisions. Typically, various kinds of markets can result from a segmentation analysis.

**(a) Mass Marketing**: In mass marketing consumers are indistinguishable and all are in one segment. Here the seller engages in the mass production, mass distribution, and mass promotion of one product for all buyers. The essence of this strategy was summed up by the entrepreneur Henry Ford, who offered the Model T automobile to the public “in any colour they wanted, as long as it was black”. Mass marketing would be a logical strategy if all consumers were alike regarding their needs, wants and demands with same background, education and experience. Its primary advantage is that it costs less. But in the diversified market, this strategy does not seem logical and ultimately marketers end up with the strategy of ‘segmented market’.

**(b) Segment Marketing**: A segmented market is one in which meaningful differences among consumers result in a modest number of segments. Here the segment consists of a group of customers who share a similar set of wants. The strategy of segmentation allows producers to avoid head-on competition in the market by differentiating their offerings, not only on the basis of price, but also through styling, packaging, promotional appeal, method of distribution, and superior service.

**(c) Niche Marketing**: Now a days marketers are increasingly using highly focused marketing programmes to target small consumer niches with products and services that fit their interests and life-styles. Niche marketing is sometimes also called micro-marketing. Marketers usually identify niches by dividing a segment into sub-segments. The customers in the niche have a different set of needs and they are also ready to pay a premium to the firm that best satisfies their needs. The niche is not likely to attract competition from the other marketers. For example, Ferrari gets a high price for its cars because loyal buyers feel no other automobile comes close to offering the product, service membership benefit bundle that Ferrari does.

**(d) Local Marketing**: When marketing programmes are designed to cater the needs and wants of local customer groups (trading areas, neighbourhoods, individual stores). For example Punjab National Bank and State Bank of India provide different mixes of banking services in their different branches, depending on neighbourhood demographics.

You can always find a vegetable shop near to your locality and in the same manner a drug store or a retail store so that needs and wants of local customer groups can be fulfilled.

**(e) Individual Customer Marketing**: When a marketer detects as many segments as there are consumers, so that each segment is composed of only one consumer, it has been identified an individual marketing or a customized marketing. This results when the marketer believes that no two consumers will respond the same way to its marketing efforts. As a result, the marketer is forced to produce a customized product specifically designed and positioned for each consumer to whom it wants to market. Health and exercise marketers provide examples of customized marketing. They are the personal trainers who develop a customized exercise programmes for their clients and exercise with them on individual basis. Today the information revolution is enabling a growing number of companies to mass-customize their offerings. Mass-customisation is the ability of a company to prepare on a mass basis individually designed products, services, programmes, and communication to meet each customer’s requirements. It is a strategy that mobilizes the combined power of mass production technologies and computers to make varied, customized products for individual customers.

**BASES FOR SEGMENTATION**

The first step in developing a segmentation strategy is to select the most appropriate bases on which to segment the market. Five major categories of consumer characteristics provide the most popular bases for market segmentation. They include geographic factors, demographic factors, psychological factors, socio-cultural variables, and use related factors etc. Let’s discus these factors in brief.

**(a) Geographical Segmentation**: In geographic segmentation, the market is divided by location. The theory behind this strategy is that people who live in the same area share some similar needs and wants and that these needs and wants differ from those of people living in other areas. For example, certain food products sell better in one region than in others. Some marketing theorists and marketing practitioners believe that worldwide satellite television transmission and global communication networks have erased all regional boundaries and therefore, that geographic segmentation should be replaced by a single global marketing strategy. Other marketers, have, for a number of years, been moving in the opposite direction and developing highly regionalised marketing strategies. In summer, geographic segmentation is a useful strategy for many marketers. It is relatively easy to find geographically based differences for many products. In addition, geographic segments can easily be reached through the local media, including newspapers, TV, and radio, advertisement through regional editions of magazines.

**(b) Demographic Segmentation**: Demographic characteristic, such as **age, sex, martial status, income, occupation and education** are most often used as the basis for market segmentation. Demography refers to the vital and measurable statistics of a population Demographics help to locate a target market, whereas psychological and socio-cultural characteristics help to describe how its members think and how they feel. Demographic information is the most accessible and cost- effective - Way to identify a target market. Indeed, most secondary data, including census data, are expressed in demographic terms. Demographics are easier to measure than other segmentation variables. They are invariably included in psychographic and socio-cultural studies, because they add meaning to the findings. Demographic variable reveal ongoing trends, such as shifts in age, sex (gender), and income distributions, that signal business opportunities.

**(c) Psychological/Psychographic Segmentation**: Psychological characteristics refer to the inner or intrinsic qualities of the individual consumer. Consumer segmentation strategies are often based on specific psychological variables. For instance, consumers may be segmented in terms of their needs and motivations, **personality, perceptions, learning, level of involvement, and attitudes.** For example Colgate Palmolive, AT & T services, Kentucky fried Chicken and Nescafe Coffee. Marketers conduct psychographic research to capture insights and create profiles of the consumers they wish to target.

**(d) Socio-cultural Segmentation**: Sociology and anthropological variables- that is, socio-cultural variables- provide further bases for market segmentation. For example, consumer markets have been successfully subdivided into segments on the basis of stage in the **family life cycle, social class, core cultural values, sub-cultural memberships, and cross-cultural affiliation.**

*Family Life Cycle*: Family life cycle segmentation is based on the premise that many families pass through similar phases in their formation, growth and final dissolution. At each phase the family unit needs different products and services. Family life cycle is a composite variable based explicitly on marital and family status, but implicity including relative age, income, and employment status. Each of the stages in the traditional family life cycle (Le. bachelorhood, honeymooners, parenthood, past parenthood, and dissolution) represents an important target segment to a variety of marketers.

*Social Class*: Social class (or relative status in the community) is a potential segmentation variable. It is traditionally “measured” by a weighted index of several demographic variables, such as education, occupation, and income. The concept of social class implies a hierarchy in which individuals in the same class generally have the same degree of status, while members of other classes have either higher or lower status. Marketers regularly have used their knowledge of social class differences to appeal up specific segments. Many major banks, for example, offer a variety of different levels of service to people of different social classes. (e.g. private banking services to the upper classes).

*Culture, Subculture and Cross Culture*: Some marketers have found it useful to segment their domestic and international markets on the basis of cultural heritage, because members of the same culture trend to share the same values, beliefs, and customs. Marketers who use cultural segmentation stress specific, widely held cultural values with which they hope consumers will identify. Cultural segmentation is particularly successful in international marketing, but in such instances, it is important for the marketer to understand fully the beliefs, values, and customs of the countries in which the product is marketed.

**(e) Use-Related Segmentation**: An extremely popular and effective form of segmentation categories consumers in terms of product, service, or brand usage characteristics, such as usage rate, awareness status, and degree of brand loyalty. Rate of usage segmentation differentiates among heavy users, medium users, light users, and non users of a specific product, service or brand”. Marketers of a host of other products have also found that a relatively small group of heavy users account for a disproportionately large percentage of product usage and that targeting these heavy users has become the basis of their marketing strategy. Other marketers take note of the gaps in market coverage for light and medium users and profitably target these segments. Awareness status encompasses the notion of consumer awareness, interval, level, on buyer readiness. Marketers have to determine whether potential consumers are aware of the product, interests in the product, or need to be informed about the product. Sometimes, branch loyalty is used as the basis for segmentation. Marketers often try to identify the characteristics of their brand loyal consumers so that they can direct their promotional efforts to people with similar characteristics in the larger population.

**CRITERIA FOR EFFECTIVE TARGETING OF MARKET SEGMENTS**

The previous sections have described various bases on which consumers can be clustered into homogenous market segments. The next challenge for the marketer is to select one or more segment to target with an appropriate marketing mix.

To be an effective target, a market segment should be

(I) identifiable, (2) sufficient (in terms of size), (3) stable or growing, and (4) reachable (accessible) in terms of media and cost.

**Identification**: To divide the market into separate segments on the basis of a common need or characteristics that is relevant to the product or service, marketers must be able to identify the relevant characteristic. Some segmentation variables such as geography (location) or demographics (age, gender, occupation are relatively easy to identify or are even observable. Others, such as education, income, or marital status, can be determined through questionnaires. Still other characteristics, such as benefits sought or life style, are more difficult to identify. The knowledge of consumer behaviour is especially useful to marketers who use such intangible consumer characteristics as the basis for market segmentation.

**Sufficiency**: For a market segment to be worldwide target, it must have a sufficient number of people to warrant tailoring a product or promotional campaign to its specific needs or interests to estimate the size of each segment under consideration, marketers often use secondary demographic data.

**Stability**: Most marketers prefer to target consumer segments that are relatively stable in terms of demographic and psychological factors and needs and that are likely to grow larger over time. They prefer to avoid “Fickle” segments that are unpredictable in embracing facts. For example, teens are a sizeable and easily available market segment, eager to buy, able to spend, and easily reached. Yet, by the time a marketer produces merchandise for a popular teenage fad, interest in it may have wanted.

**Accessibility**: A fourth requirement for effective targeting is accessibility, which means that marketers must be able to reach the market segments they want to target in an economical way. Despite the wide availability of special interest magazines and cable TV programmes, marketers are constantly looking for new media that will enable them to reach their target markets with a minimum of waste circulation and competition.

**APPROACHES FOR SELECTING TARGET MARKETS:**

Once a firm understand its markets and the appropriate bases for segmenting those markets, it must choose an approach for selecting its target markets. There are three different approaches for selecting target markets:

1. **Undifferentiated approach**
2. **Concentration approach**
3. **Multi segment approach**.

**(a) Undifferentiated Approach**: In the undifferentiated (or total- market) approach, a company develops a single marketing mix and directs it at the entire market for a particular product. This approach is used when an organisation defines the total market for a particular product as its target market. A company using the undifferentiated approach assumes that individual customers in the target market for a specific type of product have similar needs. Therefore, the firm creates a single marketing mix that it hopes will satisfy most of those customers.

The company makes the type of product with little or no variation, sets one price, designs one promotional programme aimed at everyone, and establishes one distribution system to reach all customers in the total market. Products that can be marketed successfully with the undifferentiated approach include staple food items such as sugar and salt, certain kinds of farm produce, and other goods that most customers think of as identical to competing products.

Companies that use the undifferentiated approach often try to distinguish their own products from competitors’ products through marketing activities. When a company tries to convince consumers that its products are superior and preferable to competing brands, it is utilizing product differentiation.

Product differentiation enables a firm to distinguish its product from competitors’ products without dramatically altering the physical characteristic of the product. For instance, if a gasoline company marketed unloaded gasoline to the total market without product differentiation, it would be difficult for consumers to select one type of gasoline over another. By using product differentiation such as promotions that claim its gasoline provides better mileage, clean engines, or eliminates engine knock an oil company can differentiate its gasoline from that of its competition for product differentiation to be effective, the characteristic used to distinguish one brand from another must be important to a large number of consumers in the total market.

**(b)Concentration Approach**: When an organisation directs its marketing efforts toward a single market segment through a single marketing mix, it is using a concentration approach.

A major advantage of the concentration approach is that it allows a company to focus all its marketing efforts on a single segment. The company can analyse the characteristics and needs of distinct customer group and then direct all its efforts toward satisfying that groups needs. A firm can generate a large volume of sales by reaching a single segment. The concentration approach also enables a firm with limited resources to compete with larger organizations, in the same market.

A major disadvantage of the concentration approach is that if a company depends on a single market segment for its sale and that segment’s demand for the product declines, the company’s sales and profits will also decline. Moreover, when a firm dominates one segment of a market, its popularity and reputation may keep it from moving into other segments.

**(c) Multi-segment Approach**: An organisation using the multi- segment approach directs its marketing efforts at two or more segments by developing a marketing mix for each segment.

A firm may use the multi segment approach after successfully using the concentration approach on one market segment and expanding to other segments.

A business using-the multi segment approach can usually increase its sales in the total market by focusing on more than one segment because the firm’s mixes are reaching more people. A firm with excess production capacity may find the multi segment approach practical because the development of products for additional market segments may use up the excess capacity. However production and marketing costs may be higher with the multi-segment approach because it often requires a great number of production processes, materials, and skills, as well as several different promotion, pricing and distribution methods.

**PRODUCT POSITIONING**

Once the market has been segmented and attractive segments have been identified, the next task is to work within a targeted segment to position the product in the minds of the consumers and develop a marketing mix that will satisfy the consumer.

**Product Positioning**: Product positioning is the creation of a clear image in the minds of consumers within the targeted segment about the nature of the product and the benefits to be gained from purchasing the product. Positioning is the complement of segmentation. That is, segmentation identifies those segments of the population that will act similarly and develops products to meet each segment’s needs, whereas, positioning in conveys information about the products back to the segments for which they are appropriate.

Product positioning is achieved through a wide variety of marketing mix programmes in product design, pricing, distribution, and promotion consumer background characteristics are addressed primarily by creating advertising that features individuals who possess the characteristics of the target segment, but pricing must also be suitable for the economic attributes of the target market, and distribution must occur in the appropriate geographical areas. For example, Mercedes Benz advertises in magazines that reach upscale audiences and situates dealership in areas frequented by high income consumers.

Motivation and needs shape the product design by dictating the benefits the product must offer to its purchases. The level of motivation, through its influence the effort consumers will exert in perceiving and learning about the product as well as the strength of the attitudes they hold about the product. The box below discusses the pleasures of consumption that come from sharing a purchase experience with others in a reference group who share common background characteristics.

**STRATEGIES TO POSITION PRODUCTS**

Many ways exist for positioning a product or service (or even an organisation). The following illustrate some of these approaches. It should be noted that combinations of these approaches are also possible.

**(i) Position on Product Features**: The product may be positioned on the basis of product features. For example, an advertisement may attempt to position the product by reference to its specific features. Although this may be a successful way to indicate product superiority, consumers are generally more interested in what such features mean to them, that is, how they can benefit by the product.

**(ii) Position on Benefits**: This approach is closely related to the previous method. Toothpaste advertising often features the benefit approach, as the examples of crest (decay prevention), close-up (sex appeal through white teeth and fresh breath), and Aquafresh (a combination of these benefits) illustrate.

**(iii) Position on Usage**: This technique is related to benefit positioning. Many products are sold on the basis of their consumer usage situation. Companies have sometimes sought to broaden their brand’s association with a particular usage or situation. Campbells soup for many years was positioned for use at lunch time and advertised extensively over noon time radio. It now stresses a variety of uses for soup (recipes are on labels) and a broader time for consumption, with the more general theme “Soup is good food”.

**(iv) Position on User**: This approach associates the product with a user or a class of users. Some cosmetics companies seek a successful, highly visible model as their spokesperson as the association for their brand. Other brands may pick a lesser known model to portray a certain lifestyle in its ads. (revlon’s charlie cosmetic line, for example).

**(v) Position Against Competition**: Often, success for a company involves looking for weak points in the positions of its competitors and them launching marketing attacks· against those weak points. In this approach, the marketer may either directly on indirectly make comparison with competing products. For example, the famous “Uncola” campaign successfully positioned up as an alternative to coke, Pepsi and other colas.