Chapter 4
Focusing Marketing Strategy with Segmenting and Positioning

Basic strategies in strategic marketing planning are segmentation, positioning and differentiation. Understand, the marketing plan is built around, and the manipulation of the marketing mix. But basic to all marketing plans are these three strategies (segmentation, positioning, and differentiation).

Market segmentation is the process of dividing the total market into several relatively homogeneous groups with similar product interests based on such things as needs, demographics, psychographics, geography, purchase behaviors, perceived product benefits, and other perceived characteristics. All we are doing is aggregating or clustering people with similar needs. Marketers find all kinds of ways to segment, but however they do it, segmenting is the cornerstone of marketing strategy. In other words, marketers are looking at segments in numerous ways in order to be able to match an optimum marketing mix to those segments that are most lucrative, and then ‘target’ them.

Keep in mind, target markets are those segments that are marketers find most lucrative and with the most potential for success. Market segments and target markets are not the same. We segment in numerous ways to find those markets with the greatest potential that we can target. We are trying to link the marketing needs to an organization’s marketing program.

As marketers are going to segment the market in order to determine which of those segments to target, there are some basic guidelines that they will follow:

1. The segment must be measurable in terms of purchasing power and size.
2. Marketers must be able to effectively promote to, and serve, the market segment.
3. Market segments must be sufficiently large to be profitable.
4. The number of segments chosen for targeting must match the firm’s marketing capability.

If any of these are missing, then marketers need to reassess any proposed segmentation strategy.

Let’s take a look at the process of segmenting a little closer. As I have mentioned, there is no one best way to do this. It depends on numerous things, but the first thing marketers should do is group customers by common characteristics. Again, the big consideration here is the potential for ROI and profitability. Granted, sometimes we don’t know that up front. We may have to wait until we get further into the process of segmenting before we can determine that. One thing I always say is marketers should look for ways to streamline and minimize the number of segments. Mistakes can be made when they try to look for as many commonalities as they can, because this could
spread the organization to thin trying to satisfy all of the different sub-groupings. Too many organizations try to be all things to all people.

The next thing marketers look at is forming product groups. This can be an important part of marketing strategy if the company has multiple products that can be grouped in some way so buyers can relate to them. You see grocery stores and department stores doing this with departments and aisles containing related merchandise. You see this in catalogs and e-commerce doing this similarly. Obviously, it is not practical to do all of this work for each individual product in the product line. Marketers realize they need to do as much grouping as they can. Besides one product in the product line will often lead to another product in the product line anyway, because they have common characteristics.

Next, marketers need to develop a market/product grid. This is purely a marketing function that helps to show where there might be overlaps in the segments, which allow marketers to create and use common marketing strategies. It can also be helpful in estimating the size of segments.

The next step in segmenting is to select the target markets. Critical decisions can come in here, not the least of which is size. Again, ROI and profitability have to justify the marketing effort. Marketers need to try to pint that down here, probably before they go any further. Growth potential enters into the selection of a segment to target. It may not be big enough to start with, but the decision to enter it may be based on potential for growth rather than its current size. Competition in the segment is certainly a consideration, also. The decision here would likely be based on the intensity of it, i.e. how many competitors there are already there. But good marketers are still going to match that against their own assessment of their marketing strategy and how confident they are in it. Perhaps they have a unique strategy for differentiation of their product, which would allow them to find a position within that segment and compete effectively. Cost is also a consideration. We may identify a lucrative segment in Alaska, but it wouldn’t make sense to enter it if the company is based in Florida. The last real consideration to enter a market segment relates to the company’s own assessment of itself in terms of the segment’s compatibility with the organization’s objectives and resources. The corporate board can help us with this one.

I think the last big consideration in segmenting and targeting a market would be in the marketer’s and the company’s ability to create the value proposition and positioning strategy. This is the step where the strategy to reach the segment is developed. The value proposition is the desirable combination of positive and negative consequences that leads the target audience to undertake a desired action. This is truly what segmenting is all about. It involves developing and communicating the features that meet the needs of, or benefit, the members of the segment, and differentiate the product in the customer’s mind. Simultaneous with that is the positioning strategy for the product in the segment, which requires that marketers give careful consideration to manipulation of the marketing mix. Say for example the product is snow tires with ice gripping stud, which are normally quite pricey, and they are targeted at middle income
people in northern climates. The value of this product relates to the product being available in season, to the appropriate segment, at a desirable price range for middle income consumers. That describes how the product is differentiated. Look at what else marketing has done here: They have matched the needs of the segment with price, availability, and benefit. And they have positioned the product against higher end snow tires with price and feature.

Once the marketer has done all these things in the segmenting process, they are ready to execute the marketing program.