Industrial Market Segmentation, Targeting & Positioning

- Objectives is to help understand:
  1. The meaning & rationale of and requirements for market segmentation
  2. Types of criteria for industrial market segmentation
  3. Evaluation & selection of market segments
  4. Target market strategies
  5. Importance and scope of differentiation
  6. Meaning and strategies of positioning

STP Marketing-*Segmenting*, *Targeting* & *Positioning*

- Business market is a very broad spectrum consisting of large number of diversified categories of customers
- Product requirements, response to market stimuli, service needs, decision making process buy situations etc of these different categories vary vastly.
- Companies do not have resources or competence to efficiently serve all categories of customers
- Companies therefore, identify right categories of customers it can serve and formulate right marketing strategy for chosen customer groups.
- This process involves three steps described as STP marketing namely (1) market segmenting, (2) market targeting & (3) market positioning

Market Segmentation-1

- Market segmentation is a strategy for
  1. selecting customers,
  2. differentiating customers according to marketing effort,
  3. choosing among alternative market opportunities
  4. Tailoring marketing strategies to those distinctive opportunities
- Basic calculus of market segmentation is one of matching company capabilities with unsatisfied customer needs.
- Common descriptive metaphor is that of firing single rifle shots at the market rather than using a shotgun.

Market Segmentation-2

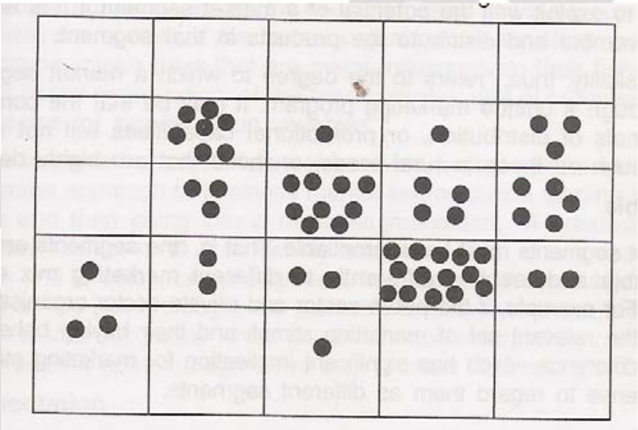
- Bases of segmentation often differ between business goods and consumer goods.
- Demographic and socio-cultural factors, widely used in consumer market segmentation, are hardly significant in industrial market segmentation.
- Same industrial products have multiple applications and several different products can be used in in the same application.
- Customers differ greatly and it is hard to discern which differences are vital for developing marketing strategy
- Broadly there are three types of dispersion of consumers with reference to product attributes preferred, viz. *homogeneous preferences, diffused preferences* and *clustered preferences*

Customer Dispersion

- Homogeneous preferences:
  1. All customers will cluster around a single point of combination of various attributes
  2. There is hardly any scope for meaningful market segmentation
  3. All consumers have similar preferences and hence the product offerings of competitors would be similar.
- Diffused preferences:
  1. Consumer preferences are widely diffused and there is no clustering
  2. Market does not have homogeneous groups and almost every customer is heterogeneous in character.
- Clustered preferences:
  1. Several natural segments exist in the market with distinctive groups of customers
  2. Indicates that the market is amenable to meaningful market segmentation
  3. Concentrated marketing strategy targeting one or a few segments would be the right approach

Market Grid

- Market gridding provides a visual aid to segmenting.
- Market grid depicts a market as a two or three dimensional box or a grid on the basis of market characteristics.



- Each box in the grid represents a homogeneous subset of the market.
- Market gridding necessitates the decision as to the dimensions most useful for segmenting the market.

Requirements of Effective Segmentation

- Although market for a product may be divided into many segments, all these segments need not be meaningful for marketing strategy.
- Market segments to be useful, must exhibit following characteristics:
  1. Measurable : It is essential to assess the segment's commercial attractiveness. Estimate of the size of demand based on buyers in the segment and quantity they will buy.
  2. Substantial : Segment must be large and profitable enough to serve.
  3. Accessible : Must be able to effectively reach segments and serve.
  4. Differentiable : Segments are conceptually distinguishable and respond differently to different marketing mix elements and programs.
  5. Actionable : A segment is relevant to the company only if it can effectively tap the potential of that segment.
  6. Sustainable : One more essential characteristics is that the segment must be sustainable over a reasonable period of time.

Macro & Micro Segmentations-1

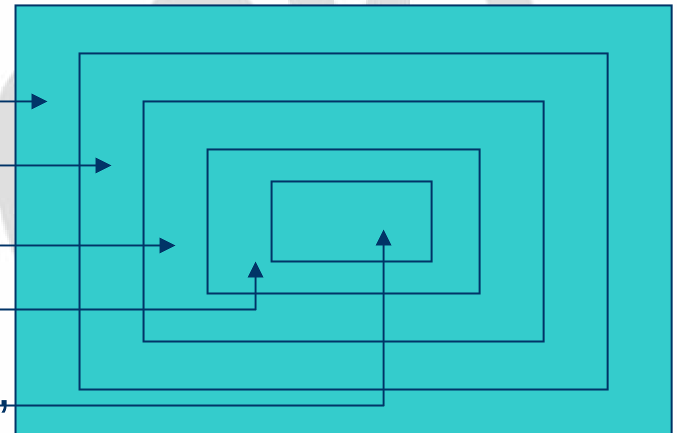
- Business marketing needs to consider two important sets of characteristics of the business buyers :
  1. Characteristics of the buyer as consuming organisation such as
     - Type of the organisation,
     - The size of the organisation,
     - Product requirements,
     - End use of the product
  2. The behavioural characteristics of the buyer such as
     - Buying decision making process
     - Consider the fact that it is the people, not the organisation who make the decision
- Creative method for segmenting any market is to first identify subgroups that share common macro characteristics and to select target segments from among these groups. This is the two-step process of breaking markets down.

Macro & Micro Segmentations-2

- Macro segmentation :
  1. Involves subdividing of the market into subgroups based on certain overall characteristics such as industry group, type of the organisation, size, product requirements, end use of the product, geographical location etc.
  2. The macro segmentation is thus grouping of buyers on their general non-behavioural characteristics.
- Micro segmentation :
  1. Micro bases for segmentation pertain to decision making characteristics like buying center authority, amount of influence held by departments, personality characteristics of key members etc.
  2. Strategic implication of micro segmentation lie primarily in promotional strategy and to lesser extent in product, price or distribution refinements.

Nested Approach to Segmentation

- Shapio & Bonoma suggest five general segmentation criteria, arranged as nested hierarchy – like a set of boxes that fit one into the other. These are :
  - Demographics
  - Operating variables
  - Customer purchasing approaches
  - Situational factors
  - Personal characteristics of the buyers



- As we move from outer to inner nests, change in terms of *visibility*, *permanence*, and *intimacy*
- It may not be necessary or desirable for every marketer to use every stage of the nested approach for every product.
- It is important that the marketer completely understands the approach before deciding on omissions and shortcuts.

Demographics

- Outermost nest containing the most general criteria is the demographics. Prof. Banting has coined the term *emporographics* as the industrial equivalent of demographics.
- Important segmentation variables considered are :
  1. Industry – knowledge of consuming industries afford a broad understanding of the customer needs, purchase situations, demand patterns, demand conditions and future prospects.
  2. Customer size – Is a very relevant variable in many cases. Requirements of customers should match the capabilities of the suppliers.
  3. Customer location – Segmentation by locational variable may be helpful in formulating target marketing strategy, including *niche marketing* based on location.

Operating Variables

- Operating variables- second segmentation nest- being more stable, enable precise identification of existing and potential customers within demographic categories.
- These consist of :
  1. Customer technology- The buying needs of a company are largely determined by the technology, involving either in manufacturing process or its products or both.
  2. Product & brand use status- Users of a particular product or brand generally have some characteristics in common; at the very least they have common experience with a product or brand.
  3. Customer capabilities- Operating, technical and financial capabilities would indicate customer's product & service requirements, delivery criteria, purchase terms and conditions etc.

Purchasing Approaches

- Consumer’s purchasing approach and company philosophy were one of the most neglected but valuable methods of business market segmentation. Purchasing approaches occupying middle segmentation nest, includes variables such as:

1. Purchasing function/organisation- Marketing approach appropriate in a centralised purchasing situation may not be suitable where the purchasing function is decentralised. A marketer may encounter diverse micro environment when the purchasing function is decentralised.
2. Power Structure- Vary between different firms effecting the buying decisions. In many organisations, the different views and suggestions are discussed to take final decision.
3. Buyer-seller relationship- The existing relationship between buyer and seller is a very important factor to be considered.
4. General purchasing policies- can be a relevant segmentation variable and customers can be segmented on the basis of supplier cost, market based price or bids.
5. Purchasing criteria- In business marketing, the purchasing criteria such as economic, performance, integrative, customer capabilities, adaptive and legalistic approximate the benefit segmentation in consumer marketing.

Situational Factors

- The situational factors resemble operating variables but are temporary and require a more detailed knowledge of the customer. Situational variables include:
  1. Urgency of order fulfillment- Certain orders emerge out of exigencies and they need to be fulfilled urgently as against routine orders. This is urgent requirement segment and is often charged a premium price.
  2. Product application- for the same product may differ between customers depending upon the use. For example, a motor may be required for intermittent service or for continuous application.
  3. Size of the order- may vary greatly; even quite disproportionate to the total annual requirements. Order size of a customer sometimes forms the basis for industrial market segmentation.

Buyer's Personal Characteristics

- It is in fact people, not organisations, who make purchase decisions.
- Behavioural characteristics of the people who make the decisions can significantly impact the decisions.
- The level of risk a buyer is willing to take is related to other personality variables such as personal style, intolerance for ambiguity and self-confidence.
- Buyers who are risk averse are not good prospects for new products and concepts.
- Risk-averse buyers also tend to avoid untested vendors

Segmentation Variables Based On Nested Approach

Company Variables				
Demographics (Nest 1)	Operating Variables (Nest 2)	Purchasing Approach (Nest 3)	Situational Factors (Nest 4)	Personal Characteristics (Nest 5)
1. Industry 2. Customer Size 3. Customer Location	1. Customer Technology 2. Use Status 3. Customer Capabilities	1. Purchasing Organisation 2. Power Structure 3. Buyer-Seller Relationship 4. Purchasing Policies 5. Purchasing Criteria	1. Urgency 2. Product Application 3. Order Size	1. Personal Style 2. Self Confidence 3. Intolerance for Ambiguity

Stages in the Purchase Decision Process

1. First Time Prospects: Customers planning their first purchase want the salesperson or seller who understands their business and explains things well and whom they can trust.
2. Novices: These are customers who have some experience in purchasing the product but need easy-to-read manuals, hot lines, high level of training and knowledgeable sales representative.
3. Sophisticates: Customers who want speed in maintenance and repair, product customisation and high technical support. These segments require different promotional approach and may have different channel preferences.

Price-Service Variables

1. Programmed Buyers: Product is a routine item and not viewed as very important to their operations. They usually pay full price and receive below average service and hence it is highly profitable segment for the vendor.
2. Relationship Buyers: Buyers knowledgeable about competitive offerings and maintain relationship with regular vendors. This segment is regarded as the second most profitable one.
3. Transaction Buyers: Who view the product as very important for their operations, are knowledgeable about competitive offerings and are price and service sensitive.
4. Bargain Hunters: Who regard the product as very important, are knowledgeable about competitive suppliers, often bargain hard for deepest discount and highest service.

Benefits of Market Segmentation-1

1. Identification of relevant variables for market segmentation helps to understand important factors influencing product demand.
2. Market segmentation provides more insight into the buyer behaviour.
3. Helps to identify the persons in an organisation on whom the marketing effort should be made.
4. Provides a meaningful picture of the heterogeneity of the market.
5. Helps to draw up a clear picture of the structure of the market.

Benefits of Market Segmentation-2

6. Market profiling, which is a part of market segmentation, provides relevant details, including consumer preferences, competitive conditions, market size, behavioural characteristics etc. of different segments.
7. Helps to understand the relative attractiveness of different segments.
8. Helps target marketing. Market segmentation, in fact, is the pre-requisite for target marketing.
9. Helps the matching of the company objectives and resources with the market opportunities. It is essential for formulation of effective marketing strategies and approaches.

Criteria for Segmentation Variables

- Segmentation variables are customer characteristics that relate to some important differences in customer response to marketing effort.
- Variables to be used for segmentation should meet three criteria:

1. Variables should be operational so that the scheme will help make the segmentation scheme operational.
2. Segmentation variable should be substantial grouping of customers so that the resulting segments are "substantially large enough to warrant attention and different enough to warrant distinctive marketing strategies."
3. Segmentation variable chosen ought to have operational relevance for marketing strategy with reference to the different components of the marketing mix so that a distinctive and right marketing strategy and approach can be formulated for each market segment.

Market Targeting

- Evaluation of market segments: three criteria are generally employed to evaluate market segments.
  1. *Potential*- Indicated by the size and growth prospects of the segment and is a very important factor for selecting target segment.
  2. *Structural Attractiveness*- A market is typically characterised by five forces of competition viz. intra-market inter-firm rivalry, threat of new entrants, competition from substitutes, bargaining power of buyers & suppliers. The impact of these competitive forces on the segment needs to be assessed to evaluate attractiveness.
  3. *Company Objectives & Competence*- Market potential and structural attractiveness indicate 'where action can be' but 'where action should be' will be determined by the company objectives and by its competence i.e. resources and skill.

Market Targeting Process

Analyse Market and Customer Characteristics

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Identify Relevant Variables for Segmentation

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Segment the Market and draw up Profiles of the Segments

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Evaluate the Segment

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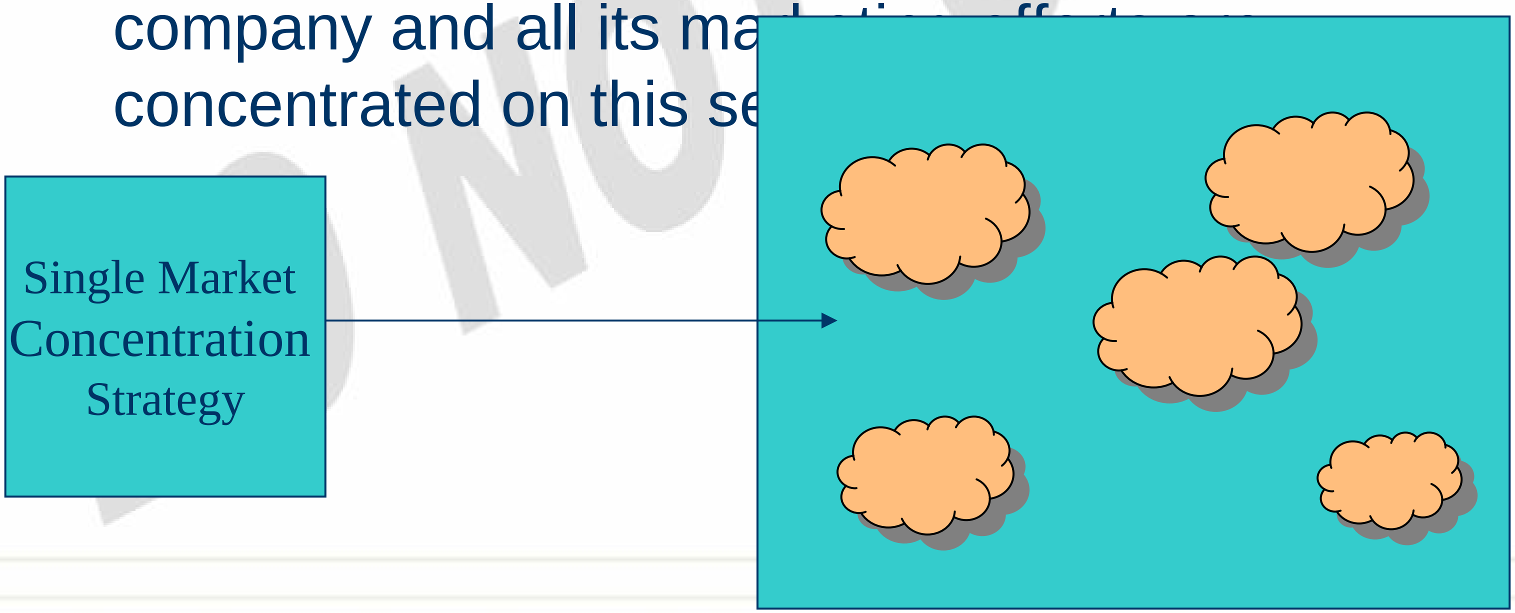
Select the Target Segments

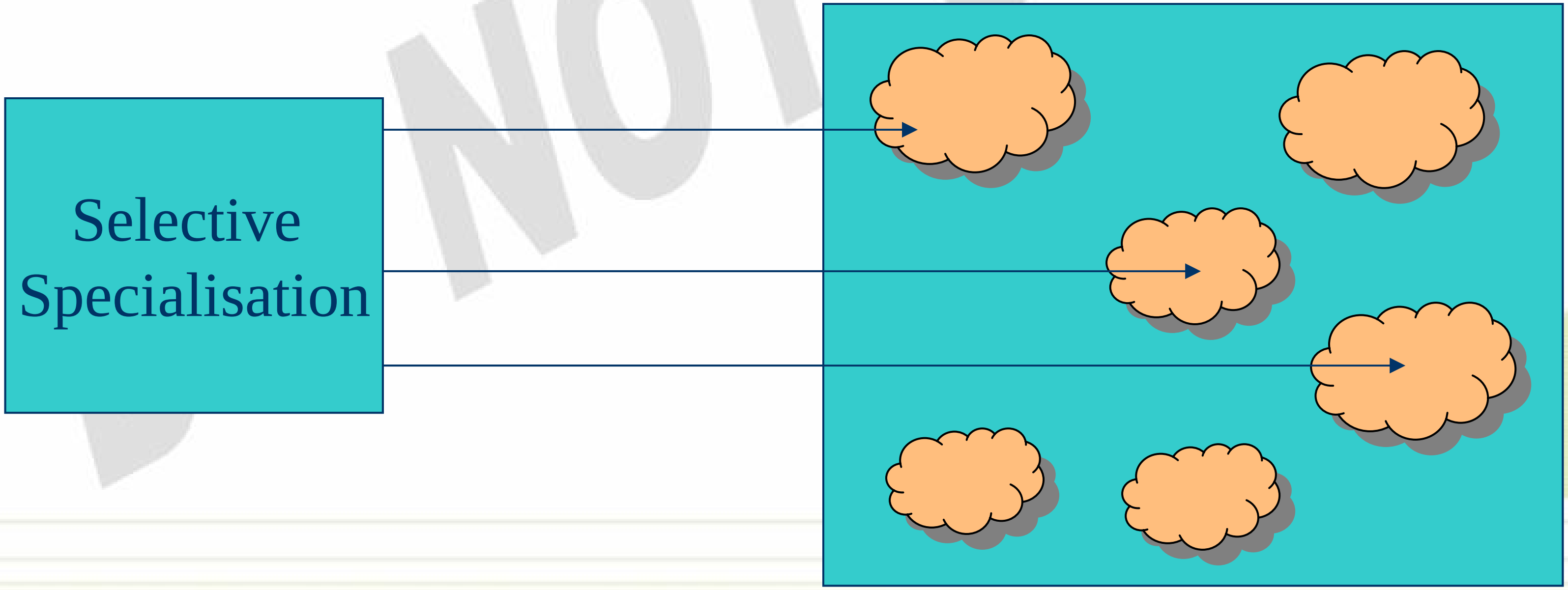
Target Marketing Strategies-1

- Single Segment Concentration: In the simplest case, a single segment forms the target market of a company and all its ma
concentrated on this se



Target Marketing Strategies-2

- Selective Specialisation: Under this multi-segment coverage strategy, a company selects several attractive segments that fit its objectives and competence.

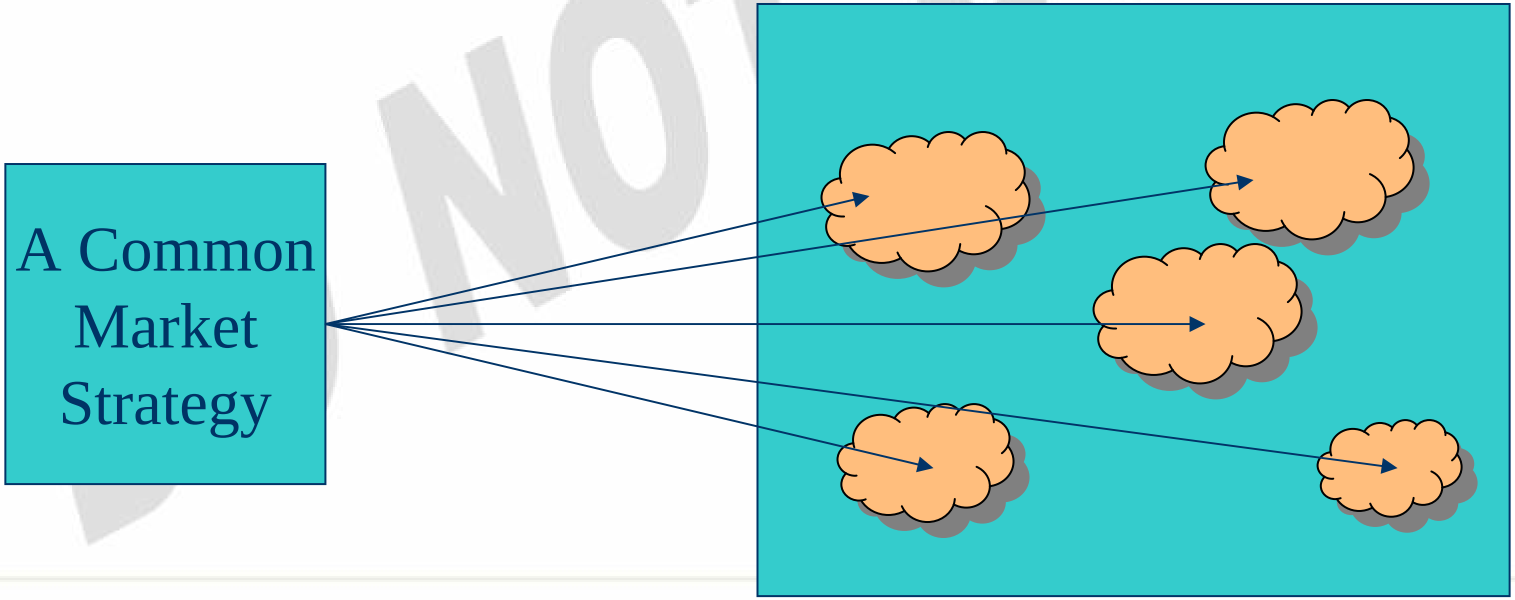


Target Marketing Strategies-3

- Product Specialisation:
  1. This is the strategy when the firm concentrates its entire effort on a certain product which it sells to different segments.
  2. While this strategy offers all the advantages of specialisation, it carries the risk of tying the fortunes to a single product.
- Market Specialisation:
  1. This strategy attempts to serve different needs of a particular customer group.
  2. The major advantage of this strategy is that the marketing synergy would normally help the company to develop its business.
  3. The challenge is to remain competitive in respect of diverse products and also face the risk of concentrating on single customer group.

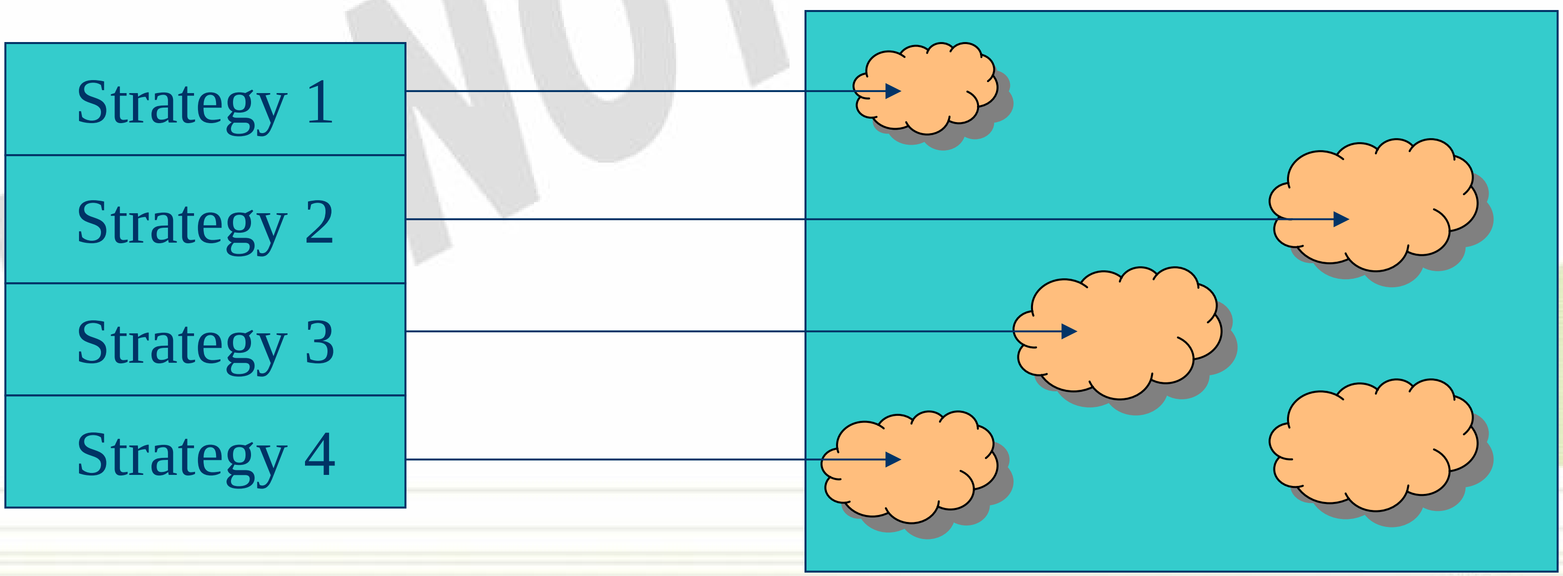
Target Marketing Strategies-4

- Full Market Coverage:
  - *Undifferentiated Marketing*- It is characterised by market aggregation i.e. entire market is sought to be tapped with a single marketing strategy.



Target Marketing Strategies-5

- Full Market Coverage:
  - *Differentiated Marketing*- Essentially it involves market segmentation and a separate marketing strategy for each of the target segments.



Differentiation

- To meet present and future competition, a company has to place itself very distinctively in the target market. Hence the importance of differentiation and positioning which really are two sides of the same coin.
- Bases of Differentiation generally are:

1. Product attributes
2. Service offerings
3. Personal factors and
4. Organisation image

Scope of Differentiation

- Scope of differentiation varies with the nature of industry. Boston consulting group has identified four types of industries based on available competitive advantages and the size.
  1. Volume Industry: Characterised by few but large differentiation advantages.
  2. Stalemated Industry: One where the scope for differentiation is rather limited.
  3. Fragmented Industry: Characterised by the existence of many fragmented segments which are small in size.
  4. Specialised Industry: One which offers a number differentiation opportunities on the basis of specialisation.

Product Differentiation-1

- Product differentiation is based on certain characteristics of the physical product namely:
  1. *Features* - are characteristics that supplement the product's basic functioning.
  2. *Performance quality* - refers to the levels at which the product's primary characteristics operate.
  3. *Conformance quality* – refers to the conformance to certain standards like ISI, ISO etc. Companies conforming to standards have differential advantage over non-conformant competitors.
  4. Durability – with economic rationale at the heart of business buying decisions, durability is very often used for product differentiation.

Product Differentiation-2

5. *Reliability* – It is a measure of the probability that a product will not malfunction or fail within a specified time period.
6. *Repairability* – The importance of repairability is to ensure continuous functioning of a machine or equipment needs no emphasis. Ideal repairability exists if the spares are easily available and the users could easily and quickly make product properly functional.
7. *Style* – is important in respect of a number of business goods like buses, aircrafts, office furniture, computers, vending machines etc.
8. *Design* – A well designed product would be easy to manufacture and distribute for the company whereas from the customer's point of view, it would be user-friendly, easy to install, operate and repair.

Service Differentiation

- Services as a differentiator assumes more significance where the scope of product differentiation is limited.
- Main service differentiators are:

1. *Delivery* - Quality of delivery which includes speed and promptness, monitoring the time of product requirements of the customers are the differentiating factors.
2. *Installation* – refers to services involved in installing machines and making them operational. Some companies offer customer oriented comprehensive installation services.
3. *Customer Training* – includes training to customer employees for operating vendor's equipment properly.
4. *Consulting Service* – refers to data, information systems and advisory services that seller offers free of cost or at price.
5. *Miscellaneous* – other variables used are better warranty, maintenance contract, replacement conditions, finance arrangement etc.

Other Differentiation Factors

- Personnel Differentiation :
  1. Sometimes people who matter can also make a difference.
  2. Kotler points out that better trained personnel exhibit six characteristics, viz., competence, courtesy, credibility, reliability, responsiveness and communication capabilities.
- Image Differentiation :
  1. Many consumers are influenced by the brand or company image, even when competitive offerings are similar.
  2. There are also some contributory factors which enhance the image, like the location of restaurant, the ambience and interiors of shop, restaurants, bank, hospital etc.

Essentials of Differentiation

- A mere application of any common differentiator variables need not necessarily achieve a meaningful differentiation.
- Differentiation, to be successful must have the following essentials:

1. Distinctive – Differentiation should be meaningful from the customer's point of view, i.e. it should offer some tangible benefit to the customer.
2. Superior – customer must perceive a better benefit compared to the competitor offering.
3. Communicable – difference should be clearly communicable so that it becomes tangible to the customer.
4. Sustainable – differentiation should not be easy for competitors to initiate it.
5. Economic – differentiation would be attractive only if it provides an economic benefit.
6. Profitable – differentiation will be meaningful only if it is profitable to the company.

Positioning

- Consumer's mind is often flooded with messages of a large number of offerings of different companies and sometimes for the same type of product.
- A company must, therefore, endeavour to create a distinctive imprint about the company's products in customer's minds. This is what the positioning strategy attempts to achieve.
- While *differentiation* is the act of designing a set of meaningful differences to distinguish company's offer from competitor's offers, *positioning* is the act of designing company's offer and image so that it occupies a distinct and valued place in the target customers' minds.
- Positioning starts with a product, a piece of merchandise, a service, a company, an institution, or even a person. A company's product may not have superiority over competitor's product with reference to all the attributes or variables.
- Positioning, therefore, involves a major decision as to which distinctive factor/factors to form the core of positioning.

Positioning Strategies

1. *Attribute Positioning* : Positioning can be based on certain specific attributes of the product.
2. *Benefit Positioning* : Any distinctive benefit – energy saving, low operating cost, pollution free product - becomes the core of positioning.
3. *Cost Positioning* : Low cost or low cost per unit output is a very effective positioning factor in business marketing.
4. *Segment Positioning* : Products may be positioned with reference to specific segments like a bank positioning as farmer's bank.
5. *Application/Use/User Positioning* : A hotel has been positioned as hotel and convention center.
6. *Competitor Positioning* : Strategy of positioning directly against the competitor is suitable for a firm that already has solid differential advantage.
7. *Quality Positioning* : Product quality can be used for positioning.
8. *Product Category Positioning* : Sometimes positioning entails associating with a product class or category – like pure vegetarian hotel, chinese restaurant etc.
9. *Strategic Positioning – Porterian Prescriptions* : Michael Porter views positioning as the corner stone of strategy. The essence of the strategy is choosing to perform the activities differently or to perform different activities than rivals.

Types of Positioning

To Porter, strategic options emerge from three distinct sources, which are not mutually exclusive and often overlap.

1. *Variety-based Positioning* : It is based on producing a subset of an industry's products or services and not focusing on customer segments.
2. *Needs-based Positioning* : Here the focus is on all or most of the needs of a particular group of customers. Obviously this strategy comes closer to the strategy of targeting a particular consumer segment.
3. *Access-based Positioning* : This is applicable when the needs of different sets of customer are similar but the best way of accessibility are different due to factors like geography or customer scale.

Trade offs and Fit

- Porter emphasises that choosing a unique position is not enough to guarantee a sustainable advantage.
- There are two more essential conditions for ensuring sustainable advantage by preventing imitations. They are *trade-offs* and *fit*.
- *Trade-offs* create the need for choice and purposefully limit what a company offers. Trade-offs arise due to three reasons
  1. Inconsistencies in image or reputation
  2. Trade-offs arise from activities themselves
  3. Limits on on internal coordination and control
- *Fit* looks out for imitators by creating a chain that is as strong as its strongest link. Porter identifies three types of fits
  1. Simple consistency between each activity (function)
  2. Second fit occurs when Activities are reinforcing
  3. Coordination and information exchange across activities