4 Segmentation, targeting and positioning

Objectives

After reading this chapter you should be able to:

- describe the main methods of segmenting markets;
- explain how segmentation aids profitability;
- decide whether a given segment is sufficiently profitable to be worth targeting;
- explain the purpose of segmentation;
- develop ways of assessing the economic viability of segments;
- explain the growth of segmented markets;
- establish strategies for dealing with segmented markets;
- describe perceptual mapping;
- describe the main issues surrounding the positioning of brands.

INTRODUCTION

The segmentation concept was first developed by Smith in 1957,[1] and is concerned with grouping consumers in terms of their needs. The aim of segmentation is to identify a group of people who have a need or needs that can be met by a single product, in order to concentrate the marketing firm's efforts most effectively and economically. For example, if a manufacturer produces a standardised product by a mass-production method, the firm would need to be sure that there are sufficient people with a need for the product to make the exercise worthwhile.

The assumptions underlying segmentation are:

- Not all buyers are alike.
- Sub-groups of people with similar behaviour, backgrounds, values and needs can be identified.
- The sub-groups will be smaller and more homogeneous than the market as a whole.
- It is easier to satisfy a small group of similar customers than to try to satisfy large groups of dissimilar customers.[2]

Targeting is concerned with choosing which segments to aim for. Segmentation is essentially about dividing up the market; targeting is about the practicalities of doing business within the market. The two are clearly closely linked, since the segmentation process will usually provide information as to which segments are likely to prove most profitable, or will help the firm achieve its strategic objectives in other ways.

Positioning is concerned with the brand's relationship with other brands aimed at the same segment. Positioning is about the place the brand occupies in the minds of the consumers, relative to other brands.

REASONS FOR SEGMENTING MARKETS

Each consumer is an individual with individual needs and wants. On the face of it, this creates a major problem for the marketer, since it would clearly be impossible to tailor-make or customise each product to the exact requirements of each individual.

Before the Industrial Revolution most products were individually made. This proved to be expensive, and essentially inefficient once mass-production techniques had come into being. Unfortunately, mass-production (taken to the extreme) means a reduction in the available choice of product, since the best way to keep production costs low is to have long production runs, which means standardising the product. Every adaptation costs money in terms of re-tooling and re-packaging the product. In some economies, particularly those in parts of Eastern Europe and in the Third World, there is not sufficient wealth or investment in industry to allow for the production of many different types of product. These economies still rely heavily on mass production, and mass marketing.

Mass marketing (or undifferentiated marketing) in which a standard product is produced for all consumers will only be effective if the consumers concerned have little choice and do not already own a product that meets the main needs. For example, in 1930s Germany few families owned cars. Hitler promised the German people that every family would own a car, so Porsche was commissioned to develop the Volkswagen (literally 'people's car') as a basic vehicle, which could be cheaply produced for the mass market.

This approach is less effective in economies where most consumers already own the **core benefits** of the product. Once car ownership was widespread and the core benefit of personal transportation was owned by most families, consumers demanded choices in features and design of their vehicles. Segmentation deals with finding out how many people are likely to want each benefit, roughly how much they will be willing to pay for it, and where they would like to buy it from. In this way, the firm approaching a segmented market is able to offer more functional benefits and more attention to *hedonic needs*, i.e. the products are more fun (see Chapter 3).

In order to make these adaptations worthwhile, marketers need to be reasonably sure that there is a large enough market for the product to be viable economically. On the other hand, concentrating on a smaller segment means that economies can be made in the supplier's communications activities; rather than advertise to a mass market, for example, the marketer would be better off concentrating resources on producing an advert that is tailored to the target segment – an ad, in other words, designed for the ideal customer and no other.

The reason for this is that consumers are surrounded by advertising messages. Consequently consumers learn to avoid advertisements, and particularly to avoid ones that are clearly never going to be of any interest. At the same time, consumers will go out of their way to find out about products they have some interest in, often by reading special-interest magazines. Therefore an advertisement that is tailored to a specific group of consumers, and that appears in a medium that those consumers use, is likely to be far more effective than an untargeted advertisement in a general-interest medium.

Companies that aim for small segments usually have much greater credibility with consumers, and can learn to provide exactly what most pleases those consumers.

Overall, the main purpose of segmenting is to enable the company to concentrate its efforts on pleasing one group of people with similar needs, rather than trying to please everybody and probably ending up pleasing nobody. Table 4.1 shows the advantages of segmenting the market.

TABLE 4.1 Advantages of segmentation

Advantage	Explanation
Customer analysis	By segmenting, the firm can get to understand its best customers better.
Competitor analysis	It is much easier to recognise and combat competition when concentrating on one small part of the overall market.
Effective resource allocation	Companies' scarce resources can be concentrated more effectively on a few consumers, rather than spread thinly across the masses.
Strategic marketing planning	Planning becomes easier once the firm has a clear picture of its best customers.
Expanding the market	Good segmentation can increase the overall size of the market by bringing in new customers who fit the profile of the typical customer, but were previously unaware of the product.

SEGMENTATION VARIABLES

A segment must fulfil the following requirements if it is to be successfully exploited:

- *It must be measurable, or definable*. In other words, there must be some way of identifying the members of the segment and knowing how many of them there are.
- *It must be accessible*. This means it must be possible to communicate with the segment as a group, and to get the product to them as a group.
- *It must be substantial*, i.e. big enough to be worth aiming for.
- *It must be congruent*, that is to say the members must have a close agreement on their needs.
- *It must be stable*. The nature and membership of the segment must be reasonably constant.

The three key criteria are accessibility, substance and measurability,[3] but it is important also to look at the causes underlying the segmentation.[4] This enables the marketer to anticipate changes more easily and sometimes to verify that the segmentation base is correctly defined.

There are many bases for segmenting, but the following are the main ones:

- *Geographic*. Where the consumers live, the climate, the topology, etc. For example, cars in California almost always have air-conditioning; cars in Sweden have headlights that stay on constantly because of the poor quality of the light for much of the year. Geographic segmentation is very commonly used in international marketing, but is equally useful within single nations.
- *Psychographic*. Based on the personality type of the individuals in the segment. For example, the home insurance market might segment into those who are afraid of crime, those who are afraid of natural disasters, and those who are afraid of accidental damage to their property.
- *Behavioural*. This approach examines the benefits, usage situation, extent of use and loyalty. For example, the car market might segment into business users and private users. The private market might segment further to encompass those who use their cars primarily for commuting, those who use their cars for hobbies such as surfing or camping, and those who use the car for domestic duties such as shopping or taking children to school. The business market might segment into 'prestige' users such as managing directors and senior staff, or high-mileage users such as salespeople.
- *Demographic*. Concerned with the structure of the population in terms of ages, lifestyles, economic factors. For example, the housing market can be divided into first-time buyers, families with children, older retired people, and elderly people in sheltered accommodation; equally, the market could be segmented according to lifestyle, with some accommodation appealing to young professionals, some appealing to country-lovers, and so forth.

Geographic segmentation

Geographic segmentation may be carried out for a number of reasons.

- The nature of the product may be such that it applies only to people living within a specific area, or type of area. Clothing manufacturers know that they will sell more heavy-weather clothing in cold coastal areas than in warm inland areas.
- If the company's resources are limited, the firm may start out in a small area and later roll out the product nationally.
- It might be that the product itself does not travel well. This is true of sheet glass, wedding cakes and most personal services such as hairdressing.

Markets may be segmented geographically according to the type of housing in the area. Firms that supply products specifically aimed at elderly people may wish to locate (or at least concentrate their marketing efforts) in retirement areas. Products aimed at young people might be heavily marketed in university towns, and so forth.

Psychographic segmentation

Psychographic segmentation classifies consumers according to their personalities. As the reliability of measures has improved, more evidence has come to light of links between personality and consumer behaviour,[5] but psychographic segmentation remains problematical because of the difficulties of measuring consumers' psychological traits on a large scale. This type of segmentation therefore often fails on the grounds of accessibility. For example, researchers might find out that there is a group of people who relate the brand of coffee that they buy to their self-esteem. The problem then is that there is no obvious medium in which to advertise this feature of the coffee: if there were a magazine called *Coffee Makes Me Feel Good Monthly* there would be no problem. The advertisers are therefore left with the mass media, such as TV advertising, which may be far too expensive for the purpose. Some of the most creative ideas in marketing have revolved around ways of gaining access to such segments.

Behavioural segmentation

Behavioural segmentation can be a useful and reliable way of segmenting. At its most obvious, if the firm is marketing to anglers they are not interested in how old the anglers are, what their views are on strong drink, or where they live. All the firm cares about is that they go fishing, and might therefore be customers for a new type of rod. Accessing the segment would be easily undertaken by advertising in the angling magazines. At a deeper level the firm might be interested in such issues as where they buy their fishing tackle, how much they usually spend on a rod, what kind of fish they are after, and so forth, but this information is easily obtained through questionnaire-type surveys. *Lifestyle* analysis has been widely used for the past 30 years or so, and seeks to segment markets according to how consumers spend their time, what their beliefs are about themselves and about specific issues, and the relative importance of their various possessions (e.g. cars, clothes, homes). The attraction of this approach is that it takes account of a wide range of characteristics of the segment,[6] encompassing some psychographic features and some behavioural features.

Demographic segmentation

Demographic segmentation is the most commonly used method of segmenting markets, probably because it is easy to pick up the relevant information from government statistics. Demographics is the study of how people differ in terms of factors such as age, occupation, salary and lifestyle stage.

Typically, demographic segmentation revolves around age. While this is relevant in many cases, it is often difficult to see the difference between, say, a 20-year-old's buying pattern and a 30-year-old's buying pattern. Equally, it cannot be said with much reliability that all 10-year-olds share the same tastes. There are undoubtedly 10-year-olds who would not want to visit Disneyland or Luna Park, and 10-year-olds who would prefer duck à l'orange to a hamburger. Age is, of course, relevant but it should be included as part of a range of measures, not relied upon on its own.

As we saw in Chapter 2, demographic variables are shifting over time, as the birth rate falls and the average age of the population rises. In addition, the number of single-person households is rising as people marry later and divorce rates increase: in 2001, single-person households represented 30% of UK households.[7] The implications of this one change for marketers are far-reaching; here are some of the possibilities:

- Increase in sales of individual packs of food.
- Increase in sales of recipe products and ready meals.
- Decrease in sales of gardening equipment and children's items.
- Increase in sales of mating-game items.
- Decrease in family-sized cars, packs of breakfast cereal, cleaning products, etc.

In Australia, immigration from South-East Asia is causing major changes in eating habits, religious observances and the linguistic structure of the country. In some cases, marketing activities have themselves contributed to a cross-fertilisation of cultural behaviour, so that individuals from one ethnic group behave in ways more usually associated with another group. This culture swapping means that ethnic and racial segmentation is no longer possible in most cases.[8]

Overall, demographic change means that new segments are emerging, some of which offer greater opportunities to marketers than do the segments they replace. Marketers need to monitor these changes in the demography if they are to remain able to segment the market effectively.

Not all segmentation variables will be appropriate to all markets. A pizza company might segment a market geographically (locating in a town centre) but would not segment by religion; the situation would be reversed for a wholesale kosher butcher. This is despite the fact that both firms are in the food business. **Single-variable segmentation** is based on only one variable, for example size of firm. This is the simplest way to segment, but is also the most inaccurate. To achieve **multivariable segmentation**, several characteristics are taken into account. The more characteristics are used, the greater the accuracy and effectiveness, but the smaller the resulting markets.

SEGMENTING INDUSTRIAL MARKETS

Industrial or organisational markets can be, and are, segmented by marketers according to the following criteria:

- *Geographic location.* Probably the commonest method, since most organisational markets are serviced by salespeople, and geographical segmentation enables the salesperson to make best use of drive time. Often firms in the same industry will locate near each other, perhaps because of availability of raw materials, or for traditional reasons to do with availability of local skilled workers.
- *Type of organisation.* IBM segments its market according to the industry the customer is in. This means that some IBM salespeople specialise in banking, others in insurance, others perhaps in local government applications of the equipment.
- *Client company size.* Many companies have separate salesforces to deal with large accounts.
- *Product use.* Oil companies have separate strategies (and sometimes separate subsidiaries) for marketing household central-heating oil, for the plastics industry, for petrochemicals and for automotive sales.
- **Usage rate**. Customers who use large quantities of a given product will expect (and get) different treatment from customers who buy only in small quantities. This is partly because their needs are different, and partly because the supplier will tend to value the large buyer over the small buyer.

Bonoma and Shapiro[9] suggest a nested approach to organisational market segmentation. This approach entails starting with broad characteristics such as the type of industry and the size of the organisations in it, then narrowing the segment by working through operating variables (processes, product types, etc.), then looking at the purchasing approach of the organisations, followed by situational factors such as delivery lead times and order size, and finally looking at the individual types of buyer in each firm.

For example, a glass manufacturer might begin by segmenting according to type of industry (window glass for construction, toughened glass for cars, bottles and jars for food packaging). Within the food packaging market the industry might break down further to pickles and sauces, wines and beers, and soft drinks. The wine and beer bottle market may further break down into major brewers and bottlers who buy in large quantities, and small privately owned vineyards who buy on a once-a-year basis. Some of the brewers may buy by tender, some may prefer to use a regular supplier, and some may have special requirements in terms of bottle shape or design.

As in consumer markets, it is not necessarily the case that buyers act from wholly rational motives (see Chapter 3), so it would be unreasonable not to include the buyers' personal characteristics in the segmentation plan somewhere. This is likely to be the province of the salesforce since they are dealing with the buyers on a day-to-day basis.

SEGMENTATION EFFECTIVENESS

If a segment is correctly identified, it should be possible for the marketer to meet the needs of the segment members much more effectively than their competitors can. The firm will be able to provide specialist products that are more nearly right for the consumers in the segment, and will be able to communicate better with them. From the consumer's viewpoint, this is worth paying an extra premium for. Rather than putting up with a product that does not quite fit the bill, the consumer will pay a little more for something that more closely approaches the ideal.

The segment will be profitable as long as the premium the consumer will pay is greater than the cost to the manufacturer of making the modifications. There is therefore a trade-off; the finer-tuned the segmentation, the smaller the market but the greater the premium the target consumers will be prepared to pay. This is illustrated in Figure 4.1.

As the segmentation becomes narrower, fewer units will be sold, so the number of items sold as compared with the population at large will drop. This is partly offset by higher prices, but the profitability of the segment will begin only where the premium line and the cost line diverge. Where the costs of adaptation are higher than the premium, it is not worthwhile to make the adaptations; where

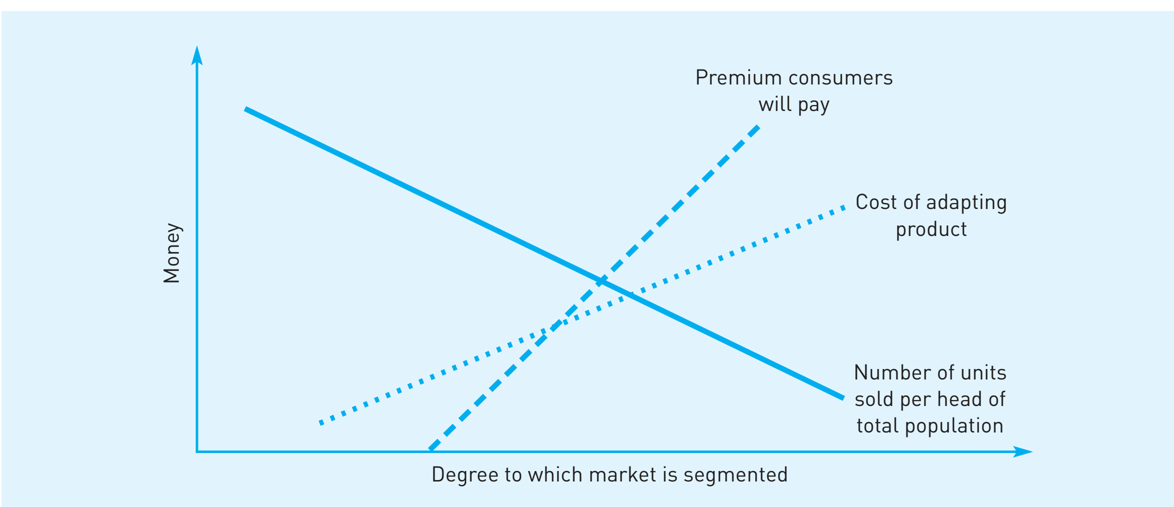

FIGURE 4.1 Segmentation trade-offs

the premium is higher than the cost, it may be worthwhile but the firm must still take account of the reduction in unit sales overall.

TARGETING

Having divided the market into segments, managers must decide which segment will be the best to target, given the firm's overall objectives. Normally managers would choose the most profitable segment, but equally a firm may decide to aim for a particular segment of the market that is currently neglected, on the grounds that competitors are less likely to enter the market. The process of selecting a segment to aim for is called **targeting**. There are three basic strategic options open to marketers.

1 Concentrated marketing (single segment). This is also known as **niche marketing**; Tie Rack, Sock Shop and Knickerbox follow this approach. The niche marketer concentrates on being the very best within a single tiny segment.

2 **Differentiated marketing** (multisegmented) means concentrating on two or more segments, offering a differentiated marketing mix for each. Holiday Inn aims to attract business travellers during the week, but aims for the leisure market at the weekend, and promotes to families. At the weekend, the hotels often have events for children and special room rates for families.

3 **Undifferentiated marketing** is about using a 'scattergun' approach. The producers who do this are usually offering a basic product that would be used by almost all age groups and lifestyles. For example, the market for petrol is largely undifferentiated. Although oil producers occasionally try to differentiate their products by the use of various additives and detergents, the use of petrol is much the same for everybody, and there would not appear to be any relationship between segmentation variables and petrol use. It would be difficult to imagine any real adaptation to the product that would meet people's needs sufficiently well to merit a premium price. Such examples of undifferentiated products are increasingly rare; even the producers of such basic commodities as salt and flour have made great strides forward in differentiating their products (i.e. meeting consumers' needs better).

The decision regarding which strategy to adopt will rest on the following three factors:

- the company's *resources*,
- the product's *features and benefits*, and
- the *characteristics* of the segment(s).

TABLE 4.2 Resourcing and degree of differentiation

Type of product	High-differentiation consumers	Low-differentiation consumers
High-resource company		
Mass market	Differentiated	Undifferentiated
Specialist market	Differentiated	Concentrated
Low-resource company		
Mass market	Concentrated	Differentiated (perhaps geographically)
Specialist market	Concentrated	Concentrated

Clearly if resources are limited the company will tend to adopt a concentrated marketing approach. This is the approach taken by the UK firm High and Mighty, a menswear retailer that specialises in clothing for exceptionally tall and exceptionally large men, and has become highly successful even though their market (men over 6 ft 4 in [1.9 metres] tall, or over 25 stone [160 kg] in weight) is actually very small in absolute terms. The reason for the success is that men of this size are not catered for at all by the big chain retailers, and the alternative used to be to have everything tailor-made. High and Mighty is able to produce in sufficient quantities to keep prices reasonable (though considerably higher than chain store prices) while still catering for its segment.

A higher level of resourcing coupled with a range of segments to approach will lead to a differentiated approach, and a simple made-for-everybody type product will lead to an undifferentiated approach. Table 4.2 shows this in action.

Companies with a small resource base are often unable to make their voices heard in mass markets simply because they cannot afford the level of promotional spend. They therefore need to segment, perhaps by starting out in a small area of the country (geographical segmentation) and gradually spreading nationwide as resources become available.

Table 4.3 shows the decision matrix for choosing a segment to target. The marketing strategy should be tailored to fit the intended audience: this means that each of the seven Ps, and every element of the promotion mix, needs to be built around the segment.

Accurate targeting is best achieved by carrying out detailed market research into the needs and wants of the target group (see Chapter 5). In this way the company is able to decide what to offer the target audience to improve on the competitors' offering. Note that three factors are being taken into account here. Firstly, what do the consumers in the target segment need? Secondly, what is already available to them? Thirdly, what can the firm offer that would be better than what is currently available?

TABLE 4.3 Targeting decisions

Segment size	Profit per unit sold	Number of competitors	Strategic decision rationale
Large	Large	Large	A large market with large profits will attract competitors; prices will fall rapidly, and so will profits.
Large	Small	Large	This is a mature market. A new entrant would have to have something special to dominate the market: perhaps a much-reduced cost base.
Small	Large	Large	A small segment with a high profit per unit and a large number of competitors can be captured entirely by a penetration pricing strategy.
Large	Large	Small	If the segment is both large and profitable competitors will certainly enter the market. A skimming policy is best for this market; as competitors enter, it will be possible to reduce prices to compete effectively.
Large	Small	Small	This is a mature market, but should be low risk; the lack of competition means that it should be easy to capture a share, and the low profit margin will discourage others from entering.
Small	Small	Large	This is a dying market. Really not worth entering at all.
Small	Large	Small	This is a niche market. It should be possible to capture all of this market.
Small	Small	Small	This is clearly not a very profitable segment at all. Unless the firm has something very new to bring to the segment, this is probably not worth targeting.

The five basic strategies of market coverage were outlined by Derek F. Abell in 1980.[10] They are shown in Table 4.4.

TABLE 4.4 Market coverage strategies

Strategy	Explanation	Example
Product/market concentration	Niche marketing; the company takes over one small part of the market.	Tie Rack, Sock Shop
Product specialisation	Firm produces a full line of a specific product type.	Campbell's Soup
Market specialisation	Firm produces everything that a specific group of consumers needs.	Titleist golf clubs, golf balls, tees, caddies
Selective specialisation	Firm enters selective niches that do not relate closely to each other, but are profitable.	British Telecom sells telephone services to consumers and industry, but also owns satellite time, which it sells to TV broadcasters and others
Full coverage	Firm enters every possible segment of its potential market.	Mitsubishi Industries, which produces everything from musical instruments to supertankers

Choosing the right market and then targeting it accurately are possibly the most important activities a marketer carries out. Choosing the wrong segment to target, or still worse not attempting to segment the market at all, leads to lost opportunities and wasted effort.

Accessing the target market is another issue that deserves attention. For a segment to be viable, it needs to be accessible via some communications medium or another: the segment may comprise people who read a particular magazine or watch a particular TV station. If there is no way to reach the segment, it cannot become a target market. In some cases the segment is defined by the medium: for example, *Cosmopolitan* readers represent a group of independently minded women with career aspirations, usually with high disposable incomes or aspirations in that direction, and interests that are more likely to run to business issues than to knitting patterns. These women represent a valuable market segment in their own right, but can probably only be easily identified as a group because they read *Cosmopolitan*.

POSITIONING

Positioning has been defined as: '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.'[11] Usually positioning refers to the place the product occupies in the consumer's **perceptual map** of the market: for instance as a high-quality item, or as a reliable one, or perhaps as a cheap version. The product is positioned in the perceptual map alongside similar offerings; this is a result of the categorisation and chunking processes (see Chapter 3).

Consumers build up a position for a product based on what they expect and believe to be the most pertinent features of the product class. Marketers therefore need to find out first what the pertinent features of the products are in the target consumers' **perceptions.** The marketer can then adjust the mix of features and benefits, and the communications mix, to give the product its most effective position relative to the other brands in the market. Sometimes the positioning process is led by the consumers, sometimes by the marketers.

Research shows that consumers use a relatively short list of factors in determining the position of a product.[12] These are as follows:

- *Top-of-the-range*. This refers to the product which consumers believe to be the most expensive or 'the best'. In the UK, this is often called 'the Rolls-Royce of …' whichever product type is under discussion.
- *Service*. The service levels which surround the product can be an important factor.
- *Value for money*. This is the degree to which the product's benefits represent a fair exchange for the price being asked.
- *Reliability*. Products are often positioned as being more (or less) reliable than their competitors.
- *Attractiveness*. This can refer to factors other than appearance, but implies factors other than the purely practical, performance-related factors.
- *Country of origin*. Some countries have a reputation for producing the best examples of some categories of product. For example, German engineering is highly regarded, whereas the French are known for their food and wine.
- *Brand name*. Branding is a key issue in positioning, as it identifies the product and conveys an impression of its quality (see Chapter 6).
- *Selectivity*. The degree to which the consumer can distinguish between brands and select from the range is a factor in positioning.

Ultimately, product positioning depends on the attitudes of the particular target market, so the marketer must either take these attitudes as they are and tailor the product to fit those attitudes, or must seek to change the attitudes of the market. Usually it is easier and cheaper to change the product than it is to change the consumers, but sometimes the market's attitudes to the product are so negative that the manufacturer feels constrained to reposition the product. For example, Skoda cars had to fight hard to throw off the negative connotations of the vehicle's Eastern European origins. Not wishing to be classed with Ladas, Yugos and Polski Fiats and thus share the perception of poor workmanship and unreliability, Skoda made great efforts to emphasise Volkswagen's takeover of the company and to position the car next to VW in the consumer's mind.

Skoda has pointed out that, under the auspices of VW ownership, the company's quality control and engineering procedures have been greatly improved. Skoda was, in any case, the jewel in the crown of Eastern European car manufacture, so the firm has been able to demonstrate that the cars are made to a high standard.

In order to determine the product's position, research is carried out with the target group of consumers, and a perceptual map such as the one in Figure 4.2 will be produced.

From the diagram it can be seen that Brand B has the image of being both high price and high quality: this is probably the Rolls-Royce of the products (top-of-the-range factor). Brand D is perceived as being low price, but low quality: this

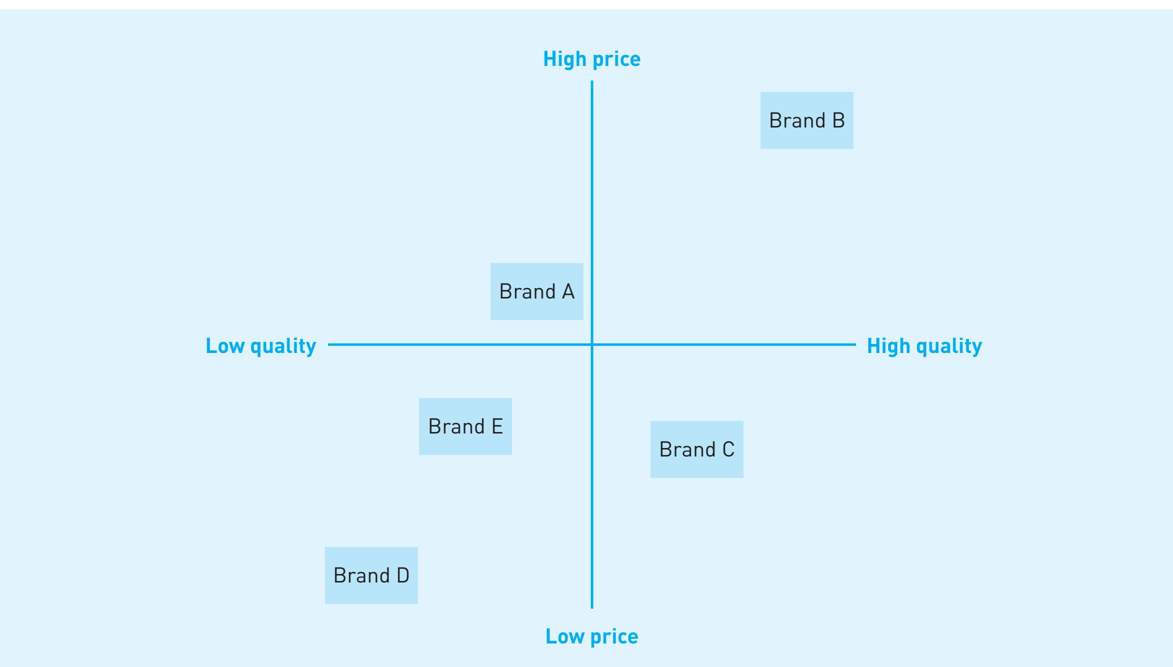

FIGURE 4.2 Perceptual mapping

would be a cheap, everyday brand. Brand A has a problem: although tending towards a high price, this product is perceived as being below-average quality. Sales are likely to be low, or will take place only when the consumer has no other choice available. Brand C, on the other hand, enjoys a low price and good quality, so is probably the top-selling brand (value-for-money factor).

It should be noted that these positions are based on average responses from consumers in the target groups. They are not objective, nor are they based on the firm's view of the quality of its products. For this reason, they can sometimes be changed by promotional efforts. Far more commonly, though, the firm will need to do something more practical about changing the product or changing its price to make the necessary changes.

In Figure 4.2, the products have been mapped against only two dimensions, but it is perfectly possible (perhaps even advisable) to map the product against more dimensions. This can be done on a computer using multidimensional mapping software.

One of the most useful tactical aspects of positioning maps is that they can be used to identify gaps in the market. Using Figure 4.2 as an example, there is clearly a gap next to Brand A and below Brand B for a medium-to-high quality product at a medium-to-high price. Currently this market seems to be dominated by lower-priced brands; a brand entering this market would need to be perceived as higher quality than Brand C, but at a lower price than Brand B.

SALES FORECASTING

Having segmented the market, targeted the appropriate segments, and decided on a positioning strategy, the firm is in a better position to forecast the expected sales of the product.

Two overall strategic approaches to sales forecasting exist: **break-down** and **build-up**.

The break-down approach begins with the overall market for the product category and seeks to predict what the firm's share of that market will be. For example, a bank may have access to government economic forecasts which can be used to calculate the total loans market for the following year. The bank forecasters will know what the bank's share of the market was in previous years, and can use this information to make a reasonable estimate of what the bank's total lending will be in the ensuing year.

The build-up method, on the other hand, begins with the market segments (and even individual consumers) and builds up to a total market share. The bank in the above example might begin with an estimate of how many home loans it might make (based on market research), and how many business loans, how many car loans, and so forth. By adding these figures together, an overall estimate of the total sales for the following year is arrived at.

Sales forecasts help to determine the viability of a segment, and also help the firm to plan its budgets and indeed virtually all of its other activities. Forecasting the future is always difficult; many firms rely on **executive judgement**, using the skill and experience of its senior people in deciding whether a product is a winner or not. Unfortunately this approach can fail because the executives will favour a product that they would buy as private consumers, rather than a product that the target market segment would buy.

Through a **customer survey** firms are able to ask potential customers how much of a given product they are likely to buy within the next 12 months or so. These intent-to-buy studies work best for existing product categories; for a radically new product it is much more difficult, since only the most innovative of consumers will be able to say with any certainty that they would be prepared to buy the product early in its launch. The main drawback with this method is that customers may intend to purchase, but change their minds during the course of the year, perhaps owing to a competitor's actions.

Other firms may use a **salesforce survey**, asking the salesforce how much of a given product they might expect to sell over the next 12 months. This has the advantage that the salespeople, unlike the senior management, are usually close to the customer and are able to make judgements based on this. Also the salespeople will be wary about making rash forecasts that they might later be held to. On the other hand, salespeople generally like to be consulted about their own targets and quotas. A variation on the salesforce survey is the **distributor survey**, where the company's distributors are asked how much they expect to sell over a specific period. Since the distributors will be giving the total sales in the product category (e.g. off-licences might be asked how much whisky they expect to sell in the next 12 months) the company will then have to make a judgement regarding the amount of market share they might reasonably expect to capture.

The **Delphi** approach involves taking in the managers' and salespeople's forecasts, combining them centrally, then sending the aggregate forecast back to the individuals concerned for revision. This approach has proved popular with firms because it tends to produce a consensus of opinion that all those concerned can adhere to. A problem with using Delphi might be that individuals will only make forecasts that they are quite sure are achievable: in other words, they might underestimate the possible sales rather than risk being unable to hit targets.

Time-series analysis uses the company's past sales records to predict what will happen in the future. Although this can be quite accurate, it does not take account of the unexpected – a sudden entry by a competitor, a change in legislation, or a change in the company's fortunes through takeover or merger. Few forecasting methods can take account of these factors, of course, and ultimately the company has to plan in some way. Time-series forecasters usually perform four types of analysis, as shown in Table 4.5.[13] Having carried out each of these analyses, the forecaster is able to combine the results to develop the sales forecast.

Time-series analysis works best for well-established products with fairly stable purchasing patterns. It is not suitable for new products or for products with erratic demand cycles.

TABLE 4.5 Time-series analysis

Type of analysis	Description
Trend analysis	Focuses on aggregate sales data collected over a long period to determine whether sales are rising, falling, or staying level.
Cycle analysis	Here the forecaster examines the sales figures from a number of years to see whether there is a cyclical pattern; perhaps a response to the economic boom-and-bust cycle. This method has been largely discredited for most markets, since the cycles do not follow a regular pattern.
Seasonal analysis	Sales figures are analysed on a monthly or even weekly basis to see whether there is a seasonal cycle operating.
Random factor analysis	In any analysis there will be figures that do not fit the pattern; random factor analysis seeks to attribute explanations for these abnormal findings. For example, a spell of unseasonal weather might have affected one month's figures.

For new products, a **test marketing** exercise might be carried out. This involves making the product available in one geographical area for a period of time, and monitoring the actual sales of the product in the area. The key to success with test marketing lies in ensuring that the area chosen is an accurate representation of the country as a whole; if not, the predicted sales on national roll-out will not be as expected. The major drawback of test marketing is that it allows the firm's competitors to see the product and possibly develop their own version before the product goes national. For this reason, test marketing exercises are usually short.

CASE STUDY 4: THE HOLIDAY BUSINESS

In the UK, increased leisure and increased income has meant a huge growth in the travel industry. Fifty years ago most people had only two weeks' holiday a year – only a lucky few had three weeks. Yet in the 21st century many people enjoy six weeks' annual leave, or even seven weeks. At the same time disposable income rose 18% between 1997 and 2001 – and there are only so many household items someone can buy. The surplus income often finds a home in paying for ever more exotic holidays.

In the 1950s most British people holidayed within the UK, at resorts such as Blackpool, Brighton, Rhyl, Bognor Regis or Bournemouth. In most cases, these resorts drew their custom from nearby cities – Manchester and Liverpool for Blackpool, London for Bognor Regis and Brighton, and so forth. However, the advent of the jet aircraft made flying much cheaper, and during the late 1950s and early 1960s package holidays to foreign countries began to become popular. Air-inclusive tours (AITs) boomed during the next 20 years, but as travellers became more sophisticated the idea of a package holiday became less appealing – people wanted to set their own agendas on holiday. During the 1990s cheap airlines became established, and the main advantage of the AIT (low overall cost) was eroded.

The range of choice of holiday is now vast, to take account of the variety of customer needs and customer experiences. At one end of the spectrum, there are holidaymakers who look for an organised tour from a knowledgeable firm, where the holiday experience is managed almost entirely by the tour operator. Examples of this include guided tours of Egyptian antiquities, cruises, or two-centre holidays where the customers spend part of their time in a major city and part of their time on a beach somewhere. At the other end of the scale, backpackers and independent travellers book themselves a flight, and find their hotels or hostels when they arrive, needing no more than a good guide book and a smattering of the local language.

For firms in the holiday industry, segmenting the market is therefore complex. Package holidays might be AIT or non-AIT (mostly self-drive tours to Ireland or France). The market could be segmented by destination (France, Spain, Greece and North America are the most popular destinations for Brits). The market may be segmented by degree of independence of the holidaymakers. It may even segment by income – backpackers are at the budget end, whereas many people in their 50s and 60s have high disposable incomes and take luxurious holidays.

Some holidaymakers look for specific activities (skiing, sightseeing, surfing, etc.). There were 954 000 ski trips taken from the UK in the 2001/2002 season alone, according to researchers Mintel. Packages aimed at such customers sometimes include tuition or expert guides. Other holidays aim at relaxation – but even here the market can be segmented. There is a great deal of difference between a relaxing holiday aimed at 18 to 30 year olds and one aimed at families with small children.

The final complication for holiday companies is that individuals often shift from one segment to another. The young people looking for a lively night-life five years ago might be looking for a quiet location where their children can be entertained this year. Equally, someone who backpacked across India five years ago might be a rising executive looking for a honeymoon trip on the Orient Express this year. Even within a shorter space of time, it would not be unusual for someone to take a cheap, self-organised holiday for one chunk of leave and take a more organised package holiday later in the same year. Over a longer period of time, backpackers become family people and eventually become well-off older people – people aged over 50 are among the most affluent in the country, and also frequently have the most spare time available to enjoy foreign holidays.

Undoubtedly the package holiday is not yet dead, but the strongest growth is in the independent sector. How tour operators will counter this trend remains to be seen.

Questions

1. What bases for segmentation might be appropriate in the holiday business?
2. Which segments are likely to show the strongest growth in the next 10 years?
3. Which segments are likely to shrink in the next 10 years?
4. How might tour operators respond to the growth in the independent sector?
5. How might a holiday marketer track people who apparently shift from one segment to another?

SUMMARY

This chapter has been about ways of dividing markets up into manageable portions. Here are the key points from this chapter:

- There are few, if any, mass markets left untouched.
- If most consumers already own the core benefits of a product, the market must be segmented if success is to follow, since there is otherwise no reason for consumers to switch brands.
- Segments must be measurable, accessible, substantial and congruent.
- The profitability of a segment is calculated as the number of people in the segment multiplied by the premium they are willing to pay.
- The narrower the segment the fewer the customers, but the greater the satisfaction and the greater the premium they are willing to pay (provided the segment has been correctly identified).
- There are many ways to segment a market, in fact as many ways as there are groups with congruent needs.
- Targeting is concerned with selecting an appropriate segment or segments, and approaching it in a consistent and effective way.

- Some segments are defined by the media used to target them.
- Sales forecasting is difficult, but can most easily be accomplished where the product is a fairly standard item.
- Forecasting is likely to be self-fulfilling if all the interested parties are involved in the process.

CHAPTER QUESTIONS

1 What might be the segmentation bases for the home computer market?

2 What sales forecasting approaches would be most suitable for the launch of a new family car?

3 When should an industrial market be segmented geographically?

4 When should a consumer market be segmented geographically?

5 How might a TV company assess the viability of a new drama series?

MULTI-CHOICE QUESTIONS

1 Dividing markets into groups of customers with similar needs is called:
(A) Segmenting.
(B) Targeting.
(C) Perceptual mapping.

2 Positioning is the process of:
(A) Putting the product in the right shops.
(B) Putting the product in the right place in the customer's mind.
(C) Putting the product in the right place within a retail store.

3 The purpose of segmentation is:
(A) To ensure that resources are used in the most effective way.
(B) To make it easier to find customers.
(C) To help customers understand what our products are.

4 Segmenting a market according to where people shop is an example of:
(A) Geographic segmentation.
(B) Psychographic segmentation.
(C) Behavioural segmentation.

5 Which of the following is inappropriate for segmenting industrial markets?
(A) Psychographic segmentation.
(B) Geographical segmentation.
(C) Behavioural segmentation.

6 Niche marketing is an example of:
(A) Differentiated marketing.
(B) Undifferentiated marketing.
(C) Concentrated marketing.

7 Delphi is used for:
(A) Segmenting.
(B) Targeting.
(C) Sales forecasting.

8 The proportion of single-person households in the UK is:
(A) 50%
(B) 30%
(C) 40%

9 Australia's influx of Asian immigrants will cause:
(A) Demographic changes.
(B) Increased markets.
(C) Psychographic changes.

10 A low-resource company in a mass market containing high-differentiation consumers should:
(A) Follow an undifferentiated strategy.
(B) Follow a differentiated strategy.
(C) Follow a concentrated strategy.

FURTHER READING

Unlike consumer behaviour or marketing communications, there are relatively few texts that cover segmentation in any great detail.

Consumer Behaviour and Marketing Strategy, 4th edn, by J. Paul Peter and Jerry C. Olson (Chicago, IL, Irwin, 1996) has a good section on segmenting consumer markets in Chapter 16.

Zikmund and Amico's *Effective Marketing: Creating and Keeping Customers* (St Paul, MN, West, 2001) has a good account of segmentation methodologies in Chapter 7.

GLOSSARY

Behavioural segmentation Grouping potential customers according to their activities, attitudes and lifestyles.

Break-down forecasting Predicting sales by calculating the firm's share of the overall market.

Build-up forecasting Predicting sales by calculating the firm's share of each segment and adding these together.

Core benefits The benefits that would apply to all consumers of the product category. For example, all cars provide the core benefit of personal transportation.

Customer survey Forecasting sales by asking customers how much of the product they expect to buy.

Cycle analysis Examining earlier sales figures to see whether there is evidence of a recurring pattern over a period of years.

Delphi technique Forecasting by asking each interested party to make their own estimate, then circulating the estimates to the other members of the group for comment and revision.

Demographic segmentation Grouping potential customers according to their position in the structure of the population.

Differentiated marketing Concentrating effort on a segment or segments by offering a product which the target customers would see as superior.

Distributor survey Forecasting sales by asking the firm's distributors to estimate how much of the product they expect to sell.

Executive judgement Forecasting sales by asking senior management to estimate the potential business.

Geographic segmentation Dividing potential customers into groups according to their location, either nationally or in smaller areas, for example areas of a city.

Multivariable segmentation Grouping potential customers according to several segmentation bases.

Niche marketing Concentrating effort on a very small market segment.

Perception The analytic and synthetic process of developing a world view.

Perceptual mapping The process of positioning products, events and experiences in relation to one another.

Positioning The grouping of similar product types together in the consumer's perceptual map.

Premium The amount a customer is prepared to pay above the price of a standardised product in order to obtain a product which more closely fits his or her needs.

Psychographic segmentation Grouping potential customers according to their personality traits.

Random factor analysis Examining the abnormal figures within the analysis of sales trends to attribute causation.

Salesforce survey Forecasting sales by asking members of the salesforce to estimate how much of the product they expect to be able to sell.

Seasonal analysis Examining earlier sales figures to see whether there is evidence of a recurring pattern over a period spanning less than a year.

Single-variable segmentation Grouping potential customers according to one segmentation base.

Targeting Selecting the segments that would be most effective in meeting the firm's overall aims.

Test marketing Offering a new product within a small geographical area in order to obtain data for estimating sales for the market as a whole.

Time-series analysis Estimating future sales by looking at a series of sales figures from an earlier time.

Trend analysis Predicting future sales by examining tendencies in past sales figures and projecting forwards.

Undifferentiated marketing Marketing to the entire population, on the assumption that everybody is a possible customer for the product, and therefore the market is not segmented.

Usage rate The quantity of the product that an industrial customer will use in a given period.

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