# MG212: Marketing

Lecture 4

LSE - Fall 2017

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# Organisational notes

- Summative assessment (group project) available on Moodle later today
  - Remember: groups of 3-4 within your assigned class
  - Must tell your class teacher about your group formation next week
  - Example (outstanding) projects from last year *hopefully* available on Moodle early next week
  - Questions about the project should be posted on the Moodle Forum ("Summative Assessment Questions & Answers")

# Who (which customers) are we going to serve? And how?

# Outline

- Overview: what are we doing and why?
- Segmentation
  - What is it
  - How is it done
- Targeting
  - What is it
  - How is it done
  - Why is it done
- Positioning
  - What is it
  - Differentiation
  - How is it done
  - Perceptual maps
- Recap

# Segmentation, targeting, positioning



Undifferentiated → Differentiated

# Segmentation

- Q: What is it?
- A: Separating prospective buyers into groups such that, within a group:
  - Similarity is high
    - Similarity between-groups is low
  - Needs are common
  - Responses to marketing action are similar

# Segmenting customers: Methods

- What attributes are important? How important?
  - Obtain attribute importance ratings, "How important is Attribute X when you buy…?"
  - If there is a long list of attributes, use methods (e.g., Factor Analysis) to narrow down
- Create sub-groups of people based on their similarity on these few important attributes
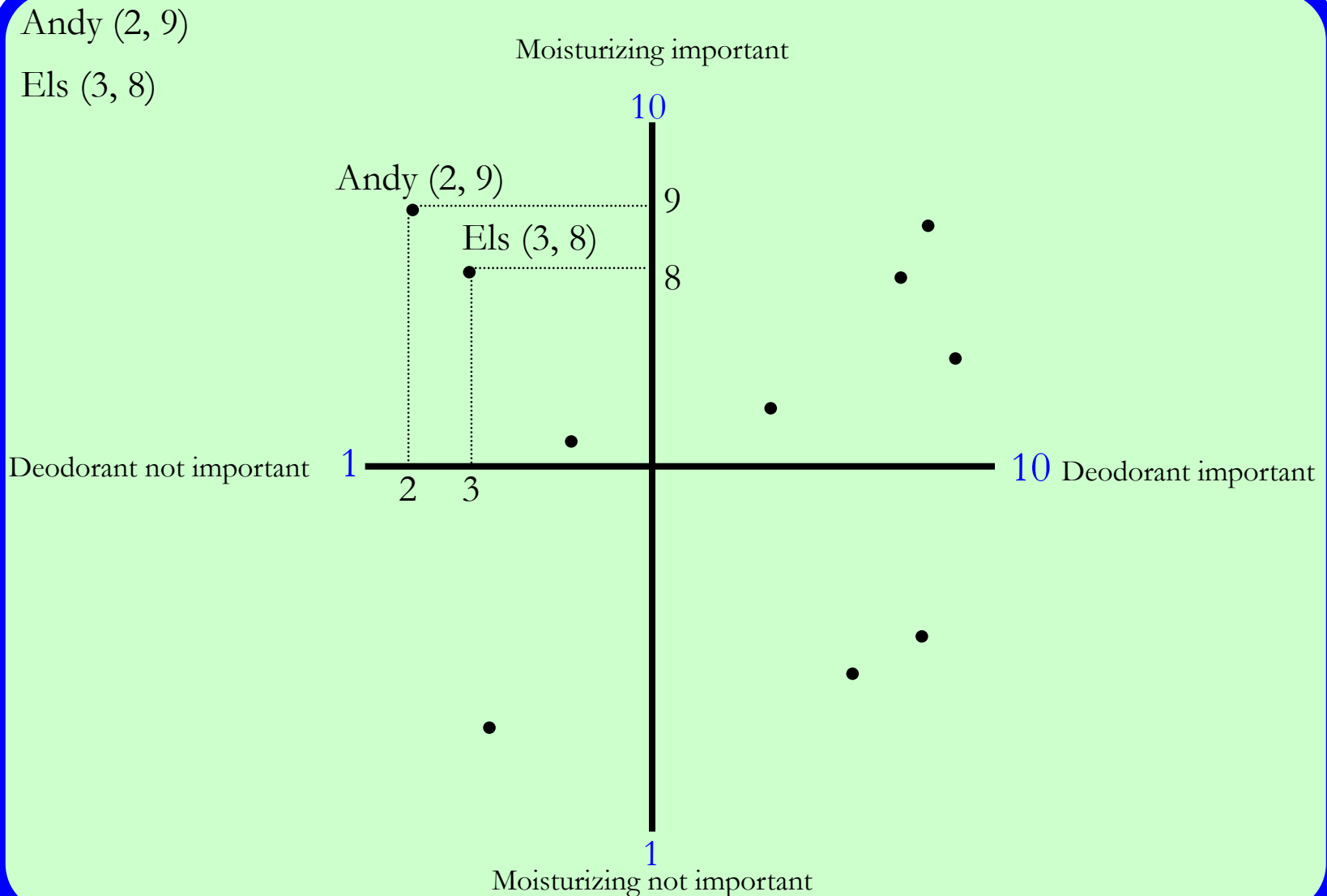  - Many methods (e.g., Cluster Analysis)

Remember Fishbein model from last time

# A general example: The raw data (attrib. importance)

| Respondent | Deodorant Rating | Moisturizing Rating |
|---|---|---|
| Andy | 2 | 9 |
| Els | 3 | 8 |
| Ozzy | 3 | 2 |
| Lisa | 4 | 5.5 |
| John | 7 | 6 |
| Elise | 8 | 3 |
| Marcus | 8.5 | 8 |
| Qi | 9 | 3.5 |
| Stijn | 9 | 8.8 |
| Stacy | 9.5 | 7 |

# A general example: plotting each customer



Andy (2, 9)

Els (3, 8)

Moisturizing important

10

Andy (2, 9)

9

Els (3, 8)

8

Deodorant not important    1    2   3          10 Deodorant important

1

Moisturizing not important

**Similarity Between Individuals**
- Basic geometry (Euclidean distance)
- $(\text{distance})^2 = x^2 + y^2$
  - $(\text{distance})^2 = (8-7)^2 + (2-3)^2$

Moisturizing important

Andy (2, 8)

Els (3, 7)

8

7

x

y

(Note: We are plotting **people** now while *segmenting*. We could plot **brands** if we were working on *positioning*.)

Deodorant not important

2    3
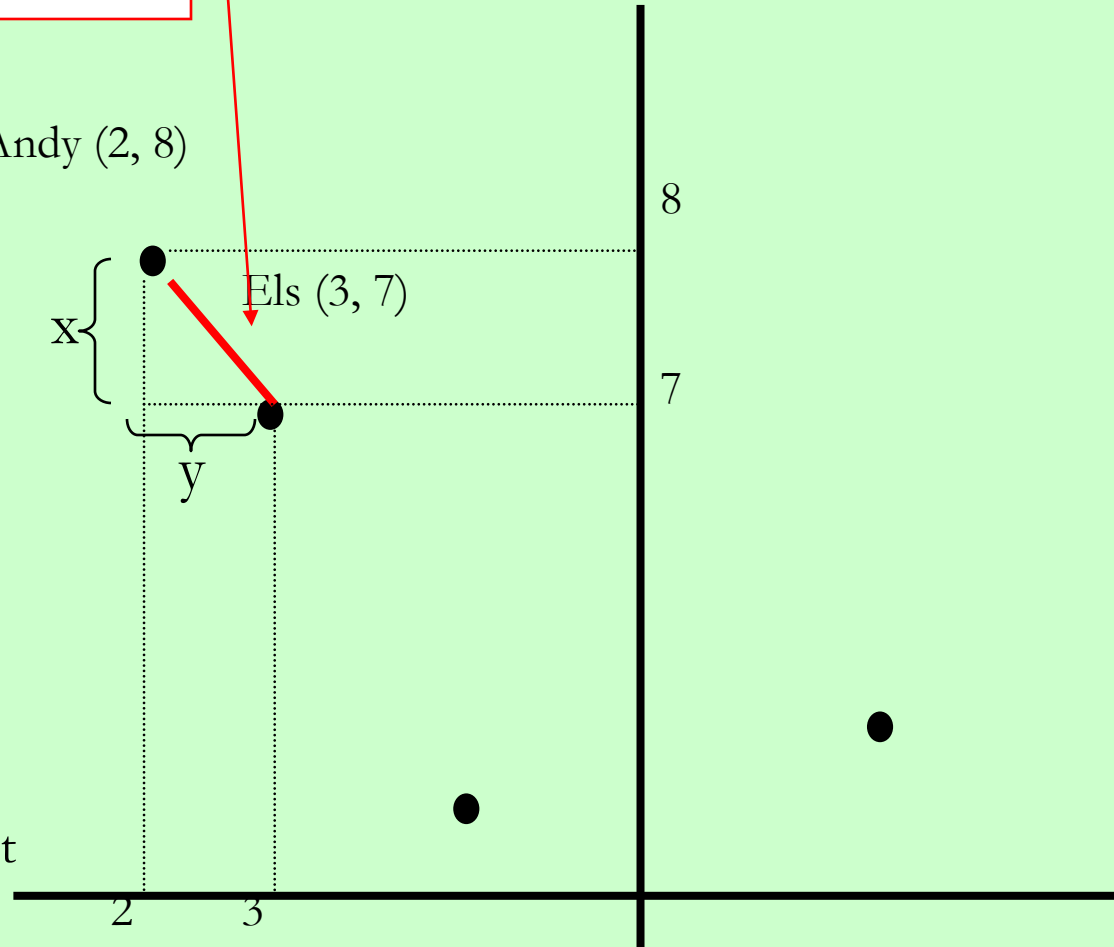
# A general example: forming clusters or segments

**Greater the Similarity => Less the Distance**

Moisturizing important

Andy
• Els

• Stijn
• Marcus
• Stacy

John •
• Lisa

Deodorant not important

Deodorant important
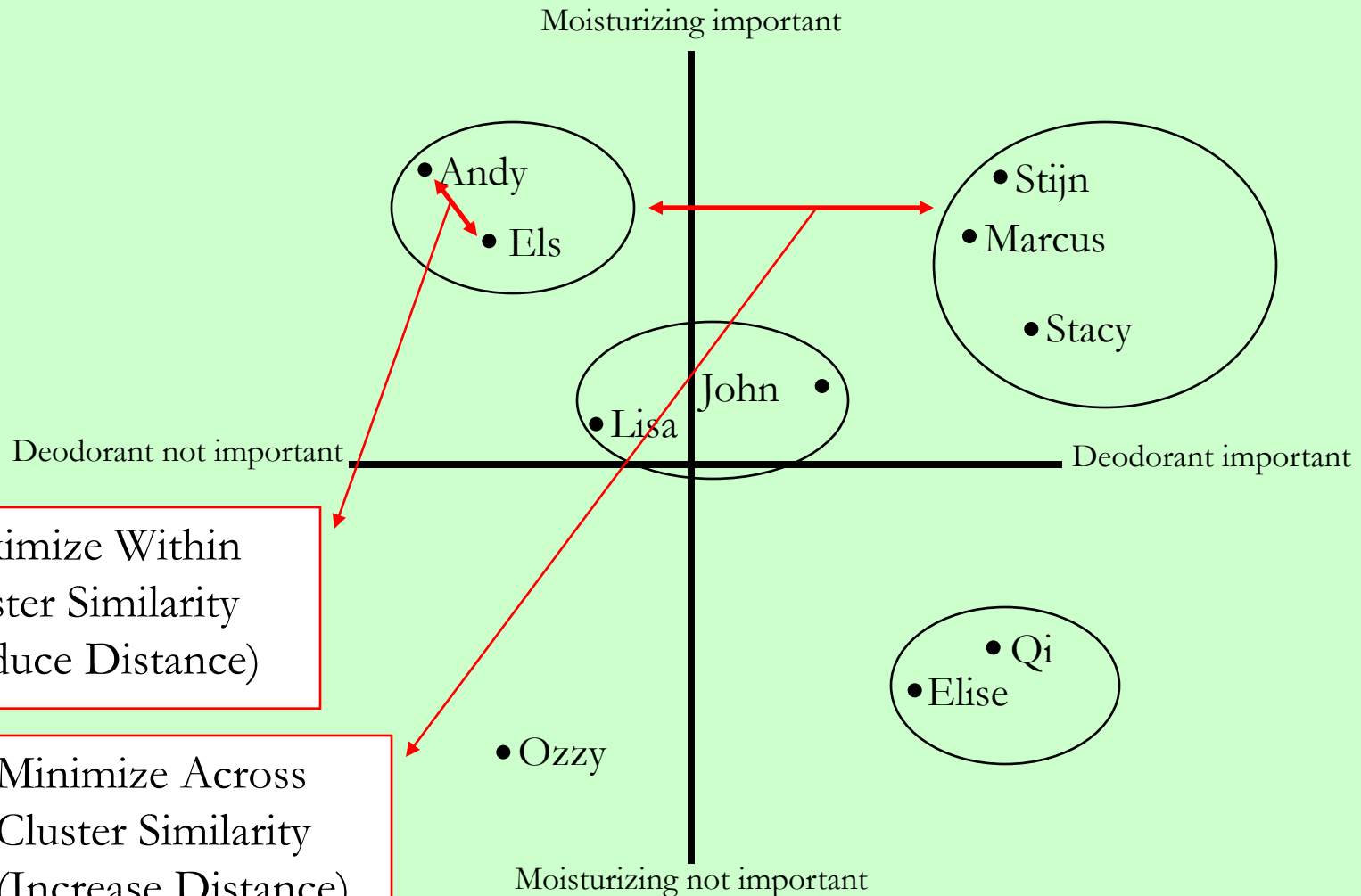
Maximize Within
Cluster Similarity
(Reduce Distance)

• Qi
• Elise

• Ozzy

Minimize Across
Cluster Similarity
(Increase Distance)

Moisturizing not important

# Segmenting customers: Methods

- What attributes are important? How important?
  - Obtain attribute importance ratings, "How important is Attribute X when you buy…?"
  - If there is a long list of attributes, use methods (e.g., Factor Analysis) to narrow down
- Create sub-groups of people based on their similarity on these few important attributes
  - Many methods (e.g., Cluster analysis)
  - Develop profiles of resulting segments
- Discriminant analysis
- Validity check

# Segmenting customers: on which basis?

Can be a fine line!

**Geographic segmentation**

**Demographic segmentation**

**Psychographic segmentation**

**Behavioral segmentation**

*Market segmentation is the identification of individuals or organisations with similar characteristics that have significant implications for the determination of marketing strategy*

"Pure" demographic segmentation didn't always work… Solution: add psychographic segmentation

# Segmenting customers: on which basis?

UK based classification of socioeconomic groups

A - higher managerial, administrative or professional

B - intermediate managerial, administrative or professional

C1 - supervisory or clerical, junior management, administrative or professional

C2 - skilled Manual

D - semi skilled and unskilled manual

E – state pensioners or widows, casual / low grade workers, unemployed

# Segmenting customers: on which basis?



Overview → **Segmentation** → Targeting → Positioning → Recap
What is it → **How is it done**

## How Companies Learn Your Secrets

**Magazine**

Whenever possible, Target assigns each shopper a unique code — known internally as the Guest ID number — that keeps tabs on everything they buy. "If you use a credit card or a coupon, or fill out a survey, or mail in a refund, or call the customer help line, or open an e-mail we've sent you or visit our Web site, we'll record it and link it to your Guest ID," Pole said. "We want to know everything we can."

Also linked to your Guest ID is demographic information like your age, whether you are married and have kids, which part of town you live in, how long it takes you to drive to the store, your estimated salary, whether you've moved recently, what credit cards you carry in your wallet and what Web sites you visit. Target can buy data about your ethnicity, job history, the magazines you read, if you've ever declared bankruptcy or got divorced, the year you bought (or lost) your house, where you went to college, what kinds of topics you talk about online, whether you prefer certain brands of coffee, paper towels, cereal or applesauce, your political leanings, reading habits, charitable giving and the number of cars you own. (In a statement, Target declined to identify what demographic information it collects or purchases.) All that information is meaningless, however, without someone to analyze and make sense of it. That's where Andrew Pole and the dozens of other members of Target's Guest Marketing Analytics department come in.

By CHARLES DUHIGG
Published: February 16, 2012

RECOMMEND

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LINKEDIN

Andrew Pole had just started working as a statistician for Target in 2002, when two colleagues from the marketing department stopped by his desk to ask an odd question: "If we wanted to figure out if a

Overview → **Segmentation** → Targeting → Positioning → Recap
What is it → **How is it done**

# Segmentation: Criteria

Measurable

Accessible

Substantial

Differentiable

Actionable
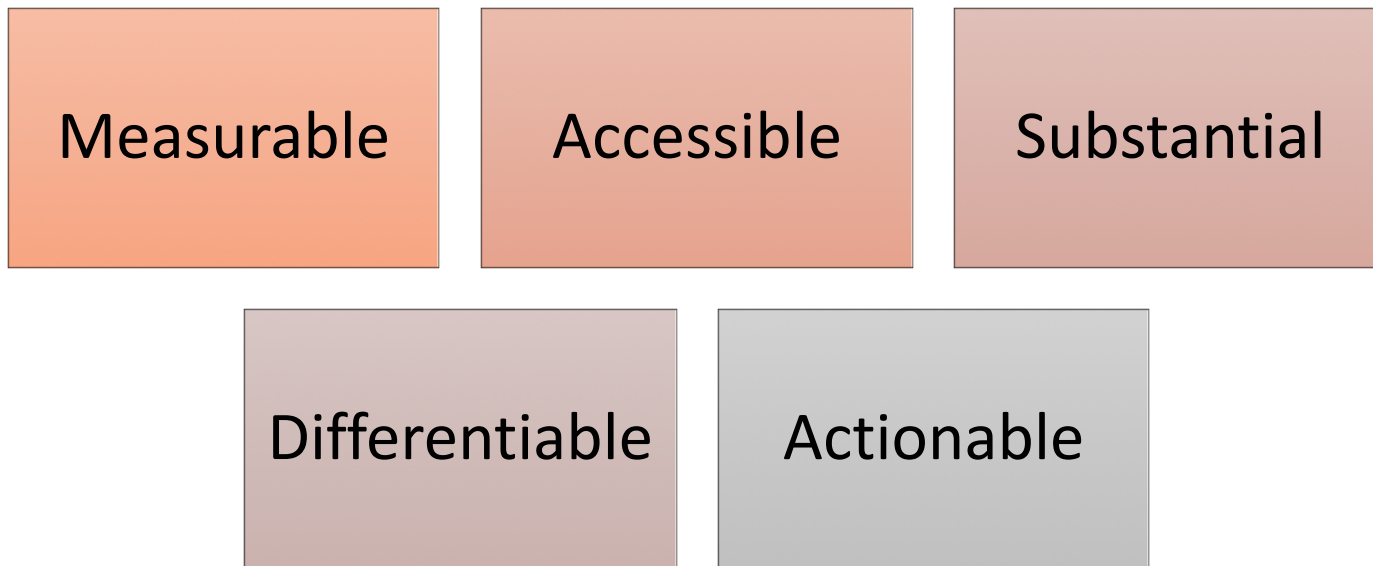
# Targeting

- Q: What is it?

- A: Evaluating the attractiveness of each segment, based on
    - Opportunities for profit
    - Competitive profile
    - Fit with company

- Based on this evaluation, selecting one or more to focus on

# Targeting

**Market Opportunities for Profit**

- **Segment Size**
- **Growth rate/potential**

Create an Index
Weights for each criterion
Rate each segment on each criterion
Combine (i.e., weights x ratings)
For example: GE/McKinsey model

Target Market Selection

**Competitive Intensity**
- Underserved Needs?
- Competitors' Strengths

**Company "Fit"**
- **With Objectives**
- **With Competencies**
- **With Customer Base**
- **With Resources**

Overview → Segmentation → **Targeting** → Positioning → Recap
What is it → **How is it done** → Why is it done

# Targeting: Why?

- Undifferentiated marketing targets the whole market with one offer.
  - Mass marketing
  - Focuses on common needs rather than what's different
- Differentiated marketing targets several different market segments and designs separate offers for each.
  - Goal is to achieve higher sales and stronger position
  - More expensive than undifferentiated marketing

# Targeting: Why?

- Perceptual map
- What goes on the axes?
  - Age
  - Income
  - Address
  - Socio economic

*Income $*

*Porsche*

*Mercedes*

*Ford*
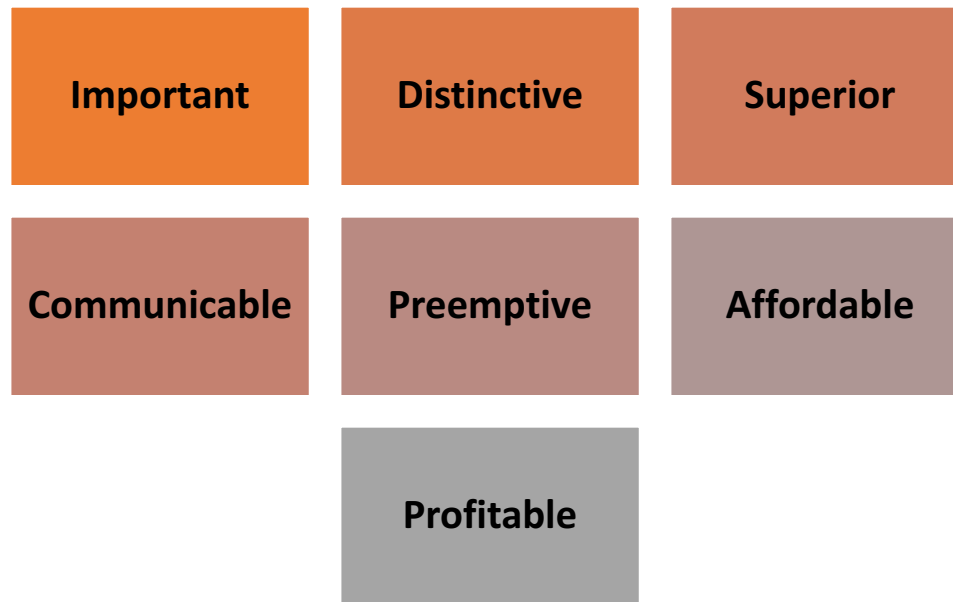
*Used cars*

*Age*
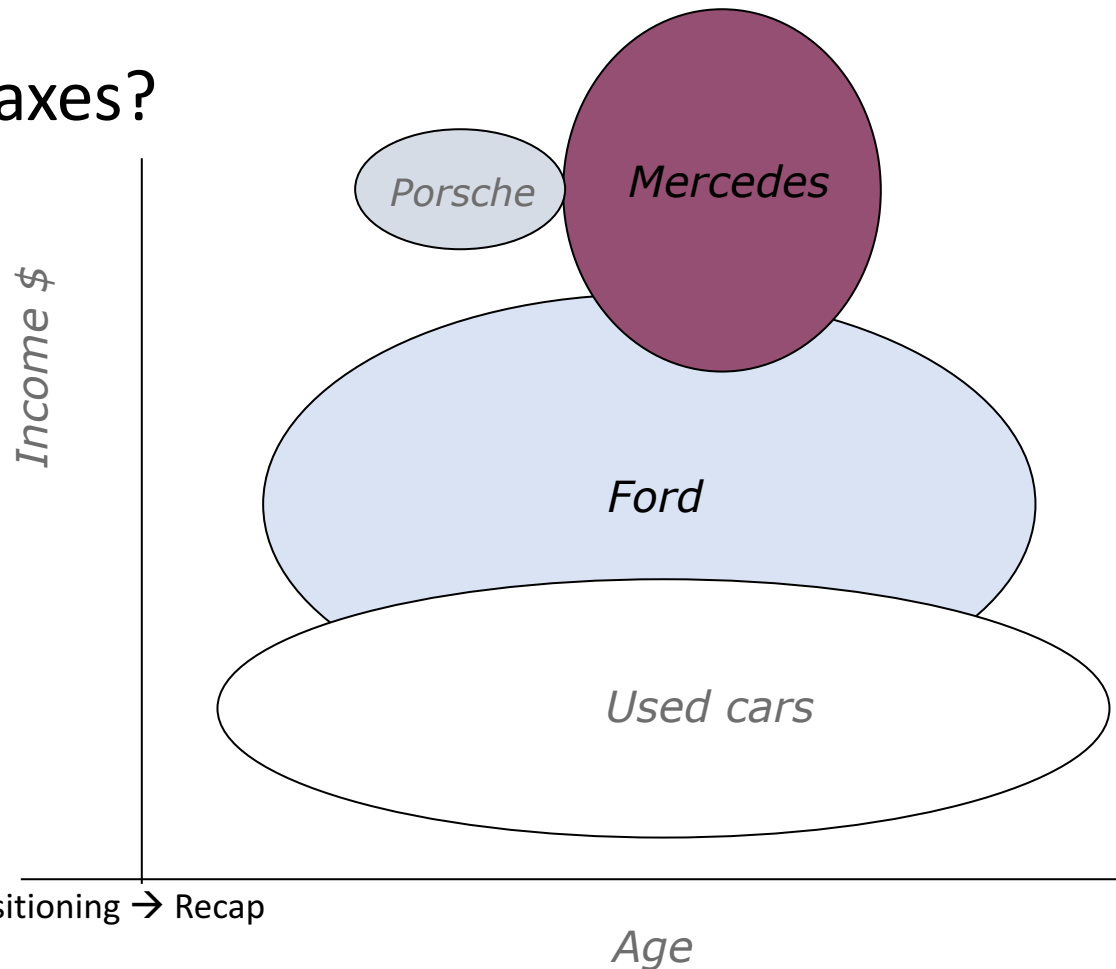
# Positioning

- Q: What is it?

- A: The way a product is defined by consumers on important attributes

- A: The complex set of perceptions, impressions, and feelings that consumers have for the product compared with competing products
  - May be different for each target segment
  - Based on a value proposition that must be different from (differentiated from) competitors

# Positioning and differentiation

- **Competitive advantage** is an advantage over competitors gained by offering consumers greater value, either through lower prices or by providing more benefits that justify higher prices.

- Possible competitive advantages to differentiate in terms of:
  - Product
  - Services
  - Channels (means of distribution)
  - People
  - Image

# Positioning and differentiation

Choosing the right competitive advantage:

A difference to promote should be

| | | |
|---|---|---|
| **Important** | **Distinctive** | **Superior** |
| **Communicable** | **Preemptive** | **Affordable** |
| | **Profitable** | |

# Positioning statement

- To customers who are (target summary)

- Our product offers (state what the product does from the consumers' point of view)

- Relative to (competitive alternatives)

- Because (reason to believe)

*"For World Wide Web users who enjoy books, Amazon.com is a retail bookseller that provides instant access to over 1.1 million books. Unlike traditional book retailers, Amazon.com provides a combination of extraordinary convenience, low prices, and comprehensive selection." (Winer, 2000, p. 64)*
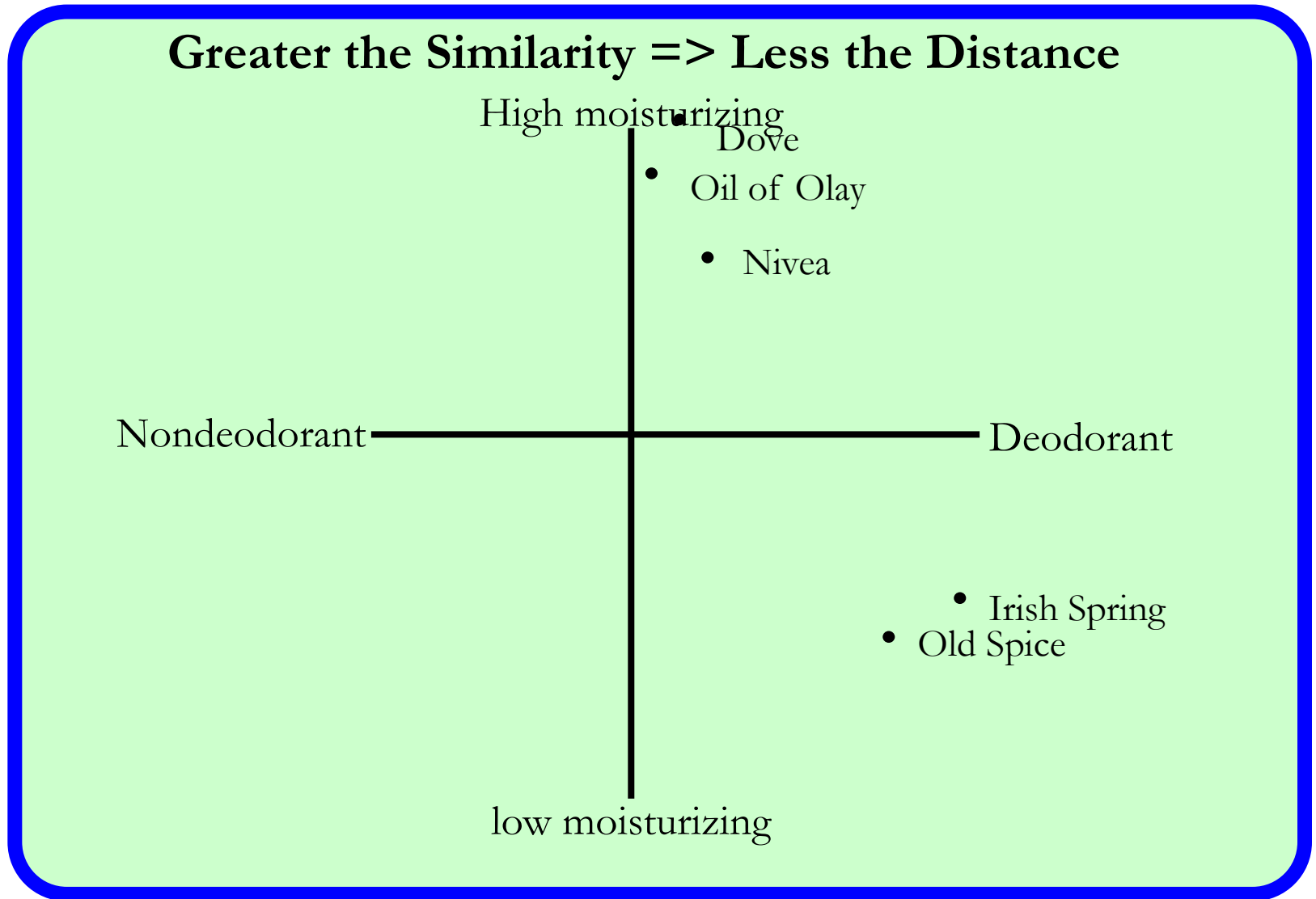
# Positioning: Methods

- Select target segment
- Determine relevant competitive offerings
- Determine potential differentiator-dimensions
- Select sample of customers in target segment and get ratings of competitors on selected dimensions
- "View" the results (perceptual maps)
- Relate to preference, choice, or market share (preference maps)
- Develop positioning statement and associated strategies

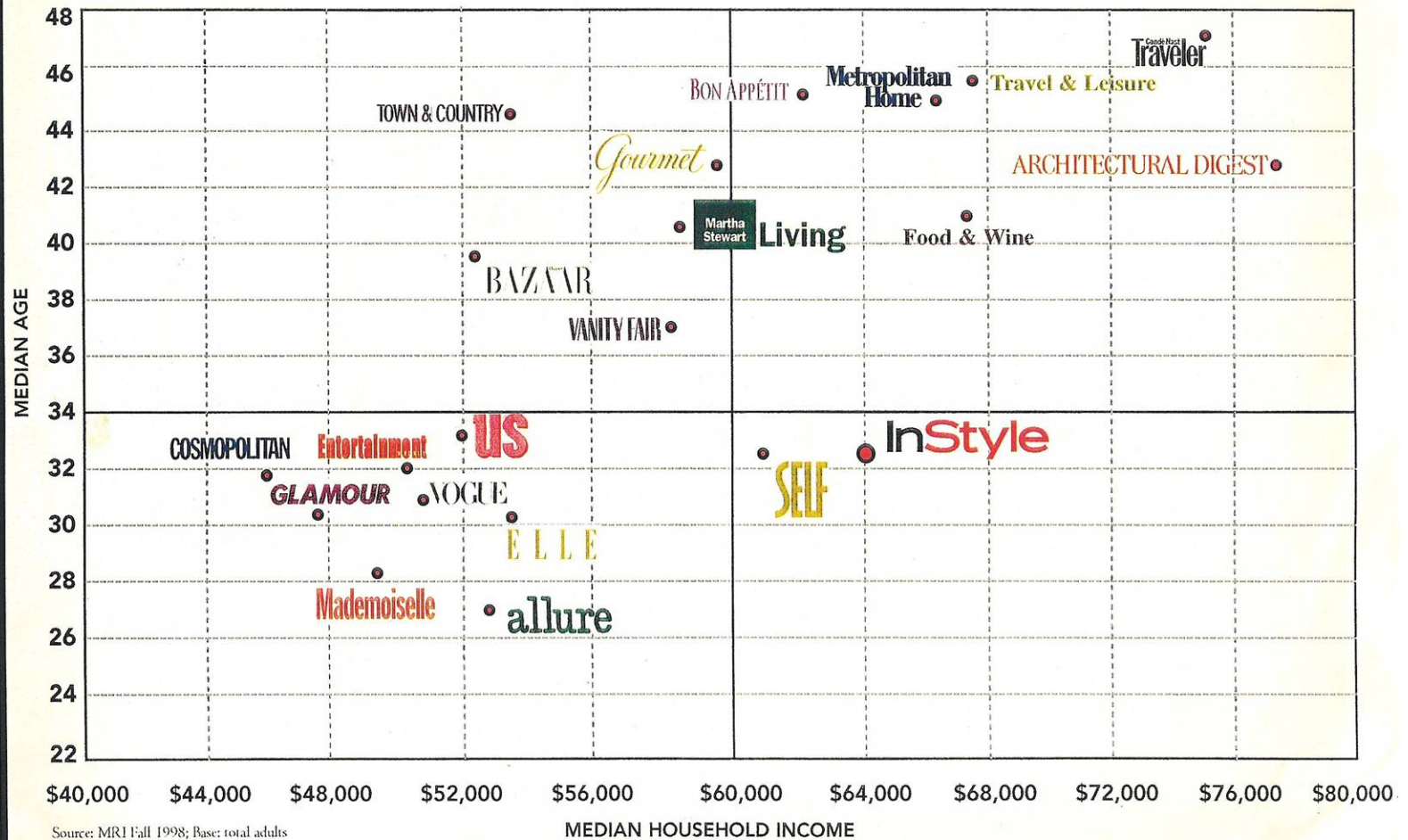# A general example: The raw data (brand ratings)

| Brand | Deodorant Rating | Moisturizing Rating |
|---|---|---|
| Dove | 2 | 9 |
| Oil of Olay | 3 | 8 |
| Nivea | 3 | 2 |
| Irish Spring | 4 | 5.5 |
| Old Spice | 7 | 6 |

# A general example: Positioning maps (brand ratings)

**Greater the Similarity => Less the Distance**

High moisturizing

Dove
• Oil of Olay

• Nivea

Nondeodorant ──────────────┼────────────── Deodorant

• Irish Spring
• Old Spice

low moisturizing

InStyle

# Perceptual Map

Source: MRI Fall 1998; Base: total adults

MEDIAN HOUSEHOLD INCOME

*celebrity + lifestyle + beauty + fashion*

Overview → Segmentation → Targeting → **Positioning** → Recap
What is it → Differentiation → How is it done → **Perceptual maps**

# Strategic uses of perceptual maps

- Understanding the market structure
  - Do we have the desired position?
  - Are there any "holes" in the product space?
  - Are there any competitor vulnerabilities?
- Perceptions of a new product concept
- Direct R&D to satisfy customers better
  - Maps yield "ideal points"
  - Evolution of "ideal points" over time

# Recap

- Next 4 weeks: Implementing the positioning using the marketing mix ("the 4 Ps")