offering consists of two parts: a *naked solution* containing the product and service elements that all segment members value and *discretionary options* that some segment members value. Each option might carry an additional charge.

Market Targeting

There are many statistical techniques for developing market segments.[10] Once the firm has identified its market-segment opportunities, it must decide how many and which ones to target. Marketers are increasingly combining several variables in an effort to identify smaller, better-defined target groups. Thus, a bank may not only identify a group of wealthy retired adults but within that group distinguish several segments depending on current income, assets, savings, and risk preferences. This has led some market researchers to advocate a *needs-based market segmentation approach*. Roger Best proposed the seven-step approach shown in Table 6.3.

Effective Segmentation Criteria

Not all segmentation schemes are useful. We could divide buyers of table salt into blond and brunette customers, but hair color is irrelevant to the purchase of salt. Furthermore, if all salt buyers buy the same amount of salt each month, believe all salt is the same, and would pay only one price for salt, this market is minimally segmentable from a marketing point of view.

Rating Segments To be useful, market segments must rate favorably on five key criteria:

- **Measurable.** The size, purchasing power, and characteristics of the segments can be measured.
- **Substantial.** The segments are large and profitable enough to serve. A segment should be the largest possible homogeneous group worth going after with a tailored marketing program.

TABLE 6.3 Steps in the Segmentation Process

	Description
1. Needs-Based Segmentation	Group customers into segments based on similar needs and benefits sought by customers in solving a particular consumption problem.
2. Segment Identification	For each needs-based segment, determine which demographics, lifestyles, and usage behaviors make the segment distinct and identifiable (actionable).
3. Segment Attractiveness	Using predetermined segment attractiveness criteria (such as market growth, competitive intensity, and market access), determine the overall attractiveness of each segment.
4. Segment Profitability	Determine segment profitability.
5. Segment Positioning	For each segment, create a “value proposition” and product-price positioning strategy based on that segment’s unique customer needs and characteristics.
6. Segment “Acid Test”	Create “segment storyboard” to test the attractiveness of each segment’s positioning strategy.
7. Marketing-Mix Strategy	Expand segment positioning strategy to include all aspects of the marketing mix: product, price, promotion, and place.

Source: Adapted from Roger J. Best, *Market-Based Management,* 6th ed. (Upper Saddle River NJ: Prentice Hall, 2013). ©2013. Printed and electronically reproduced by permission of Pearson Education, Inc. Upper Saddle River, New Jersey.

- **Accessible.** The segments can be effectively reached and served.
- **Differentiable.** The segments are conceptually distinguishable and respond differently to different marketing-mix elements and programs. If married and single women respond similarly to a sale on perfume, they do not constitute separate segments.
- **Actionable.** Effective programs can be formulated for attracting and serving the segments.

Long-Term Segment Attractiveness Michael Porter has identified five forces that determine the intrinsic long-run attractiveness of a market or market segment: industry competitors, potential entrants, substitutes, buyers, and suppliers.[11] The first is the *threat of intense segment rivalry.* A segment is unattractive if it already contains numerous, strong, or aggressive competitors. It's even more unattractive if it's stable or declining, if plant capacity must be added in large increments, if fixed costs or exit barriers are high, or if competitors have high stakes in staying in the segment.

The second is the *threat of potential entrants.* The most attractive segment is one in which entry barriers are high and exit barriers are low. Few new firms can enter the industry, and poorly performing firms can easily exit. When entry and exit barriers are high, profit potential is high, but firms face more risk because poorer-performing firms stay in and fight it out. When entry and exit barriers are low, firms easily enter and leave the industry, and returns are stable but low. The worst case occurs when entry barriers are low and exit barriers are high: Firms enter during good times but find it hard to leave during bad times.

The third is the *threat of substitutes.* A segment is unattractive when there are actual or potential substitutes for the product. Substitutes place a limit on prices and on profits. If technology advances or competition increases in these substitute industries, prices and profits are likely to fall.

The fourth is the *threat of buyers' growing bargaining power.* A segment is unattractive if buyers possess strong or growing bargaining power. Buyers' bargaining power grows when they become more concentrated or organized, when the product represents a significant fraction of their costs, when the product is undifferentiated, when buyers' switching costs are low, or when they can integrate upstream. To protect themselves, sellers might select buyers who have the least power to negotiate or switch suppliers. A better defense is developing superior offers that strong buyers cannot refuse.

The fifth force is the *threat of suppliers' growing bargaining power.* A segment is unattractive if suppliers are able to raise prices or reduce quantity supplied. Suppliers tend to be powerful when they are concentrated or organized, when they can integrate downstream, when there are few substitutes, when the supplied product is an important input, and when the costs of switching suppliers are high. The best defenses are to build win-win relationships with suppliers or use multiple supply sources.

Evaluating and Selecting Market Segments

In evaluating market segments, the firm must look at two factors: the segment's overall attractiveness and the company's objectives and resources. How well does a potential segment score on the five criteria? Does it have characteristics that make it generally attractive, such as size, growth, profitability, scale economies, and low risk? Does investing in it make sense given the firm's objectives, competencies, and resources? Some attractive segments may not mesh with the company's long-run objectives, or the company may lack one or more competencies necessary to offer superior value.

Marketers have a range or continuum of possible levels of segmentation that can guide their target market decisions. At one extreme is a mass market of essentially one segment; at the other extreme are individuals or segments of one person each. In between are multiple segments and single segments. We describe approaches to each of the four levels next.

Full Market Coverage Here a firm attempts to serve all customer groups with all the products they might need. Only very large firms such as Microsoft (software market) and Coca-Cola (nonalcoholic beverage market) can undertake a full market coverage strategy, through either differentiated or undifferentiated marketing.

In *undifferentiated* or *mass marketing*, the firm ignores segment differences and goes after the whole market with one offer. It designs a marketing program for a product with a superior image that can be sold to the broadest number of buyers via mass distribution and mass communications. Undifferentiated marketing is appropriate when all consumers have roughly the same preferences and the market shows no natural segments. The narrow product line keeps down the costs of research and development, production, inventory, transportation, marketing communication, and product management. However, many critics point to the increasing splintering of the market and the proliferation of marketing channels and communication, which make it difficult and increasingly expensive to reach a mass audience.

In *differentiated marketing*, the firm sells different products to all the different segments of the market. Differentiated marketing typically creates more total sales than undifferentiated marketing. However, it also increases the costs of doing business. Because differentiated marketing leads to both higher sales and higher costs, no generalizations about its profitability are valid.

Multiple Segment Specialization With *selective specialization*, a firm selects a subset of all the possible segments, each objectively attractive and appropriate. There may be little or no synergy among the segments, but each promises to be a moneymaker. The multisegment strategy also has the advantage of diversifying the firm's risk. Keeping synergies in mind, companies can try to operate in supersegments rather than in isolated segments. A **supersegment** is a set of segments sharing some exploitable similarity. A firm can also attempt to achieve some synergy with product or market specialization.

- With *product specialization*, the firm sells a certain product to several different market segments. A microscope manufacturer, for instance, sells to university, government, and commercial laboratories, making different instruments for each and building a strong reputation in the specific product area. The risk is that the product may be supplanted by an entirely new technology.
- With *market specialization*, the firm concentrates on serving many needs of a particular customer group, such as by selling an assortment of products only to university laboratories. The firm gains a strong reputation among this customer group and becomes a channel for additional products its members can use. The risk is that the customer group may suffer budget cuts or shrink in size.

Single-Segment Concentration With single-segment concentration, the firm markets to only one particular segment. Through concentrated marketing, the firm gains deep knowledge of the segment's needs and achieves a strong market presence. It also enjoys operating economies by specializing its production, distribution, and promotion. If it captures segment leadership, the firm can earn a high return on its investment.

A *niche* is a more narrowly defined customer group seeking a distinctive mix of benefits within a segment. Marketers usually identify niches by dividing a segment into subsegments. What does an attractive niche look like? Niche customers have a distinct set of needs; they will pay a premium to the firm that best satisfies them; the niche is fairly small but has size, profit, and growth potential and is unlikely to attract many competitors; and it gains certain economies through specialization. As marketing efficiency increases, niches that seemed too small may become more profitable. See "Marketing Insight: Chasing the Long Tail."

marketing insight

Chasing the Long Tail

The advent of online commerce, made possible by technology and epitomized by Amazon.com, eBay, iTunes, and Netflix, has led to a shift in consumer buying patterns, according to Chris Anderson, author of *The Long Tail*. In most markets, the distribution of product sales conforms to a curve weighted heavily to one side—the "head"—where the bulk of sales are generated by a few products. The curve falls rapidly toward zero and hovers just above it far along the X-axis—the "long tail"—where the vast majority of products generate very little sales. The mass market traditionally focused on generating "hit" products that occupy the head.

Anderson says the Internet is shifting demand "down the tail, from hits to niches" in a number of product categories including music, books, clothing, and movies. His theory is based on three premises: (1) Lower distribution costs make it economically easier to sell products without precise demand predictions; (2) the more products available for sale, the greater the likelihood of tapping into latent demand for niche tastes unreachable through traditional retail channels; and (3) if enough niche tastes are aggregated, a big new market can result. Although some research supports this theory, other research finds very low share products may be so obscure that they disappear before they can be purchased frequently enough to justify their existence. For companies selling physical products, inventory, stocking, and handling costs can outweigh any financial benefits of such products.

Sources: Chris Anderson, *The Long Tail* (New York: Hyperion, 2006); "Reading the Tail," interview with Chris Anderson, *Wired*, July 8, 2006, p. 30; "Wag the Dog: What the Long Tail Will Do," *The Economist*, July 8, 2006, p. 77; John Cassidy, "Going Long," *New Yorker*, July 10, 2006; Erik Brynjolfsson, Yu "Jeffrey" Hu, and Michael D. Smith, "From Niches to Riches: Anatomy of a Long Tail," *MIT Sloan Management Review* (Summer 2006), p. 67; Anita Elberse, "Should You Invest in the Long Tail," *Harvard Business Review,* July–August 2008, pp. 88–96 (with online commentary); Lee Gomes, "Study Refutes Niche Theory Spawned by Web," *Wall Street Journal,* July 2, 2008; Erick Schonfeld, "Poking Holes in the Long Tail Theory," www.techcrunch.com, July 2, 2008; "Rethinking the Long Tail Theory: How to Define 'Hits' and 'Niches,'" *Knowledge@Wharton*, September 16, 2009.

Individual Marketing The ultimate level of segmentation leads to "segments of one," "customized marketing," or "one-to-one marketing."[12] As companies have grown proficient at gathering information about individual customers and business partners and as their factories are being designed more flexibly, they have increased their ability to individualize market offerings, messages, and media. **Mass customization** is the ability of a company to meet each customer's requirements—to prepare on a mass basis individually designed products, services, programs, and communications.[13]

One-to-one marketing is not for every company. It works best for firms that normally collect a great deal of individual customer information and carry a lot of products that can be cross-sold, need periodic replacement or upgrading, and offer high value. For others, the required investment in information collection, hardware, and software may exceed the payout. The cost of goods is raised beyond what the customer is willing to pay.

Legal and Ethical Issues with Market Targets Marketers must target carefully to avoid consumer backlash. Some consumers resist being labeled.[14] Market targeting also can generate public controversy when marketers take unfair advantage of vulnerable groups (such as children) or disadvantaged groups (such as inner-city residents) or when they promote potentially harmful products. A key area of concern for many consumer protection advocates today is the millions of kids who are online.