

Course Material 3

6MSMR1

Marketing Strategy

doc. Ing. Tomáš Kincl, Ph.D.



EVROPSKÁ UNIE
Evropské strukturální a investiční fondy
Operační program Výzkum, vývoj a vzdělávání



MINISTERSTVO ŠKOLSTVÍ,
MLÁDEŽE A TĚLOVÝCHOVY

F6

Vysoká škola
ekonomická v Praze
Fakulta managementu

fm.vse.cz

Segmentation

Before Segmentation

- The decision about segmentation must be supported by industry life-cycle analysis

1. First group of customers who adopt new technology are Innovators. Interested in new trends and hi-tech stuff, they want to differentiate
2. Innovators are followed by Early Adopters. Well-educated, wealthy, interested in new trends, often influencers and opinion leaders
3. Early Majority listens to Opinion leaders, the market matures, New technology reaches a significant population penetration
4. Late Majority is price-sensitive, waits until the competition lowers the prices
5. Last group is lagging behind, Laggards accept “new” technology when the market is (almost) saturated

In the initial stage of the industry – the source of competitive advantage is **technology**, the products are superior and on the edge of current technology.

As the market grows, demand exceeds supply, the source of competitive advantage is **production**.

The competition recognizes an opportunity and enters the market.

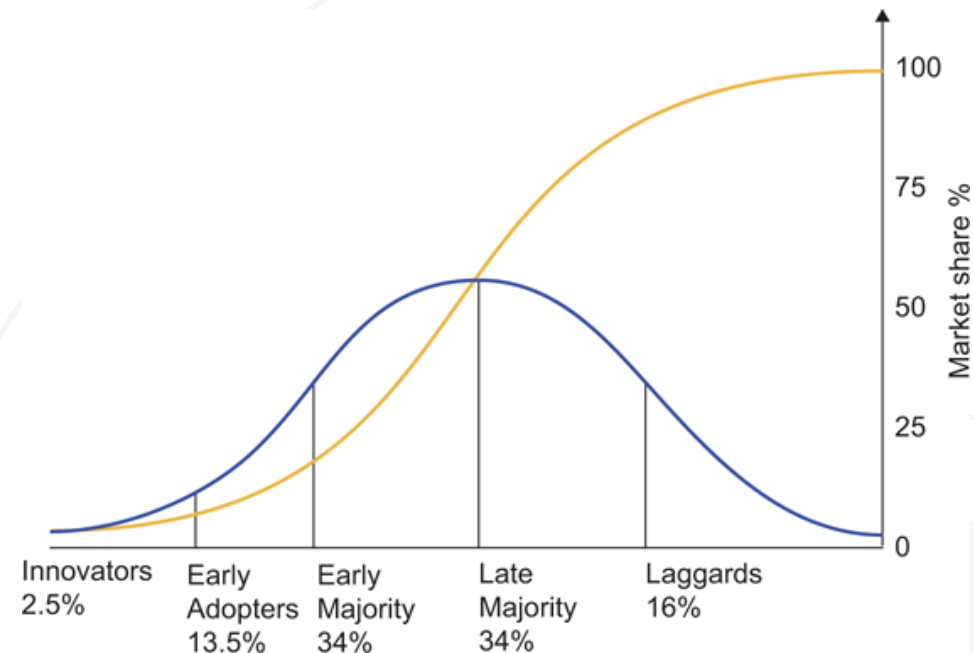
The source of competitive advantage is **sales and marketing**.

The market matures, to deal with competition, companies focus on costs, the competition lowers the prices. The source of competitive advantage is **cost-optimization and effectiveness**

The decline stage means the market is saturated. Efforts to resurrect the demand by **fashion and fads**.

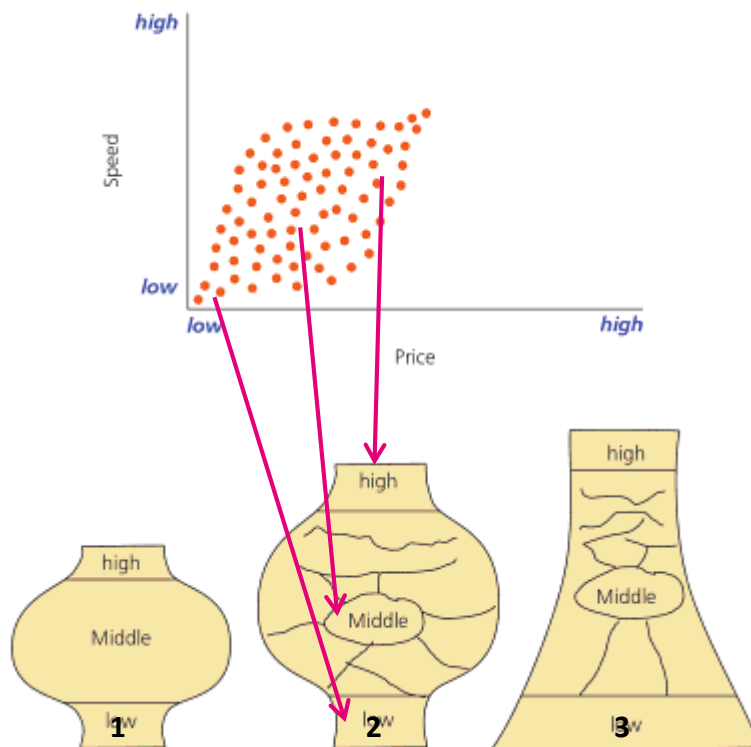
Since the third stage – an effective marketing and precise segmentation plays a key role for company's success on the market.

Recommended reading: ROGERS, Everett M. (1962). [*Diffusion of Innovations*](#). Glencoe: Free Press. ISBN 0-612-62843-4.



Before Segmentation

- In the initial stage of the industry – products are rather homogenous. Product variety comes when the competition enters the market
 - Matured market (automotive example) – most of the products on the market have average features (for average price) – attractive for most of the audience



- In the initial stage – a very few (hi-tech) products are available. Only innovators (2.5 % of population) are interested in new technology
- As the market grows and matures, competitors enter the market. New products are being introduced. There is a variety of products (low-cost, hi-tech), but most of the new products are targeting the majority, which requires “average products” for a reasonable price. New segments are arising.
- Maturity and decline stage – supply exceeds demand, prices decline. The most competitive segments are in “average” categories (where the market also erodes at most), most of the new products are low-cost

A need for a precise segmentation (there are no winners in price wars)

Table X Market value of major players in the plain paper copier market

Market value (million US\$)	1973	1975	1980	1985	1990	1995	1999
Xerox	9,710	4,029	5,057	5,750	3,274	14,776	15,070
Hewlett-Packard	2,169	2,612	5,370	9,452	7,727	42,863	115,911
Canon	140	143	871	2,689	6,584	16,626	31,100
Ricoh	143	195	690	1,855	3,150	7,832	11,713
Konica	73	142	398	835	2,090	2,845	1,195

Source: Datastream

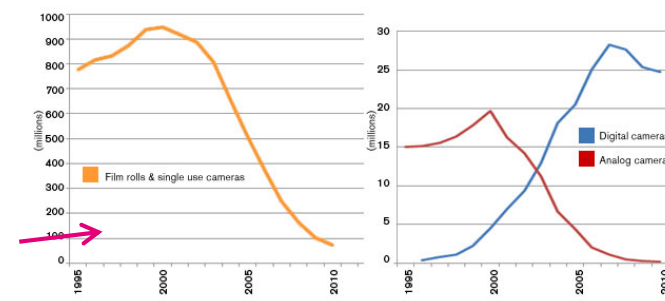
1970s – Xerox dominated copiers market. Did not recognize the market matures and new segment of small home copiers is arising. New companies (HP, Canon) have recognized the opportunity and become market leaders

Similarly [Kodak and digital cameras in 1990s](#) – technology invented by Kodak company caused its bankruptcy a few decades later

Decline of Film

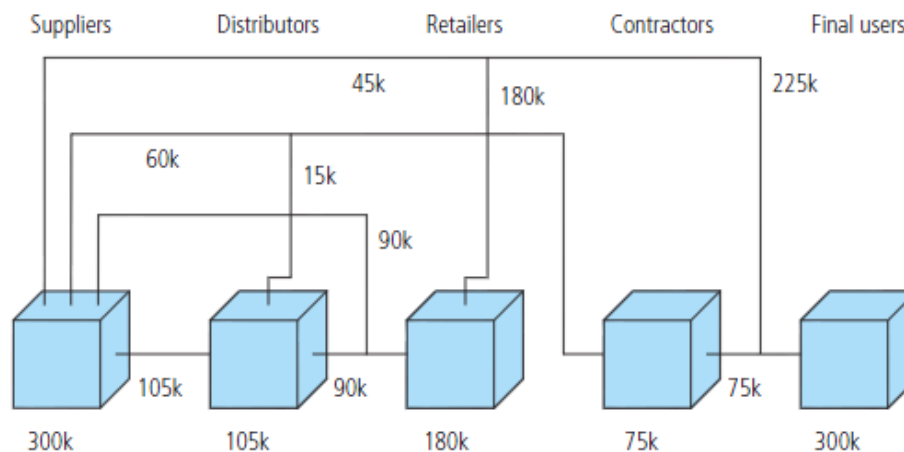
Film rolls sold

Camera sales



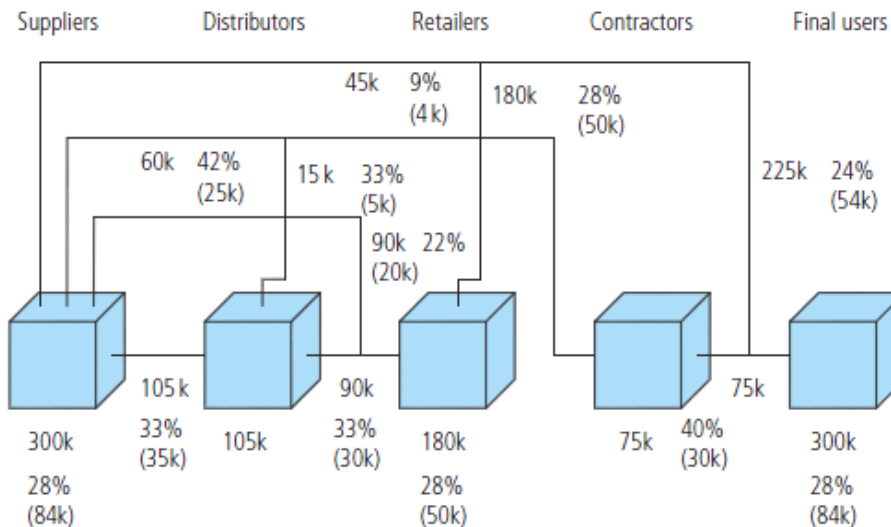
Market Mapping

- To identify structure of the market and decision-makers
 - Information of what distribution and value-added chain exists between final users and suppliers
 - Company performance on the routes to market, competition mapping



Initial quantification of a market. First, junctions representing various objects on the market (on the route from manufacturer to customer) are drawn. The lines represent flows of the goods. The numbers at the beginning and at the end must be equal (what has been produced on the market, has been consumed).

In this case, the market is represented by 300 k products. 45k is sourced directly from the suppliers to final users, 180k is sourced through retailers, 75k through contractors. The suppliers also supply distributors (105k), contractors (60k) and retailers (90k).

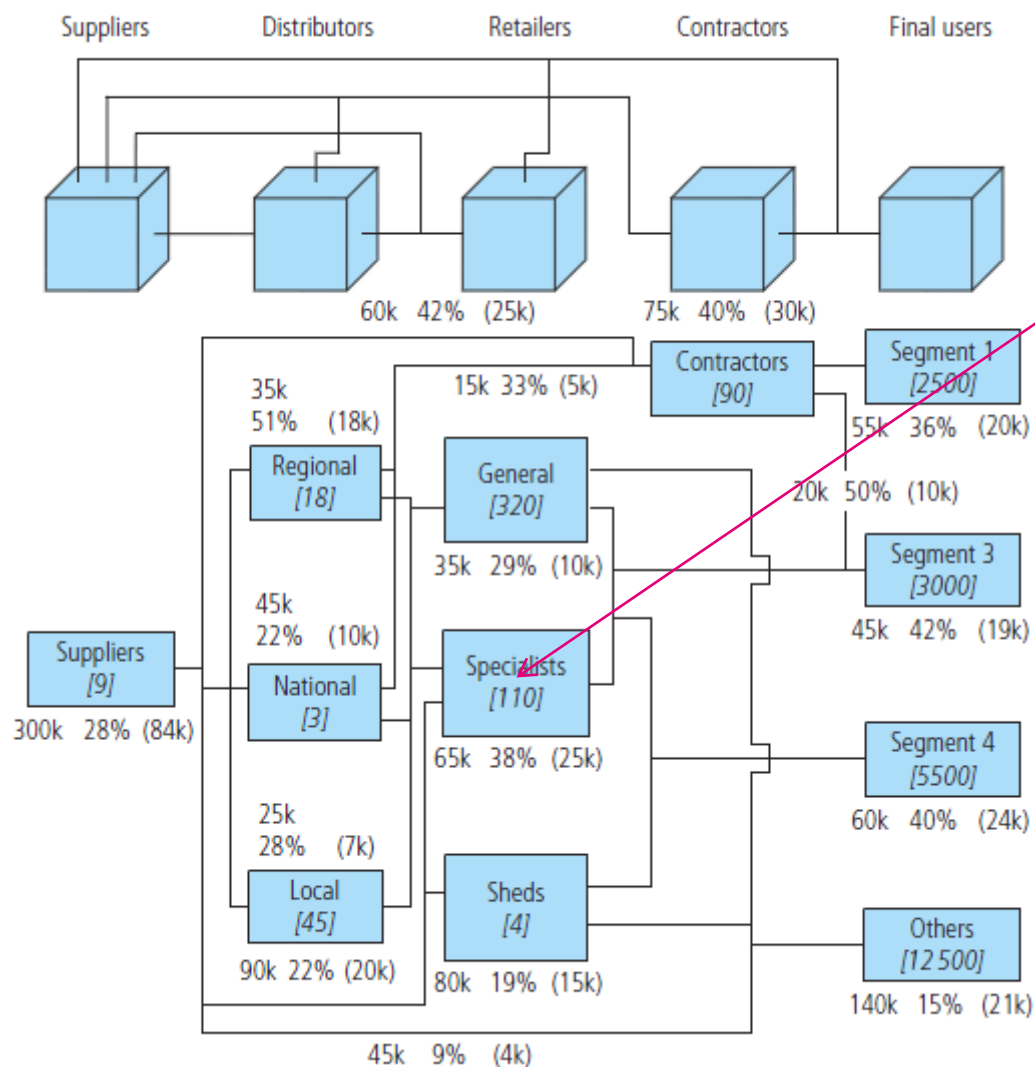


Next step is to add company share. If some numbers are unknown, an estimate can be used

The company's market share is 28 % (84k). Direct sales are just minor (4k, only 9 % of what is supplied from all suppliers to final users. The company has a strong cooperation with contractors (25k, 42 % of what is supplied to contractors) ...

Market Mapping

- Subsequently a detailed quantification of a market map follows
 - An analysis preceding the segmentation



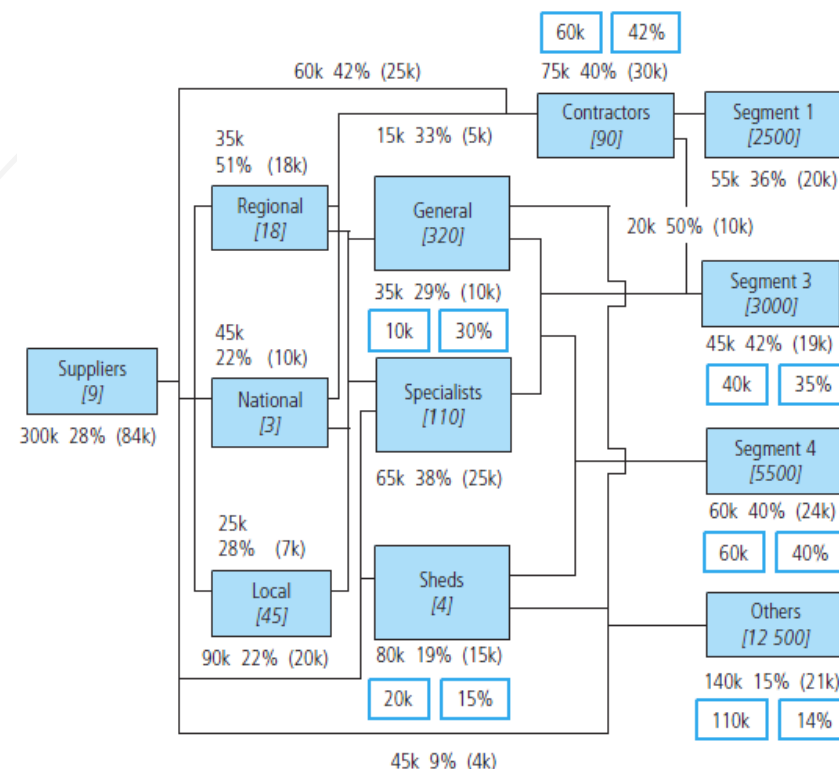
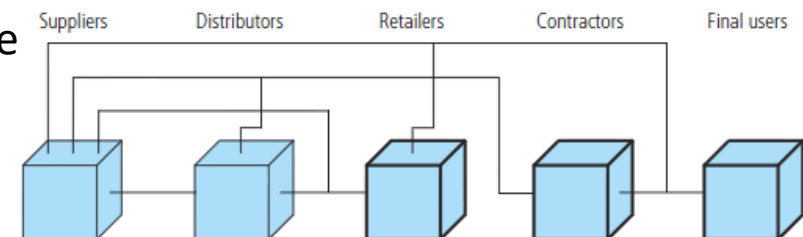
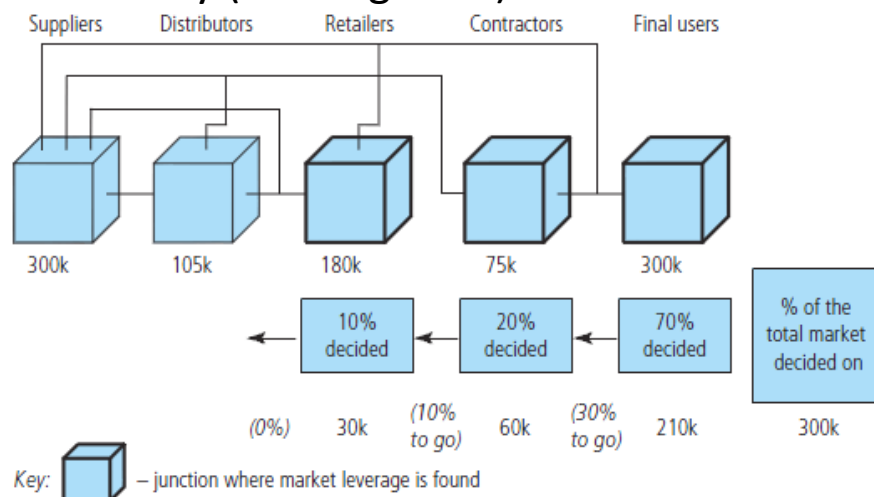
Number [9] refers to number of subjects on the market. Previously described rules to identify routes on the market are followed. Company has 28% market share (84k products), only 4k (9 % of the total market volume) is sourced directly to final users. 180k total (50k from the company, 20k directly and 30k through distributors) is sourced through retailers. There are three types of Retailers (320 of General, 110 of Specialists and 4 Sheds). 65k good goes through Specialists (25k from the company, which represent 38 % of all goods supplied through this channel).

The map can reflect the current situation or can contain projected/desired situation at the end of given period.

Market mapping can reveal opportunities for the company – i.e. to strengthen Direct Sales or to focus on a better cooperation with selected intermediaries. Moreover, costs of each distribution channel/route can be identified.

Market Mapping

- The last step – adding market leverage to junction types
 - Market leverage point - junction where decisions are made about which competing product or service will be purchased
 - To identify (and segment) decision-makers



On the picture above - the quantity decided at final users level is 70 %.

Ragno Company produces tiles. In many cases, the final users decide what tiles will be purchased. However a significant share of the production is supplied to developers and architects/designers. Market mapping can help to identify and better target these segments.



A customer enters a store to buy a laptop. He has searched the internet and has some preference towards some brands. However the seller provides an alternative to better (more expensive) product. If the seller succeeds, the market leverage point stays at his level, if the customer buys his intended product, the market leverage point stays at the final user level

The most detailed map includes market leverage points (Sheds: 20k of 80k total market volume, is decided at this level. 15 % of these 20k products is supplied by the company.

Market Mapping

- Market map and market leverage points are different according to the type of the market!

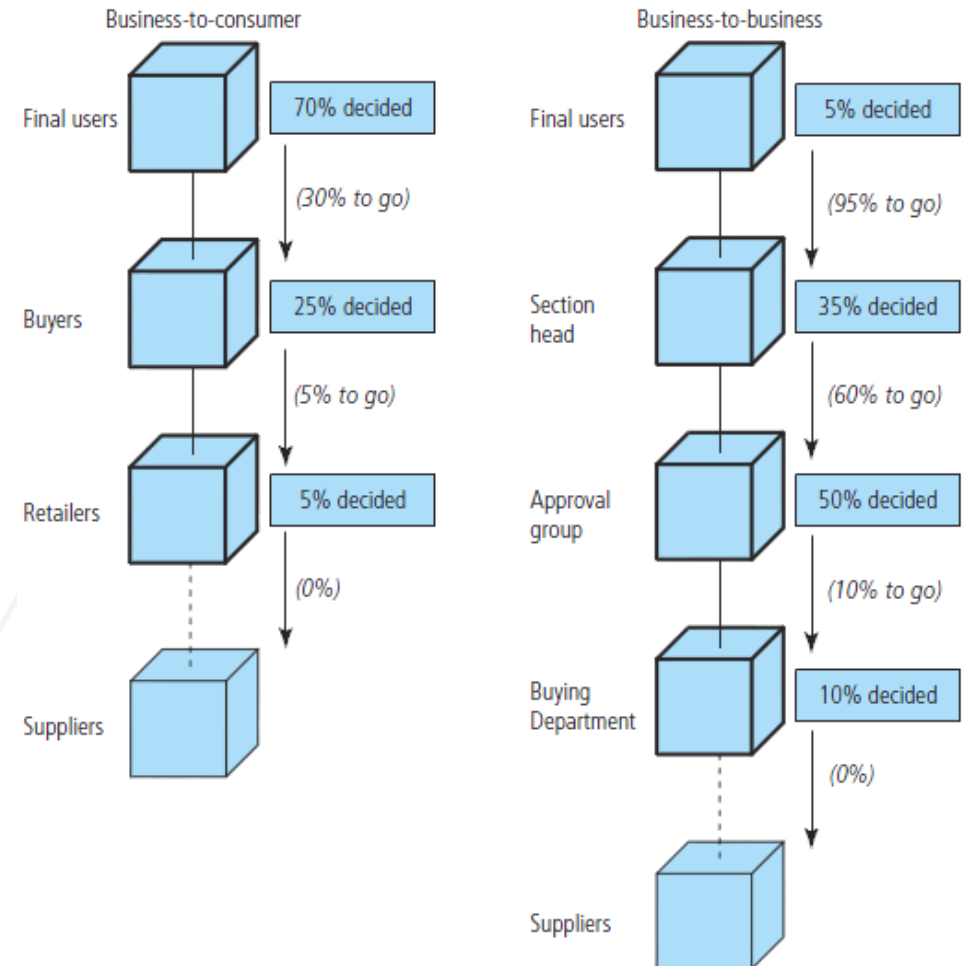
- B2C – most decisions taken at the final user level
- B2B – focus on Approval groups and Section heads



- Identify Key Discriminating Features (KDFs) of these decision-makers



SEGMENTATION



Different roles in companies – Recommended reading: BONOMA, Thomas V. [Major Sales: Who Really Does the Buying?](#) Harvard Business Review 7/2006 and within [families](#)

Market Segmentation

- Importance of segmentation is growing in last decades with expansion of target marketing
- Not the only way how to approach markets
 - Undifferentiated marketing

recently



Microsoft



Ford and return to undifferentiated marketing?



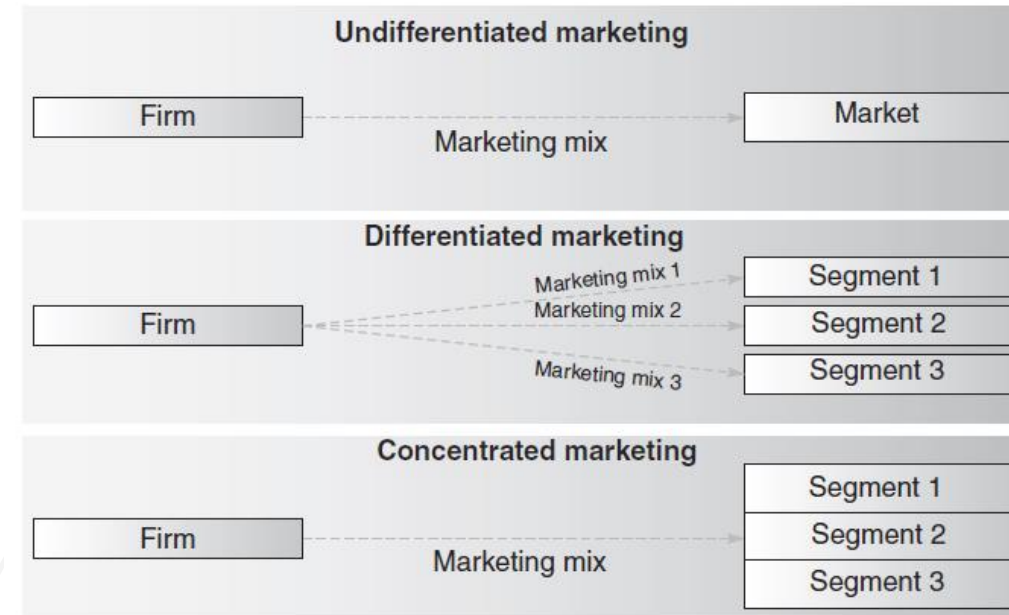
- Differentiated marketing



- Concentrated marketing (niché)



Prius, GT86



Gilligan, C. Wilson, R.M.S. *Strategic Marketing Planning*, 2nd ed. Routledge. 2009

Why to segment markets?

- Increasing market share – product adaptation and targeting new customer segments (i.e. MotherCare and older mothers)
- Initiation of new product development
- Introducing new product on new markets (mobile phones for the elderly)
- Identification of strategies how to better serve the market (i.e. selecting proper media channel that is being followed by the targeted audience)

Organizational Archetypes and Market Segmentation

- The segmentation approach is reflected in the organizational structure and processes



Bank – a high level of customer focus is brought into the defining of market segment. The organization applies customer data which is often available within the organization, such as location, purchase, patterns and product preference. These data are combined with external classification systems such as ACORN or MOSAIC

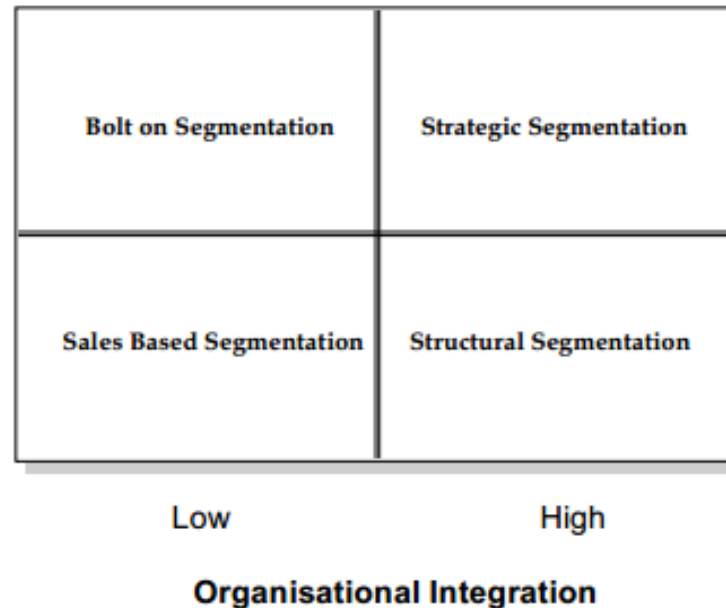
**Customer
Driven**



British Airways – market is segmented on the basis of sales areas or structures, which do not necessarily reflect clusters of particular customer characteristics or needs. Is not embedded in the way the organization, as a whole, is structured, or the way it operates (i.e. exclusive to, the sales operations).

High

Low



▲ Arcadia Group Limited

BURTON

DOROTHY PERKINS

Evans

Miss Selfridge

OUTFIT

TOPSHOP

TOPMAN

Wallis

Arcadia Group – Combines both a customer focus and a high level of organizational integration. A basis, not only for the promotional activity, but also for strategic decision making and internal marketing. Provide a focus for the entire processes and operations of the organization on these market segments



Chemical company – Little emphasis on segments as groups of customers. Segments are defined by sales areas or structures. The segmentation is not explicitly customer driven, although the sales territories may reflect differing patterns (i.e. of agriculture)

Jenkins, M., & McDonald, M. (1997). [Market segmentation: organizational archetypes and research agendas](#). *European Journal of Marketing*, 31(1), pp. 17-32.

Market Segmentation

- Can be based on various characteristics

Recommended reading: YANKELOVICH, Daniel. [New Criteria for Market Segmentation](#). Harvard Business Review, 3/1964
 YANKELOVICH, Daniel, MEER, David. [Rediscovering Market Segmentation](#). Harvard Business Review, 2/2006

- Demographic variables (age, sex, education) doesn't provide enough guidelines for strategy formulation or market segmentation

Traditional demographic traits such as age, sex, education levels, and income no longer said enough to serve as a basis for marketing strategy. By the early 1960s, however, consumers were becoming less predictable in their buying habits: Many people without much education had become affluent; others with sophisticated tastes had become very price conscious. As a result, tastes and purchasing patterns no longer neatly aligned with age and income, and purely demographic segmentations lost their ability to guide companies' decisions.

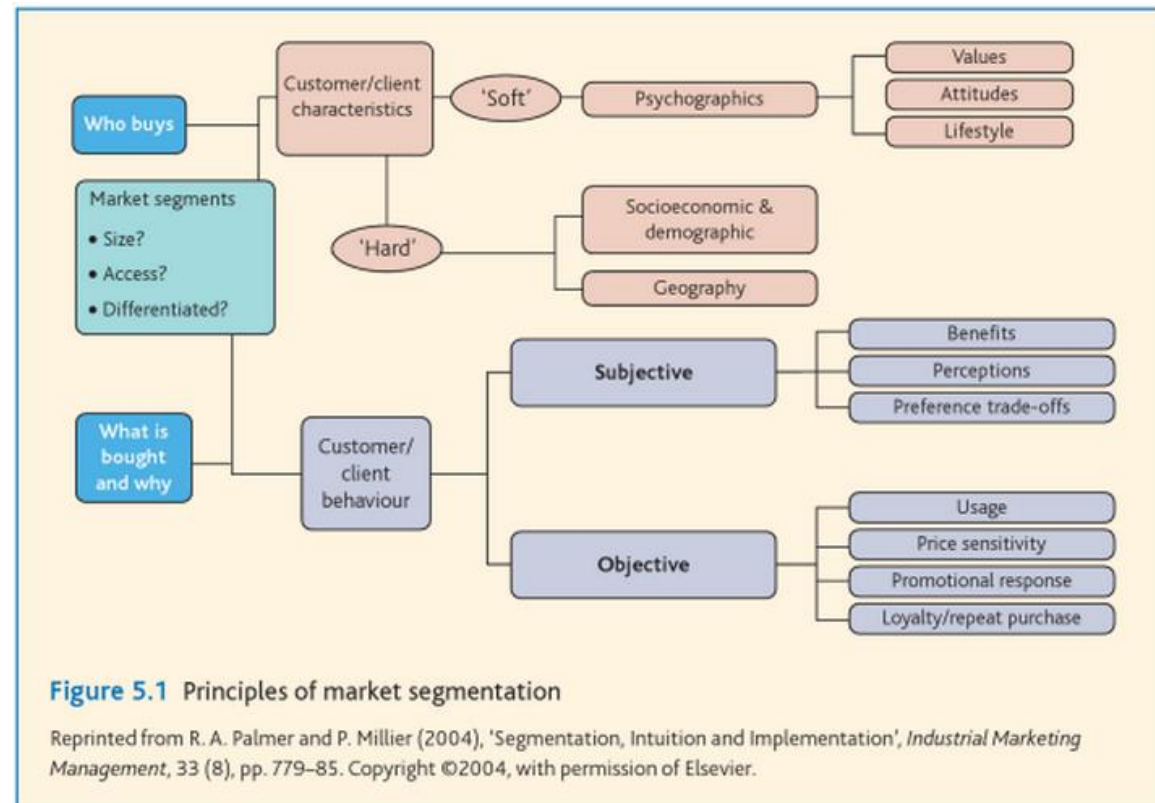
- It is necessary to combine more approaches, i.e. socio-economic/(geo)demographic and psychographic

Nondemographic traits such as values, tastes, and preferences were more likely to influence consumers' purchases than their demographic traits were.

- Most recent – behavioral segmentation (e-commerce, big data, border-crossing industries)

The wave of information and technology functionality that is making old segmentation obsolete is now making a new segmentation possible. Marketers no longer need to be so indirect about figuring out what a customer will do or like. Every time you watch a television program, make a phone call, search for an address, order something on the Internet, or get in your car and turn on the GPS navigation you leave a trail of data behind you. That insight into actual behavior is critical because it provides insight into how, why, where, and when a customer gets value out of a product. [Learning How to Make Market Segmentation Work Again](#)

Both Boy George and Archbishop of Canterbury belong to the same socio-economic group (A), however their purchase intentions are probably somehow different

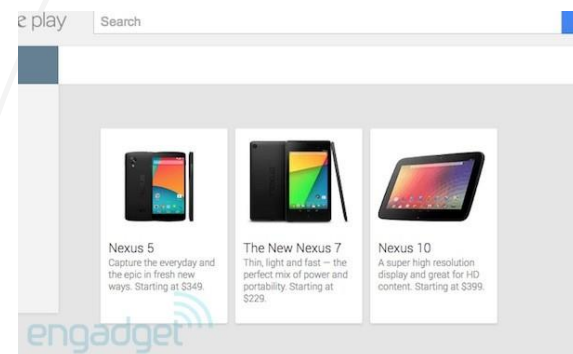


Geographical Segmentation

- Climate (tropical, subtropical, mild, equatorial, arctic,... or dry, humid, seaside, continental; can be related to pollution or other environmental characteristics)
- Region morphology (mountain range, uplands, flat landscape)
- Population density (metropolitan, urban, sub-urban, rural, unsettled, wilderness ...)



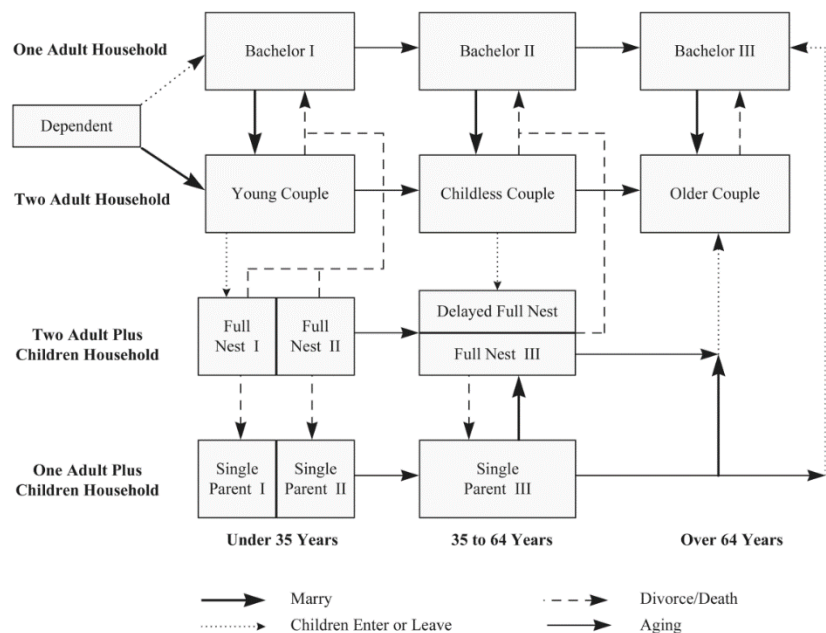
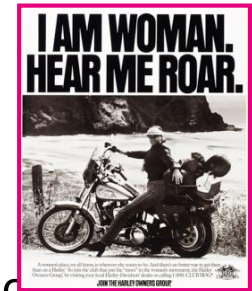
- Region, province, country, continent (can go down to ZIP codes level – i.e. leaflets distribution, local radio stations, ...)



Demographic Segmentation

- Sex
- Age – baby supplies, food supplements, pension insurance, ...

Family Lifecycle - young&single (living with parent – emerging trend, or in own household), newlyweds, full nest 1 (kids less than 6 yrs old), 2 (older kids but still dependent), 3 (still dependent kids but i.e. at college), empty nest 1, 2 (one of the couple has retired), widowed, ...



Different family roles:

Initiator – The person who first suggests or thinks of the idea of buying a particular product or service

Influencer – A person whose view or advice influences the buying decision

Decider – The individual with the power and/or financial authority to make the ultimate choice regarding which product to buy

Buyer – The person who concludes the transaction

User – The person (or persons) who actually uses the product or service

Sometimes also other roles are identified

Information gatherers/holders – seek out information about products of relevance. These individuals often have a great deal of power because they may selectively pass on information that favors their chosen alternatives

Other family member can participate as bargainers, good cop/bad cop, emotionally engaged, ...

Source: Gilly and Enis (1982)

Studies have confirmed that even 8-12 years old kids participate in purchase decision about clothing (91 %), FMCG (79 %), vacation (54 %), but also a car (14 %)

YouthPulse: The Definitive Study of Today's Youth Generation," Harris Interactive, 2009.

MARTENSEN, Anne; GRONHOLDT, Lars. Children's influence on family decision making. *Innovative Marketing*, 2008, 4.4: 14-22.

Demographic Segmentation

- House type (flat/maisonette, family house, attached house, number of bedrooms, garage, garden, ...)



- Household income



- Education

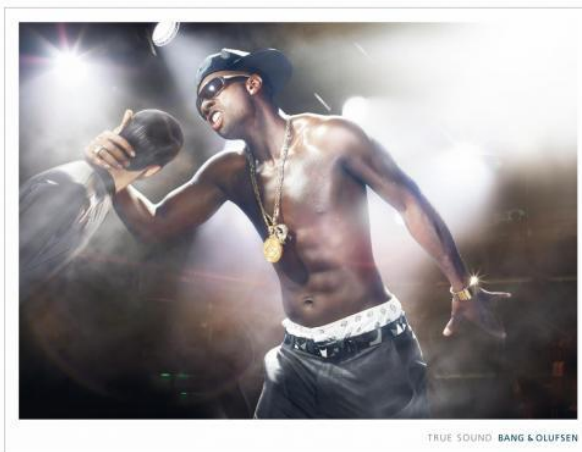


Demographic Segmentation

- Occupation (management, professionals, self-employed, manual workers, craftsmen, at desk positions, students, unemployed, ...)



- Race (Caucasian, Asian, African, Hispanic, Polynesian, ...)



Demographic Segmentation

- Religion



- There is a lot of (geo)demographic frameworks available on the market (usually combine also other approaches, i.e. psychographic or behavioral)
 - Avoid simplistic and misleading interpretations of demographic characteristics – becoming less and less valid when used separately

Demographic segmentation can still tell you what people buy: Few middle-aged men buy Diesel jeans; few adolescents beg Mom to buy Dockers. But demographics no longer tell you how people shop. So it's a poor basis for channel design.

Recommended reading: NUNES, Paul, CESPEDES, Frank, V. [The Customer Has Escaped](#). Harvard Business Review 11/2003

Malaysia firm's 'Muslim car' plan

The Malaysian carmaker Proton has announced plans to develop an "Islamic car", designed for Muslim motorists. The car could boast special features like a compass pointing to Mecca and a dedicated space to keep a copy of the Koran and a headscarf.

The firm has been in talks recently with VW about a takeover by the German car giant.

Demographic Segmentation

- Example: when the demographic doesn't work
 - Segment – new vehicle buyers in US, male, ages 35–64, household income \$125K+
 - Luxury car segment?

Market Share—Male New-Vehicle Buyers Ages 35-64 with Household Income of \$125K+		
Model	Reach %	Rank
Ford F-Series LD	3.18	1
BMW 3 Series	2.53	2
Chevrolet Silverado LD (Non-Hybrid)	2.43	3
Honda Accord Sedan	2.32	4
Honda Civic (Non-Hybrid)	2.21	5
Nissan Altima (Non-Hybrid)	1.70	6
Toyota Camry (Non-Hybrid)	1.67	7
Ford F-Series HD	1.52	8
Volkswagen Jetta	1.43	9
Toyota Tundra	1.42	10
Honda Pilot	1.39	11
Infiniti G-Series	1.39	12
Chevrolet Camaro	1.33	13
Toyota Tacoma	1.32	14
Acura MDX	1.27	15
Jeep Wrangler	1.24	16
BMW 5 Series	1.21	17
Mercedes-Benz E-Class (Sedan/Wagon)	1.18	18
Toyota Prius	1.18	19
Lexus RX Series (Non-Hybrid)	1.18	20

Source: J.D. Power and Associates 2011 Power Auto Offline Media ReportSM—Winter

Figure 5

[The Death of Demographics: Why Targeting by Purchase Behavior is Most Effective in Automotive Marketing](#)

Back in 2010, [AudienceScience reported](#) that 80% of marketers were using behavioral targeting techniques, 76% targeted by geographic location, and 75% used demographic information for targeting. The report also found that most marketers believed behavioral and demographic targeting were their best options.

Jump ahead two years to 2012, and a new study by [Catalina Marketing reports](#) that marketers are wasting millions of dollars by relying on demographic targeting.

Using behavioral segmentation along with traditional demographic segmentation in your market research surveys yields more useful data that tells a more complete story than demographics alone can provide. Bottom-line, demographic segmentation isn't dead, but it's extremely limited in what it can deliver.

[The Slow Death of Demographic Segmentation](#)

GOYAT, Sulekha. [The basis of market segmentation: a critical review of literature](#). *European Journal of Business and Management*, 2011, 3.9: 45-54.

UK Socio-economic Segmentation

- UK – main socio-economic classification [NS-SEC](#) (National Statistics Socio-Economic Classification)
 - Classification of household member who best defines that household's position – household reference person (HRP)
 - Used primarily for UK Office for National Statistics, but can be (is being) used for market segmentation
 - In 2001 replaced previously used frameworks JICNARS/NRS, or more recent [JICREG](#)/NRS
 - 17 categories, usually 8 main categories used

NS-SEC	The old JICNARS	and the new
Class 1a Large employers, higher level managers: company directors, senior police/fire/prison/military officers, newspaper editors, football managers (with squad of 25 plus), restaurateurs	A Professional	Class 1
Class 1b Professionals: doctors, solicitors, engineers, teachers, airline pilots	B Managerial/technical	Class 2
Class 2 Associate professionals: journalists, nurses/midwives, actors/musicians, military NCO/junior police/fire/prison officers, lower managers (fewer than 25 staff)	C1 Skilled (non-manual)	Class 3
Class 3 Intermediate occupations: secretaries, air stewardesses, driving instructors, footballers (employee sportsmen), telephone operators	C1 Skilled (non-manual)	Class 3
Class 4 Small employers/managers, non-professional self-employed: publicans, plumbers, golfers/tennis players (self-employed sportsmen), farm owners/managers (fewer than 25 employees)	C2 Skilled (manual)	Class 3
Class 5 Lower level supervisors, craft and related workers: electricians, mechanics, train drivers, building site/factory foremen, bus inspectors	D Partly skilled	Class 4
Class 6 Semi-routine occupations: traffic wardens, caretakers, gardeners, supermarket shelf-stackers, assembly-line workers	D Partly skilled	Class 4
Class 7 Routine occupations: cleaners, waiters/waitresses/bar staff, messengers/couriers, road workers, dockers	E Unskilled	Class 5
Class 8 Excluded: long-term unemployed, never worked, long-term sick	Other	Class 6

Does your social class decide if you go to university? Get the full list of colleges

Social class and degree course, by university

Order	Institution	Total full-time first degree entrants	Number from manual occupational backgrounds	% from manual occupational backgrounds*
1	Total UK	355,615	70,935	32.3
2	Total England	293,205	59,335	32.4
3	Anglia Ruskin University	2,445	400	39.1
4	Aston University	1,525	410	37.1
5	Bath Spa University	1,395	355	34.6
6	The University of Bath	1,895	290	19.0
7	University of Bedfordshire	2,205	415	46.7
8	Birkbeck College	40	0	..
9	Birmingham City University	4,000	860	44.7
10	The University of Birmingham	4,895	910	23.3

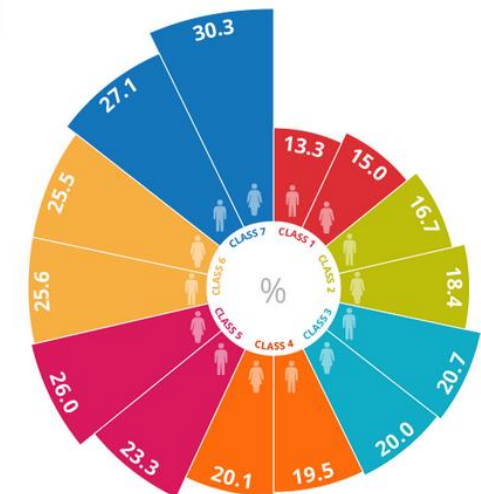
Where people drink: from city centre to home

Malcolm Patterson: If you are at a dinner party and you've got something nice, a bottle of wine, the right bottle of wine with a meal, sort of, adds something. (Stoke, Male, 55-64, NS-SEC 1)

Annie Peters: I don't [have any health concerns], you should do shouldn't you, because you see it everywhere and you know like alcohol is like one of the biggest killers out of any drug that there is but you just, you just don't. (Stoke, Female, 25-34, NS-SEC 1)

PERCENTAGE RATES¹ OF DISABILITY BY SOCIO-ECONOMIC OCCUPATIONS IN ENGLAND AND WALES

In the 2011 Census, respondents were asked whether their day-to-day activities were 'Not Limited', 'Limited a Lot' or 'Limited a Little'. Those assessing themselves as limited can be classified as having a disability.



A far greater percentage of workers in routine occupations (Class 7) reported a disability than workers in higher managerial and professional occupations (Class 1).

UK Geodemographic Segmentation

- UK – geodemographic – [ACORN](#) (A Classification Of Residential Neighborhoods, CACI), pro UK
 - Segmentation of residential neighborhoods (ZIP codes)
 - Classification of households
 - Based on multiple data resources [public registers, censuses, own surveys](#)
 - 62 segments in 18 categories
 - Over 120 demographic and 300 lifestyle measures
 - An idea that "birds of a feather flock together"
 - Geographical Information System
 - Widely used by companies for:
 - Store and branch location
 - Sales territories identification
 - Adjusting marketing mix elements
 - Media/channel selection
 - Leflets distribution
 - Store offerings adjustments

It must be recognized that despite claims from commercial companies, there are inaccuracies within all the geodemographic systems. Many of the errors are bound up firstly with the difficulty of matching EDs to postcodes and secondly trying to reflect as far as possible the changes in housing since the last census.

JOSEPH, L.; YORKE, D. Know Your Game Plan: Market Segmentation in the Personal Financial Services Sector. *The Quarterly Review of Marketing*, 1989, 15.1: 8-13.

The acorn structure

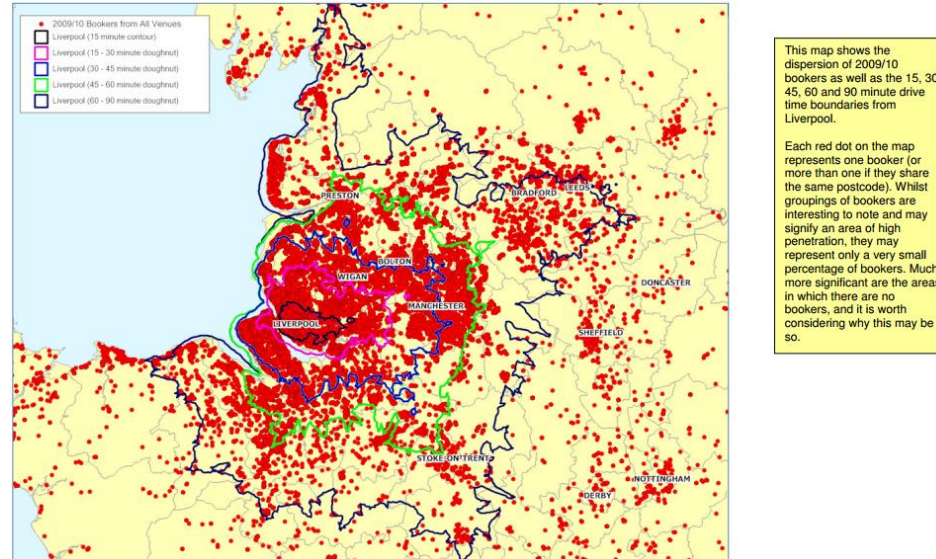
6 categories. 18 groups. 62 types.


1 AFFLUENT ACHIEVERS	Types
A Lavish Lifestyles	1 Exclusive enclaves 2 Metropolitan money 3 Large house luxury
B Executive Wealth	4 Asset rich families 5 Wealthy countryside commuters 6 Financially comfortable families 7 Affluent professionals 8 Prosperous suburban families 9 Well-off edge of towners
C Mature Money	10 Better-off villagers 11 Settled suburbia, older people 12 Retired and empty nesters 13 Upmarket downsizers
2 RISING PROSPERITY	Types
D City Sophisticates	14 Townhouse cosmopolitans 15 Younger professionals in smaller flats 16 Metropolitan professionals 17 Socialising young renters
E Career Climbers	18 Career driven young families 19 First time buyers in small, modern homes 20 Mixed metropolitan areas
3 COMFORTABLE COMMUNITIES	Types
F Countryside Communities	21 Farms and cottages 22 Larger families in rural areas 23 Owner occupiers in small towns and villages
G Successful Suburbs	24 Comfortably-off families in modern housing 25 Larger family homes, multi-ethnic areas 26 Semi-professional families, owner occupied neighbourhoods
H Steady Neighbourhoods	27 Suburban semis, conventional attitudes 28 Owner occupied terraces, average income 29 Established suburbs, older families
I Comfortable Seniors	30 Older people, neat and tidy neighbourhoods 31 Elderly singles in purpose-built accommodation
J Starting Out	32 Educated families in terraces, young children 33 Smaller houses and starter homes
4 FINANCIALLY STRETCHED	Types
K Student Life	34 Student flats and halls of residence 35 Term-time terraces 36 Educated young people in flats and tenements
L Modest Means	37 Low cost flats in suburban areas 38 Semi-skilled workers in traditional neighbourhoods 39 Fading owner occupied terraces 40 High occupancy terraces, many Asian families
M Striving Families	41 Labouring semi-rural estates 42 Struggling young families in post-war terraces 43 Families in right-to-buy estates 44 Post-war estates, limited means
N Poorer Pensioners	45 Pensioners in social housing, semis and terraces 46 Elderly people in social rented flats 47 Low income older people in smaller semis 48 Pensioners and singles in social rented flats
5 URBAN ADVERSITY	Types
O Young Hardship	49 Young families in low cost private flats 50 Struggling younger people in mixed tenure 51 Young people in small, low cost terraces
P Struggling Estates	52 Poorer families, many children, terraced housing 53 Low income terraces 54 Multi-ethnic, purpose-built estates 55 Deprived and ethnically diverse in flats 56 Low income large families in social rented semis
Q Difficult Circumstances	57 Social rented flats, families and single parents 58 Singles and young families, some receiving benefits 59 Deprived areas and high-rise flats
6 NOT PRIVATE HOUSEHOLDS	Types
	60 Active communal population 61 Inactive communal population 62 Without resident population

UK Geodemographic Segmentation

- ACORN (A Classification Of Residential Neighborhoods, CACI)

Example: potential Merseyside arts attenders and bookers in Liverpool area



		Profile: 2009/10 Merseyside bookers		
		Base: Total Adults 15+ from area within 45 minute drive time		
ACORN 2009 Categories	Profile	%	Base	% Index
1. Wealthy Achievers	53,749	31.4	450,794	18.2 173
2. Urban Prosperity	11,211	6.6	160,502	6.5 101
3. Comfortably Off	62,246	36.4	805,673	32.5 112
4. Moderate Means	20,691	12.1	376,024	15.2 80
5. Hard Pressed	23,179	13.5	683,960	27.6 49
ACORN 2009 Groups	Profile	%	Base	% Index
1.A Wealthy Executives	19,528	11.4	174,440	7.0 162
1.B Affluent Greys	11,299	6.6	81,064	3.3 202
1.C Flourishing Families	22,922	13.4	195,290	7.9 170
2.D Prosperous Professionals	3,553	2.1	36,780	1.5 140
2.E Educated Urbanites	4,639	2.7	95,389	3.9 70
2.F Aspiring Singles	3,019	1.8	28,333	1.1 154
3.G Starting Out	4,426	2.6	65,115	2.6 98
3.H Secure Families	37,911	22.2	487,015	19.7 113
3.I Settled Suburbia	12,451	7.3	168,148	6.8 107
3.J Prudent Professionals	7,458	4.4	85,395	3.4 126
4.K Asian Communities	109	0.1	5,925	0.2 27
4.L Post Industrial Families	5,626	3.3	76,654	3.1 106
4.M Blue Collar Rools	14,956	8.7	293,445	11.8 74
5.N Struggling Families	15,855	9.3	445,599	18.0 52
5.O Burdened Singles	5,840	3.4	190,119	7.7 44
5.P High Rise Hardship	1,297	0.8	44,913	1.8 42
5.Q Inner City Adversity	187	0.1	3,329	0.1 81
Unclassified	4,192		31,906	
Total	171,076		2,476,953	

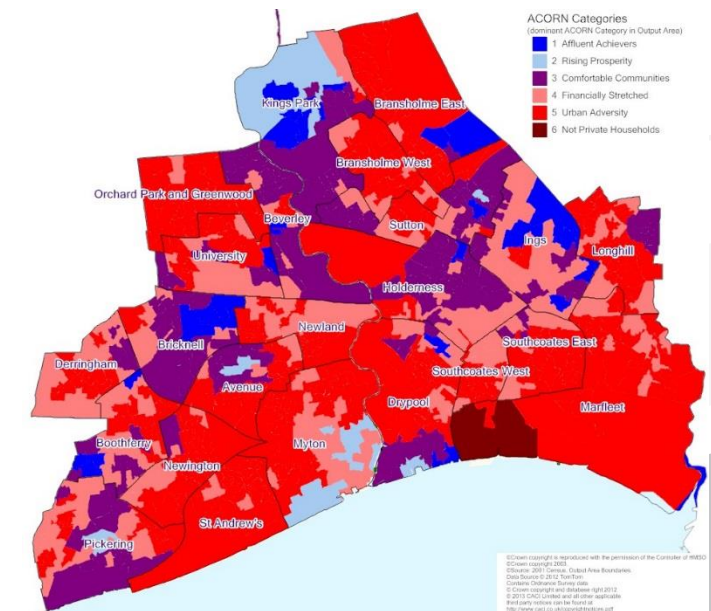
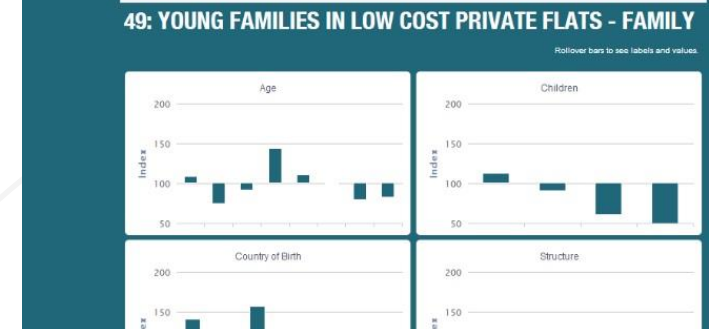
Acorn is a leading geo-demographic classification used to identify and understand the UK population and the demand for products and services. Acorn categorises all 1.9 million UK postcodes using a variety of demographic statistics and lifestyle variables, providing a clear understanding of the status and circumstances of the people living at that postcode. More information about Acorn, as well as full descriptions of Acorn categories can be found at: <http://www.caci.co.uk/pdf/new%20acorn%20brochure.pdf>.

The table shows the distribution of the bookers across different Acorn categories and groups, and compares this distribution to the population within a defined base area. This base has been taken as the drive time area most reflective of your organisation's catchment area, defined as the area containing 80% of the bookers.

Profile
The number of bookers that fall within each Acorn category and group. The % column next to it concerns how this breaks down in percentage terms.

Base
The number of adults living within the calculated catchment area that falls within each Acorn category and group. The % column to the right of it concerns how this breaks down in percentage terms.

Index
This column concerns how the bookers Acorn distribution relates to the base population's distribution, i.e. how the 2 percentage figures relate to each other. An index above 100 means that category or group is over-represented amongst bookers compared to the base population. Similarly, an index below 100 means that category or group is under-represented amongst bookers.



US Geodemographic Segmentation

USA – geodemographic – [PRIZM Social Groups](#)

(Potential Rating Index for Zip Markets, Nielsen Claritas)

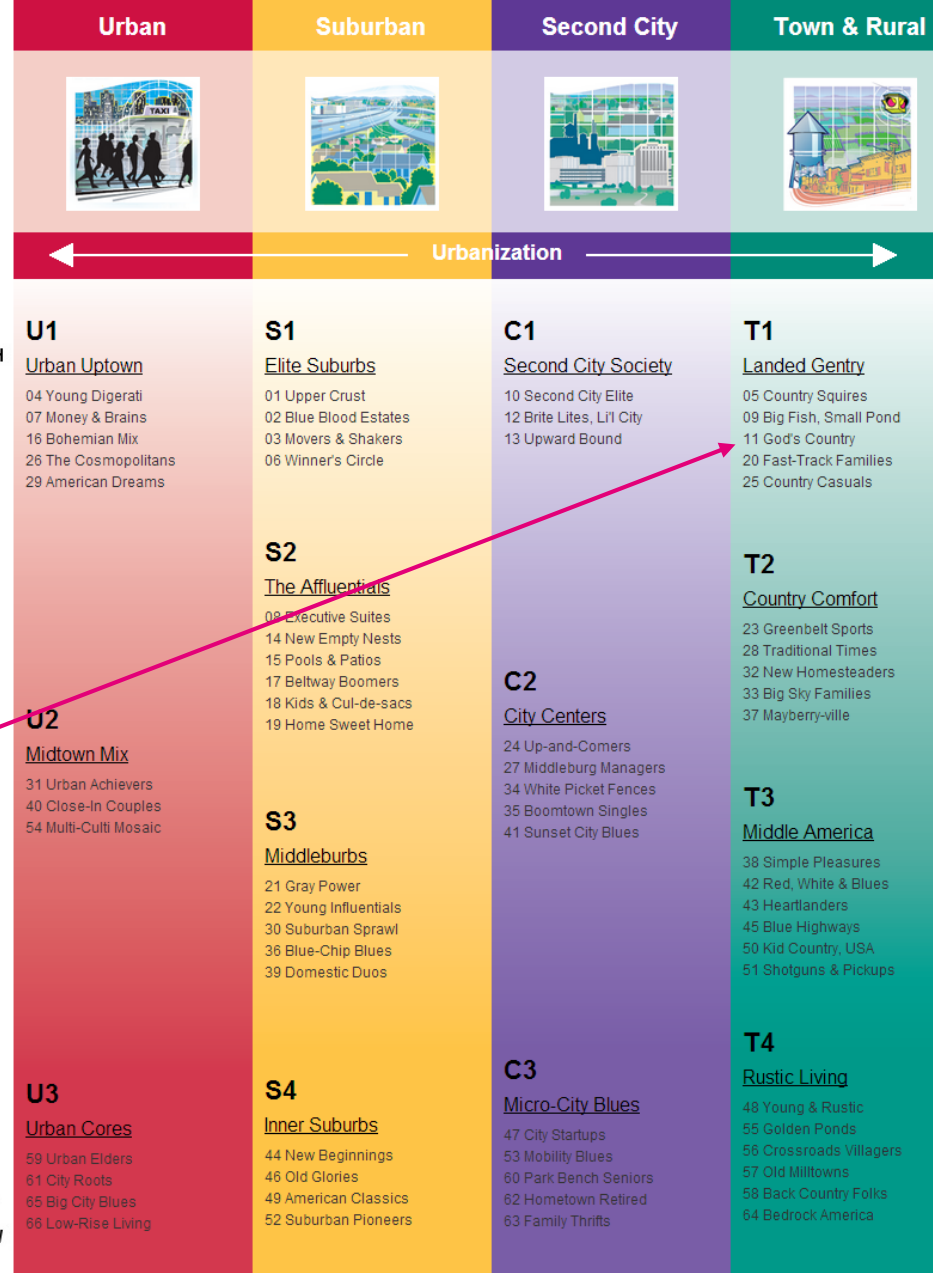
The 14 Social Groups of [PRIZM®](#) are based on [Nielsen Urbanization](#) class and affluence, two important variables used in the creation of PRIZM. First, segments are placed in one of four urbanization class categories - Urban, Suburban, Second City or Town & Rural. Within each of these categories, all the segments are then sorted into groups based on affluence, another powerful demographic predictor of consumer behavior. All of the 66 segments are grouped into one of these 14 Social Groups.

- Classification of households (ZIP codes)
- "birds of a feather flock together."
- Census data, public and private sources of demographic and consumer information
- Geographical Information System

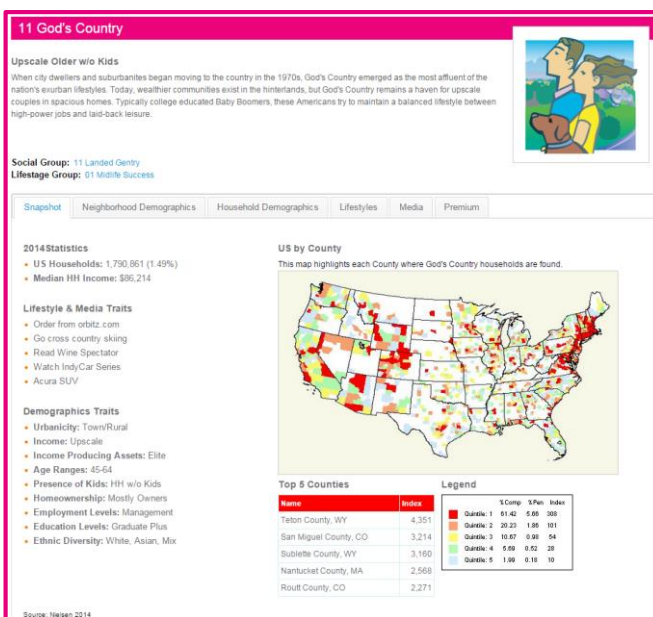
HIGH

\$

LOW



[Detailed information about each segment](#)



Nielsen, the information and measuring company best known for their TV ratings, focuses instead on segments representing broad marketing categories. The approach has won over clients including the Coca Cola Company, Kraft Foods, Wal-Mart, Ford, Toyota, Nestle S.A., Procter & Gamble and the Unilever Group. Nielsen also sells marketing profiles of particular [ZIP codes](#). Why market to broad groups when marketers have the ability to drill down and appeal to an individual's specific preferences? "I would say there is an inverse relationship between the size of the market and the marketing. If you are dealing with big mass markets, you have to go, almost by definition, to mass types of strategies to reach a lot of people because of the effectiveness and the efficiency." [Long Live The Micro-City Blues!](#)

[Why Companies Don't Always Market with Our Private Data](#)

US Geodemographic Segmentation



- USA – geodemographic (behavioral)
- [Nielsen P\\$YCLE Lifestage Groups](#)

Family Lifestage

All 58 [P\\$YCLE](#)® segments are numbered in order of affluence and grouped into these 12 broader Lifestage Groups, as shown by the color-coded chart below. Lifestage Groups capture a combination of three variables—affluence, householder age and whether there are children living at home and are organized by lifestyle and financial behavior. For example, the three Lifestage Groups that comprise Younger Years are for the most part young and childless households. What differentiates Lifestage Group Y1 Upwardly Mobile from Lifestage Group Y2 Metro Mainstream is the level of affluence each has achieved at these younger ages.

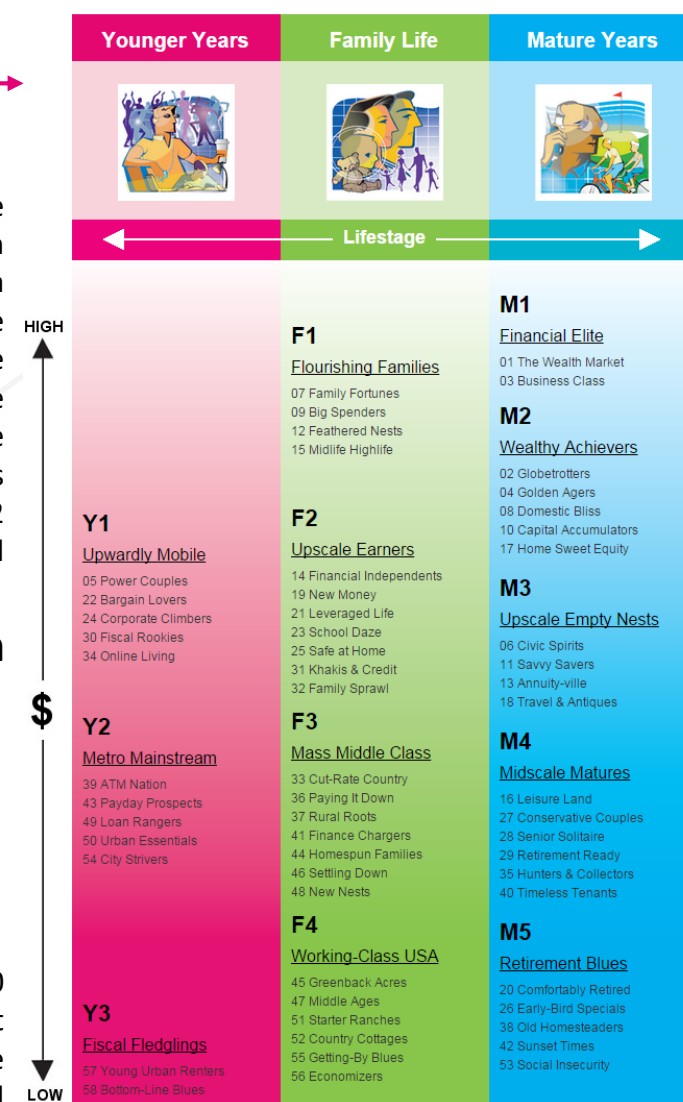
– Geographical Information System

- USA – geodemographic (behavioral)
- [Nielsen ConneXions](#)

Technology Acceptance

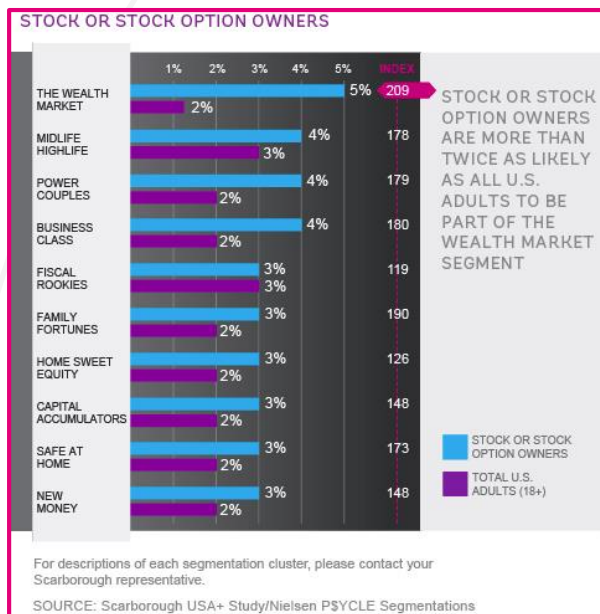
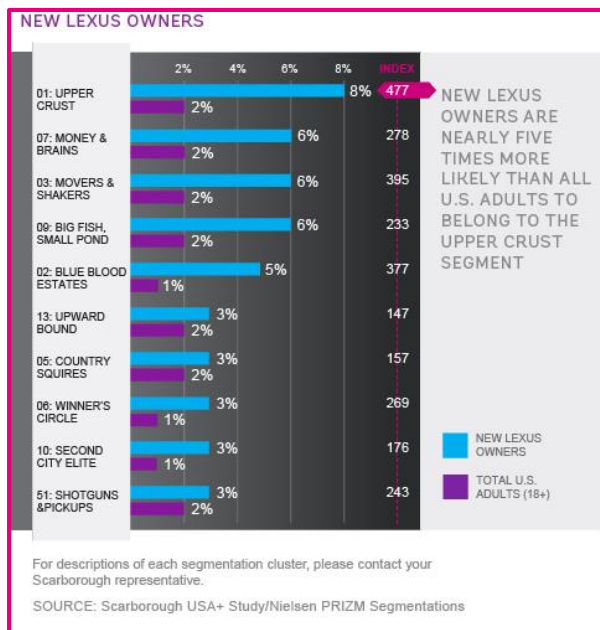
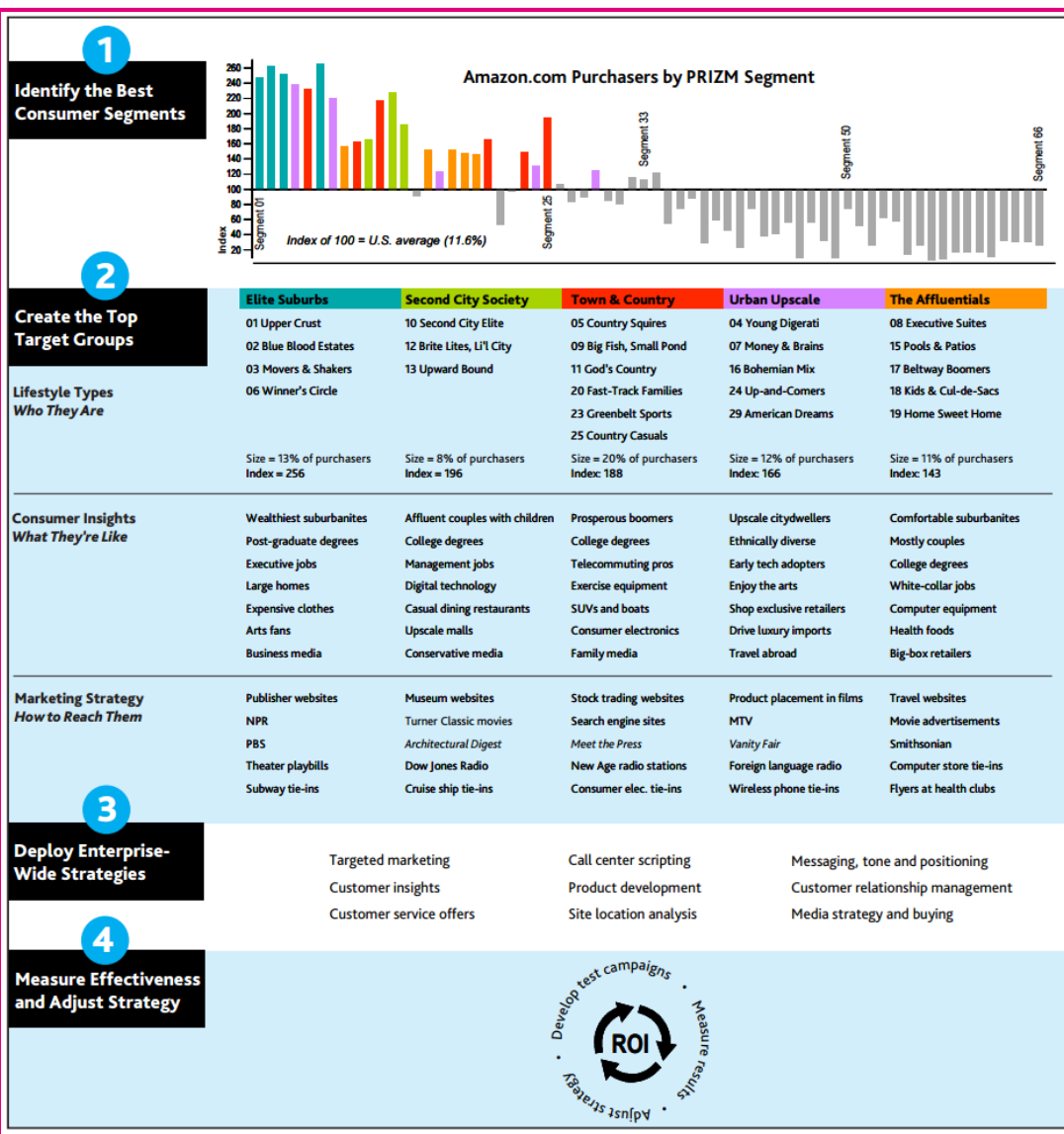
All of the 53 [ConneXions](#)® segments are grouped into 10 broader Lifestage Groups as shown by the color-coded chart below. Lifestage Groups capture a combination of three variables: [Nielsen Technodoption](#), householder age and presence of children living at home.

– Geographical Information System



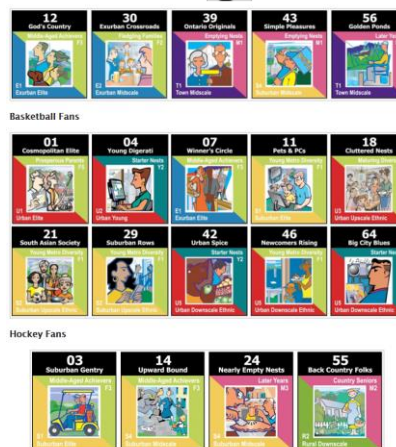
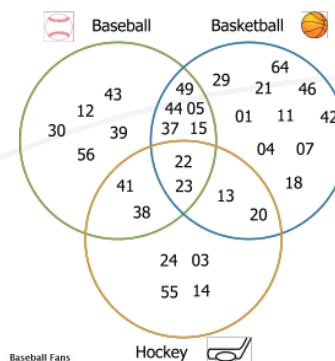
US Geodemographic Segmentation

- PRIZM Social Groups a P\$YCLE Lifestage Groups – Examples



PRIZM_{C2} by [Environics Analytics](#)
(Canada, cooperation with Nielsen Company)

In Search of Real Sports Fans



And more similar systems

EDMONTON JOURNAL
Suggested Advertising
Subjects Based on Audience for

Based on Natural Light Patio Covers' target demographic of older (about to retire or retired) homeowners with high household incomes, these are the advertising suggestions of the Edmonton Journal to help you reach your audience.

The social groups that fit that demographic include:
Urban Elite and Eurban Elite.

Clusters include:

- Middle-aged & older
- Couples
- Homeowners
- HH: \$126K to \$477K
- Medium ethnic presence
- University educated
- White collar
- Charitable/philanthropic
- Active in their community

Preferences: live events, high quality/luxury products (vehicles included), vacation homes, arts/culture, health, gourmet food

Global Geodemographic Segmentation

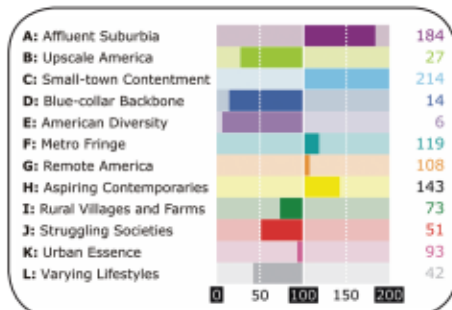
- Geodemographic –25 countries (including Czech Republic) detailed classification [Mosaic GLOBAL](#) (Experian)
 - Neighborhoods classification
 - More than 600 measures
 - Various data sources (national censuses, consumer's surveys, ...)
 - Geographical Information System
 - More detailed version for selected countries, i.e. USA [71 segments](#)/19 groups, Japan ([50 segments](#)/11 groups)...
 - For selected countries even more detailed ([Mosaic Scotland](#)), or for public sector ([Mosaic Public Sector](#))



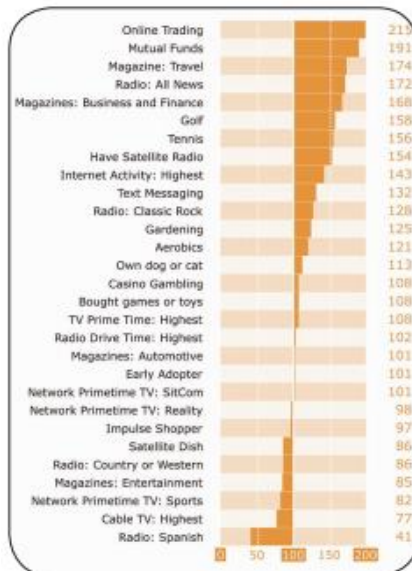
Mosaic Global uses the data from 25 national Mosaic classification systems:

Australia	Japan
Austria	New Zealand
Belgium	Norway
Canada	Republic of Ireland
Czech Republic	Romania
Denmark	Singapore
Finland	Spain
France	Sweden
Germany	Switzerland
Greece	The Netherlands
Hong Kong	UK
Israel	USA
Italy	

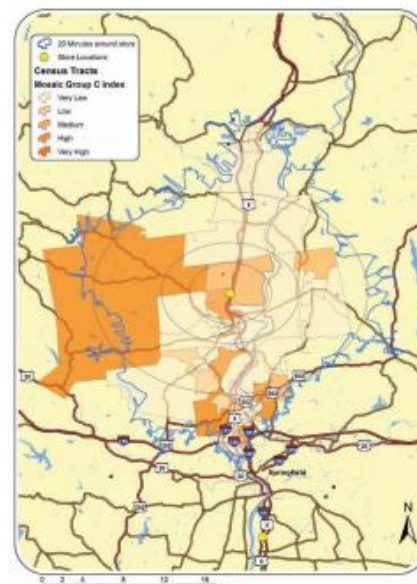
Customer profiling by Mosaic USA Group



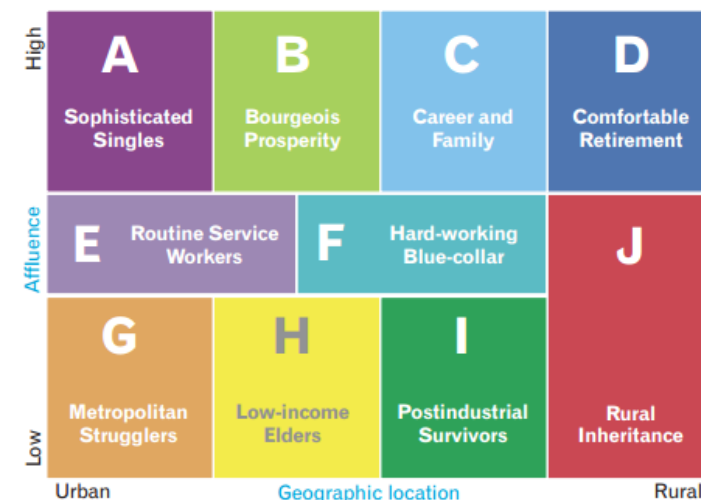
Selected behaviors for Mosaic USA target group ranked by potential



Site analysis for Mosaic USA target group by census tract within 20-minute drive time



The Mosaic Global groups are mapped against two dimensions: affluence and geographic location.



Czech Socio-economic Segmentation

Socioeconomic approaches issues:

The importance of education (as a determinant of socio-economical level) is decreasing

Household equipment standards change over time

- There is a number of (global) market research agencies in Czech Republic

- Each company has its own segmentation system or framework

- SIMAR – Association of Market and Opinion Research Agencies

- All agencies agree to follow ethical guidelines and standards of quality

Why we belong to the A group?

MediaGuru.cz addresses the most

lucrative segments

a color TV set
a video recorder
a video camera
2 or more cars
a still camera
a PC or home computer
an electric drill
an electric deep fat fryer
a radio-clock
a second home or a
holiday home/flat

Socioeconomic classification are mostly based on UK models – In 1990s ESOMAR (The European Society for Opinion and Market Research) introduced ABCDE classification

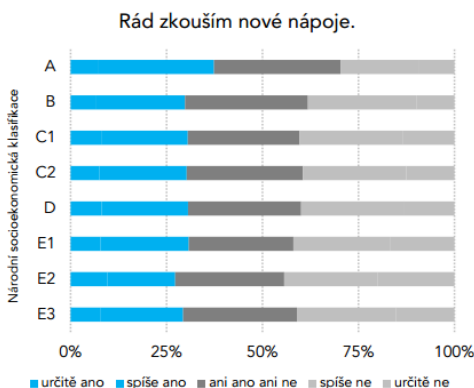
- Household classification based on the occupation of the main income earner (MIE) and The MIE Terminal Education Age (not actively employed MIE ownership of consumer durables)

Socio-economic segmentation is more common in sociological or academic surveys, (an effort to unify such approaches – i.e. ESeG)

- Mediaresearch introduced new ABCDE classification (based on ESOMAR) for the Czech market

- Socio-economic score of household (updated annually to reflect changes in the society)

$$\text{score} = \frac{\text{HH composition} + \text{professional status} + \text{equipment}}{\text{reference income}} \times \text{education} \times \text{region}$$



Some agencies still use “older” models – Median
MML - Market & Media & Lifestyle

Zdroj: MML-TGI ČR 2009 1. - 4. kvartál SPOJENÁ (05.01.2009 – 06.12.2009), Median 2010

		LCD, LED nebo plazmový televizor	Televizor zobrazující 3D obraz	Televizor podporující připojení k internetu	Zařízení s funkcí Timeshift	2 a více televizorů	Video přehrávač/rekordér	DVD přehrávač/rekordér	Tablet	Chytrý mobilní telefon	Notebook, netbook, ultrabook	Digitální fotoaparát
ABCDE klasifikace MEDIARESEARCH	A	81%	6%	13%	11%	27%	17%	56%	23%	53%	77%	82%
	B	78%	6%	11%	7%	28%	19%	57%	19%	40%	72%	70%
	C1	79%	4%	11%	7%	35%	19%	62%	20%	34%	66%	70%
	C2	75%	5%	10%	5%	37%	19%	57%	15%	28%	58%	64%
	C3	74%	2%	8%	4%	35%	20%	57%	12%	19%	45%	52%
	D1	72%	3%	6%	4%	34%	20%	48%	8%	12%	28%	38%
	D2	60%	2%	3%	2%	16%	15%	32%	4%	9%	18%	22%
	E	45%	1%	2%	1%	11%	8%	23%	4%	7%	13%	10%
	Celkem	71%	3,6%	8,0%	5,2%	28%	17%	49%	13%	25%	47%	51%

Zdroj: ATO-MEDIARESEARCH, Kontinuální výzkum leden-září 2014

Základ: Všechny domácnosti, N = 6 766



Psychographic Segmentation

- (Geo)Demographic segmentation doesn't reflect all aspects of consumer behavior, "inner" perspective is missing
- Since 1960s – criticism of (geo)demographic – pursuit to include life style, personality, attitudes and values
- 1970s – first approaches to measure psychographic profile – AIO (Activities, Interests, Opinions) complemented by demographic characteristics

PLUMMER, Joseph, T. (1974) [The Concept and Application of Life Style Segmentation](#). *Journal of Marketing*, Vol. 38, No. 1

Lifestyle dimensions			
Activities	Interests	Opinions	Demographics
Work	Family	Themselves	Age
Hobbies	Home	Social Issues	Education
Social Events	Job	Politics	Income
Vacations	Community	Business	Occupation
Entertainment	Recreation	Economics	Family Size
Club Membership	Fashion	Education	Dwelling
Community	Food	Products	Geographic
Shopping	Media	Future	City Size
Sports	Achievements	Culture	Life Cycle Stage

Source: Joseph Plummer, *Journal of Marketing*

- Usually large (200–300) batteries of questions/statements (Likert scales)
- AIO became so popular that it has been often recognized as synonym to psychographic research

Psychographic Segmentation

- Psychographic studies may be conducted for various purposes

WELLS, William. D. (1975). [Psychographics: A critical review](#). *Journal of Marketing Research*, Vol. 12, No. 2

A Psychographic Profile Based on General "Life-Style" Dimensions – questions about use of the product, life style, (geo)demographic to identify characteristics distinguishing between users and non-users of a selected product

A Product-Specific Psychographic Profile – first, a group of product users is identified. Subsequently, profiling to determine user's intentions to buy a product (i.e. what drives customers to purchase Toyota cars)

Personality Traits as Descriptor – analyses personality traits and relationship with other characteristics, i.e. if persons with risk aversion are interested in environmental issues

A General Life-Style Segmentation Study – similarly to A Psychographic Profile Based on General "Life-Style" Dimensions, aims to separate customers to homogenous groups (segments) and establish a general profile or a typology of users (i.e. typical

A Product-Specified Segmentation – works with product-specific items rather than with general psychographic matters

- Criticism of psychographic approaches and their reliability (do they work generally and on all markets?)
 - Does not provide enough information about customers – the analysis reveal “inner” motivation and characteristics but this is not enough to identify customers on the market (i.e. where do they usually buy, which media do they follow, ...)
 - Psychographic often used on a tactical level to complement other approaches to segmentation (i.e. demographic) to better adjust i.e. marketing communication

Psychographics may capture some truth about real people's lifestyles, attitudes, self-image, and aspirations, but it is very weak at predicting what any of these people is likely to purchase in any given product category. It thus happens to be very poor at giving corporate decision makers any idea of how to keep the customers they have or gain new ones.

Psychographics, it should be said, proved to be effective at brand reinforcement and positioning. But even though campaigns built on psychographics are good at moving viewers emotionally, the characteristics and attitudes that such ads invoke are simply not the drivers of commercial activity.

Psychographic segmentations have done little to enlighten the companies that commission them about which markets to enter or what kinds of offers to make, how products should be taken to market, and how they should be priced.

YANKELOVICH, Daniel, MEER, David. [Rediscovering Market Segmentation](#). *Harvard Business Review*, 2/2006

Psychographic Segmentation

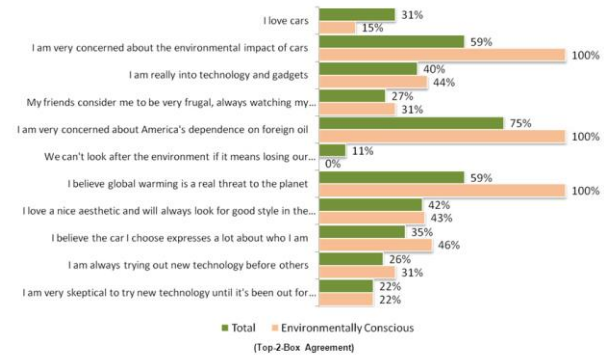
- The literature offers a variety of definitions
 - Kotler:** In psychographic segmentation, buyers are divided into different groups on the basis of psychological/personality traits, lifestyle, or values.
 - American Marketing Association:** The process of dividing markets into segments on the basis of consumer life styles.
 - Dorny:** Psychographics is the psychological measures whereas lifestyle consists of activities and behaviors
- Can be used for evaluating customers from various cultures
 - **Personality**
Typology of temperaments by Galen (phlegmatic, melancholic, sanguine, choleric); Eysenck 's dimensions of personality (introversion/extroversion; neuroticism/stability); The Big Five (openness to experience, conscientiousness, extraversion, agreeableness, neuroticism)
 - **Attitudes**
Loyalty, risk-taking, innovation acceptance, ...
 - **Lifestyle**
Spending free time, job preference, political or environmental preferences, ...

TESLA cars customers

the (potential) buyers of electric cars can be divided into three main categories. The categories are based on the type of motives of people to buy an electric car. The three segments are (1) environmental conscious people who support sustainability, (2) technology and car driven people who are interested in cutting edge innovation and (3) frugal travellers whose main goal is to (permanently) reduce their travel costs. Based on the characteristics of the target group described above, buyers of the Tesla Model S could be mainly divided into the environmental conscious (1) and the technology and car driven (2) segments.

Segment 1: Environmentally Conscious

This group of EV considerers are driven first and foremost by environmental concerns.

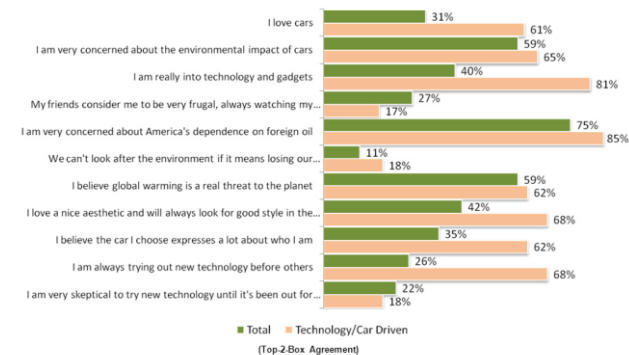


Q01 Now thinking about electric vehicles, chargers and your own opinions and attitudes, how much do you agree or disagree with the following statements?



Segment 2: Technology/Car Driven

This segment corresponds to 'early adopters' – with an added strong interest in cars.

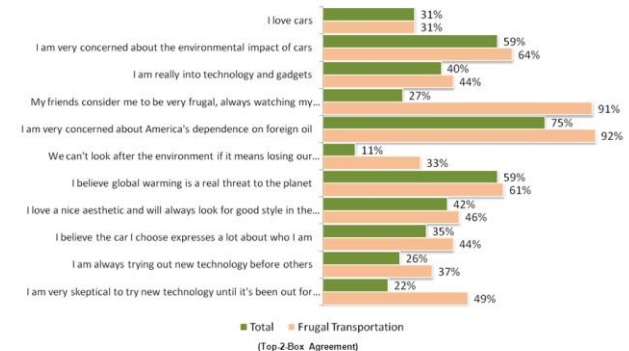


Q01 Now thinking about electric vehicles, chargers and your own opinions and attitudes, how much do you agree or disagree with the following statements?

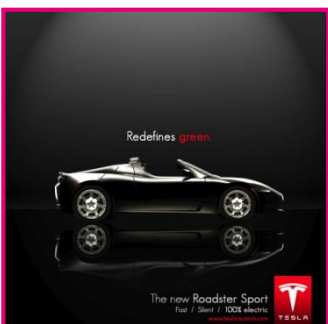


Segment 3: Frugal Travelers

Almost the opposite of the tech/car segment, Frugal Travelers are generally skeptical about new technology until it's been 'proven'.



Q01 Now thinking about electric vehicles, chargers and your own opinions and attitudes, how much do you agree or disagree with the following statements?



Psychographic Segmentation

When every month you are trying to sell 500 exotic sports cars that cost between \$40,000 and \$82,000 apiece, you have to really know your customers. *Porsche* Cars North America hired a team of anthropologists to find out who its owners were and how *Porsche* could better sell to them. The demographics of the *Porsche* owner are utterly predictable: a 40-something male college graduate earning over \$200,000 per year. The psychographics, however, were of more interest. *Porsche* owners were categorized into five rather unusual -- and not necessarily all that flattering -- personality types. Besides refining its marketing as a result of the study, *Porsche* has cut its prices, launched a new ad campaign, and introduced a successful redesign of its classic rear-engine coupe, the 911. After a seven-year slump, *Porsche's* U.S. sales rose 48% in 1994, as of the end of November.

A TAXONOMY OF PORSCHE BUYERS % OF ALL TYPE OWNERS DESCRIPTION

Top Guns	27 %	Driven, ambitious types. Power and control matter. Expect to be noticed.
Elitists	24 %	Old-money blue bloods. A car is just a car, no matter how expensive. It is not an extension of personality.
Proud	23 %	Ownership is an end in itself. Patrons Their car is a trophy earned for hard work, and who cares if anyone sees them in it?
Bon	17 %	Worldly jet setters and Vivants thrill seekers. Their car heightens the excitement in their already passionate lives.
Fantasists	9 %	Walter Mitty types. Their car is an escape. Not only are they uninterested in impressing others with it, they also feel a little guilty about owning one.

TAYLOR, Alex (1995), *Porsche Slices Up its Buyers*, *Fortune*, January 16, p.24



Zipcar specializes in renting out cars by the hour or day. Instead, it zeros in on narrowly defined lifestyle segments, people who live or work in densely populated neighborhoods in New York City, Boston, Atlanta, San Francisco, London, or one of the more than a dozen big cities (or on more than 100 college campuses across North America). For these customers, owning a car (or a second or third car) is difficult, costly, and environmentally irresponsible. Interestingly, Zipcar doesn't see itself as a car rental company. Instead, it's selling a lifestyle. "It's not about cars," says CEO Griffith, "it's about urban life". Zipsters share a number of common urban lifestyle traits. For starters, the lifestyle is rooted in environmental consciousness. In fact, at first, Zipcar focused almost exclusively on the benefits of reduced traffic congestion and carbon emissions. It targeted green-minded customers with promotional pitches such as "We ♥ Earth" and "Imagine a world with a million fewer cars on the road." Zipcar's lifestyle targeting fosters a tightknit sense of customer community. Zipsters are as fanatically loyal as the hardcore fans of Harley Davidson or Apple, brands that have been nurturing customer relationships for decades. Loyal Zipsters serve as neighborhood brand ambassadors; 30 percent of new members join up at the recommendation of existing customers.

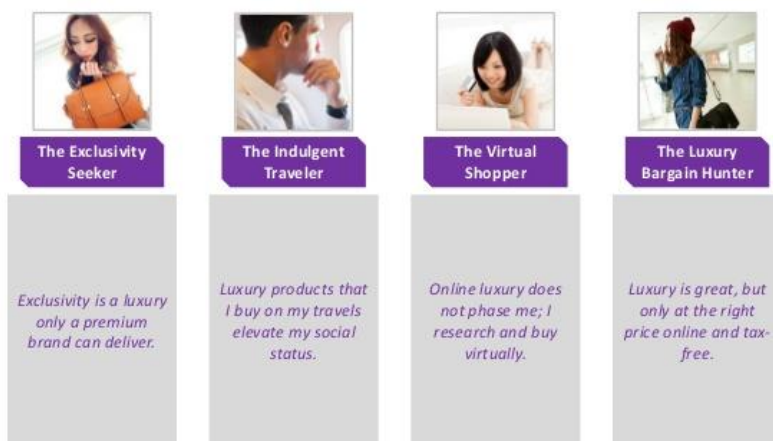
KOTLER, Philip, ARMSTRONG, Gary (2011). *Principles of marketing*. Boston: Pearson

Psychographic Segmentation

- Just a psychographic profile doesn't provide enough information about customer. Should be completed with demographic characteristics and/or behavioral profile

Profiles of Affluent Consumers in Asia

Affluent consumers can be divided into four distinct groups based on their behaviour and psychographic attitudes related to purchasing luxury products.



2

agility

[Agility Research & Strategy: Affluent luxury consumer psychographic segmentation](#)

The Exclusivity Seeker

Demographics and Psychographics



Gender

♀

Age

40-49

Vocation

Manager, Director, or VP in a public or private company

Investment

They have over half a million USD in investments and a premier/priority banking relationship. They invest in stocks and retirement products as well as fixed/time deposit accounts.



For this segment luxury is the exclusivity a premium brand can deliver. They buy luxury brands because they are unique from other mainstream brands, but they are also interested in the higher quality a luxury brand provides and expect a level of social responsibility from the brand. This segment is looking to indulge in exclusive experiences of a luxury brand before buying it.

The Exclusivity Seeker

Spending Behavior



The Exclusivity Seeker buys luxury cosmetics and fashion and is especially likely to spend on airline tickets and hotel nights. This segment is a heavy buyer of luxury products.



Top Cosmetics Brands

They pack products from Olay, L'Oreal, Chanel, Dior, Shiseido and Hugo Boss.



Top Fashion Brands

Their closets stock fashion products from Calvin Klein, Gucci, Louis Vuitton, Dior and Burberry.



Top Hotel Brands

During their recent trip they probably stayed in a Marriott, Sheraton, Hyatt, or a Four Seasons.



Top Online Websites for Luxury Shopping

Their favourites in order of popularity are AlexanderMcQueen.com, Prada.com, Style.com, Barneys.com and Fashionista.com.

The Exclusivity Seeker

Reach



Top Cosmetic Channels

They pay attention to cosmetics ads in shopping malls and magazines, as well as on TV and online (ads, sponsored links, and blogs).



Top Fashion Channels

They look for fashion inspiration mainly in shopping malls and printed magazines.



Top Hotel Channels

The best places to reach them with hotel and airline advertising are in printed magazines, sponsored search links, airports and TV.



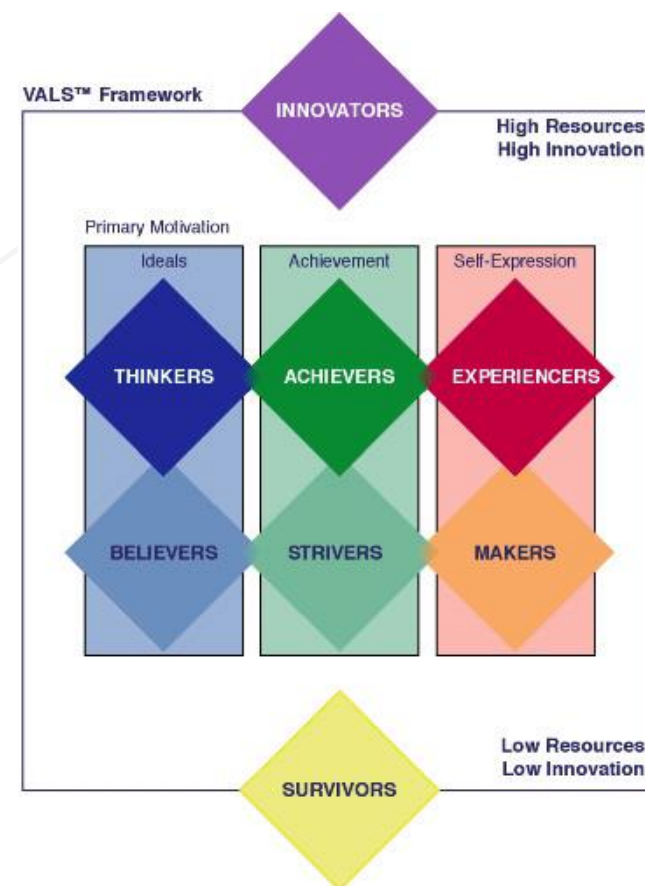
Hobbies

They are enthusiastic sports fans and they follow football, basketball, tennis and golf. During their free time they like to go shopping and to fine dining restaurants. They also enjoy cooking at home, wine tastings and going to concerts. They are likely to play tennis or golf and indulge in spa treatments.

Psychographic Segmentation

Advertising Age cited VALS as “one of the ten top market research breakthroughs of the 1980s.”

- [VALS2](#) – developed in USA in 1970s (SRIC-BI), 4 demographic and 35 attitude questions
- Two dimensions – primary motivation and resources
 1. [Innovators](#) – successful, sophisticated, abundant resources
 2. [Thinkers](#) – motivated by ideas, value order, knowledge, and responsibility
 3. [Achievers](#) – desire for achievement, goal-oriented lifestyles, deep commitment to career and family
 4. [Experiencers](#) – motivated by self-expression, young, enthusiastic, and impulsive, quickly become enthusiastic
 5. [Believers](#) – motivated by ideals, conservative, conventional, beliefs based on family, religion, community, and the nation
 6. [Strivers](#) – trendy and fun loving, motivated by achievement, concerned about the opinions and approval of others
 7. [Makers](#) – motivated by self-expression, practical, live within a traditional context of family, practical work, and physical recreation
 8. [Survivors](#) – narrowly focused, concerned with safety and security
- Other national versions available ([Japan-VALS](#), [U.K.-VALS](#))
- In CZ based on VALS for example [STEM/MARK](#)
- [Take the survey](#)



A food manufacturer in the US wanted to select a consumer target for a new organic food product. The market research department wanted to use psychographic segmentation to identify its target market segment.

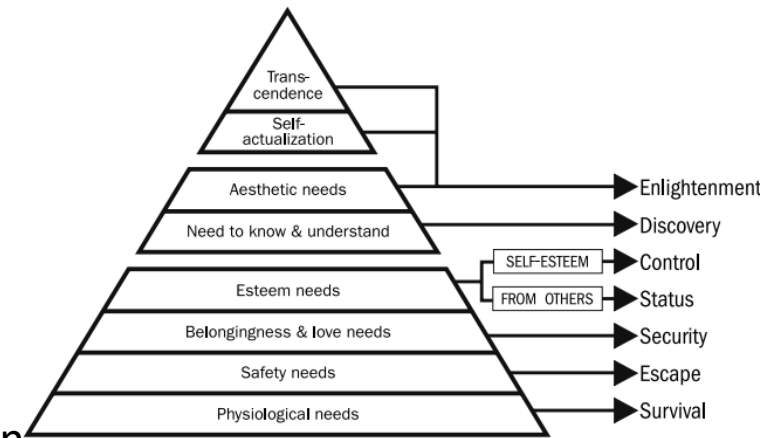
VALS2 is used in one of the most comprehensive surveys [Survey of the American Consumer](#)[®], [Smartphone Personalities](#), [US Consumer Confidence: The Bulls and The Bears](#)

MOHAN RAJ, Prasanna, et al. (2006) A [Study of the Impact of Values and Lifestyles \(VALS\) on Brand Loyalty with Special Reference to English Newspapers](#)
 Lin, Chin-Feng (2002). [Segmenting customer brand preference: demographic or psychographic](#). *Journal of Product & Brand Management* 11.4 (2002): 249-268.

Primary Motivation	Primary Motivation							
	Ideals		Achievement		Self-Expression			
Psychological Descriptors	Innovators	Thinkers	Believers	Achievers	Strivers	Experiencers	Makers	Survivors
	Sophisticated In Charge Curious	Informed Reflective Content	Literal Loyal Moralistic	Goal Oriented Brand Conscious Conventional	Contemporary Initiative Style Conscious	Trend Seeking Impulsive Variety Seeking	Responsible Practical Self-Sufficient	Nostalgic Constrained Cautious
	Percent of Innovators	Percent of Thinkers	Percent of Believers	Percent of Achievers	Percent of Strivers	Percent of Experiencers	Percent of Makers	Percent of Survivors
Total U.S.	10	11	16.5	14	11.5	13	12	12
Median age	45	56	52	41	28	24	46	70
Married	65	75	63	72	34	25	68	45
Work full time	72	55	47	70	52	55	59	13
Used Internet in past 30 days	98	88	61	93	70	85	68	29
Bought most recent vehicle used	39	37	50	45	59	53	59	44
Buy food labeled natural or organic	26	13	6	9	5	9	6	4
Walk for exercise	52	46	29	37	20	18	26	22
Played golf in past 12 months	18	16	6	15	7	10	7	3
Contribute to PBS/NPR	23	13	3	3	—	—	—	3
Media channel preference	Internet Print	Newspaper Internet	Television Radio	Internet Magazine	Radio Television	Magazine Internet	Radio Television	Television Newspaper

Psychographic Segmentation

- [Young & Rubicam's 4Cs Values Segmentation](#) (Cross-Cultural-Consumer-Characterisation)
 - 1980s (also cooperation with SRI on VALS framework)
- Defines 7 types of consumers based priorities and motivation
 - enlightenment, discovery, control, status, security, escape, survival
- Deeply encoded in individual mind, can be used independently on culture
- 45 cross-cultural values statements
- Since 1990s a part of [BrandAsset Valuator](#) a [TGI](#) surveys



Based on grounded theories

Abraham Maslow Hierarchy of Needs	Self-Expression
Arnold Mitchell Values & Lifestyles	Individuality
David Riesman Social Character	Control
Alfred Adler Competition & Co-operation	Status
Milton Rokeach Human Value Systems	Security
Joseph Plummer Lifestyle	Escape
	Survival

Reformer – freedom from restriction, personal growth, social awareness, value for time, independent judgement, tolerance of complexity, anti-materialistic but intolerant of bad tastes

Explorer – autonomy, experience, challenge, new frontiers. Brand choice highlights difference, sensation, adventure, indulgence and instant effect

Succeeder – goal orientation, confidence, work ethic, organization ... support status quo, stability

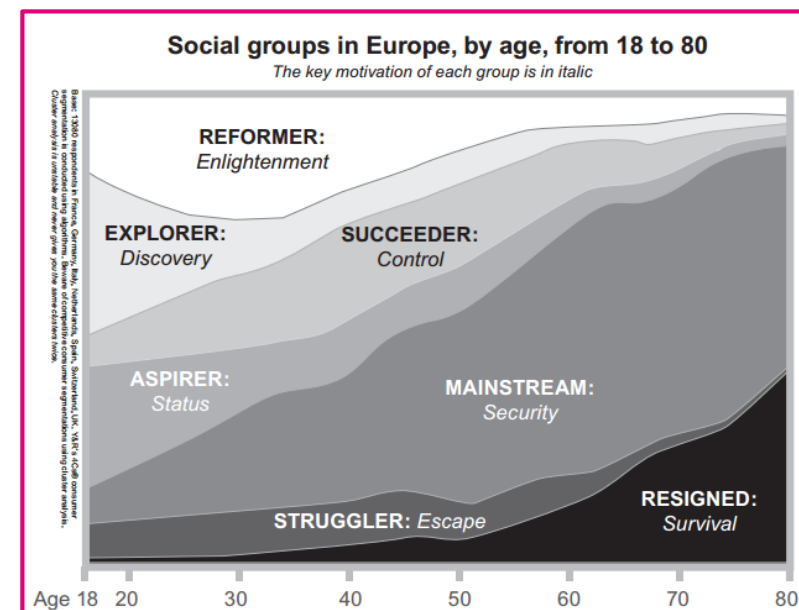
Aspirer – materialistic, acquisitive, affiliative, oriented to extrinsics, image, appearance, charisma, persona and fashion

Mainstream – domestic, conformist, conventional, sentimental, passive, habitual.

Struggler – alienated, struggler, disorganized - with few resources apart from physical/mechanical skills (e.g. car repair). Heavy consumers of alcohol, junk food and lotteries

Resigned – rigid, strict, authoritarian and chauvinist values, oriented to the past and to resigned roles. Brand choice stresses safety, familiarity and economy

[Examples](#)

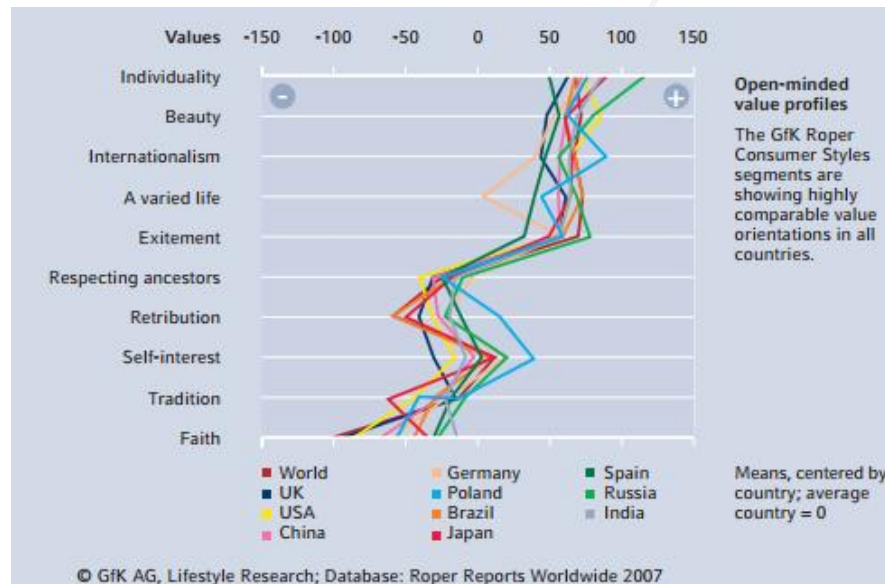
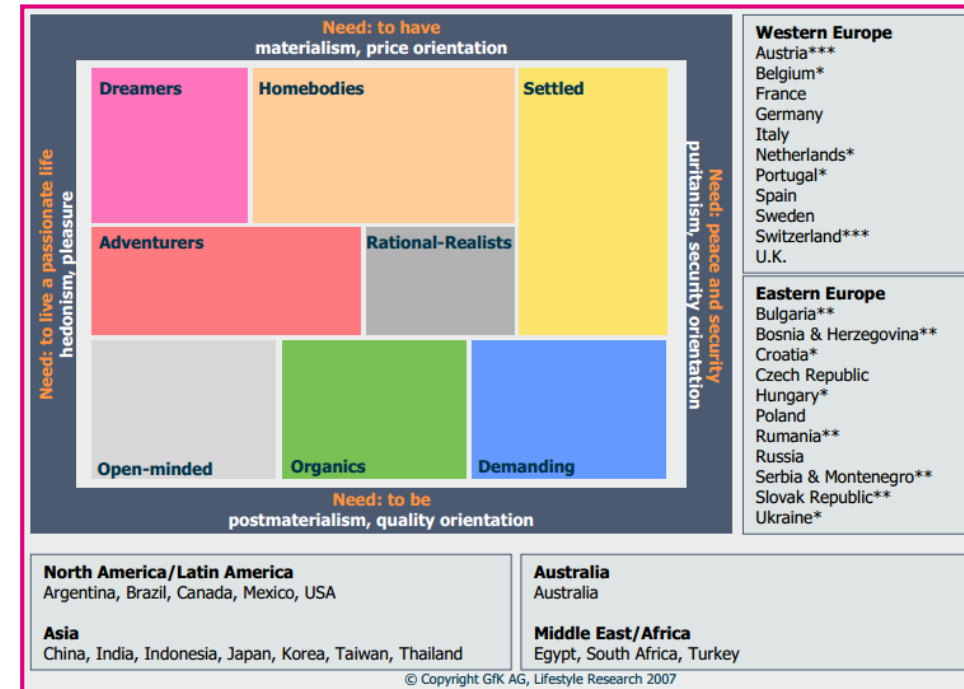
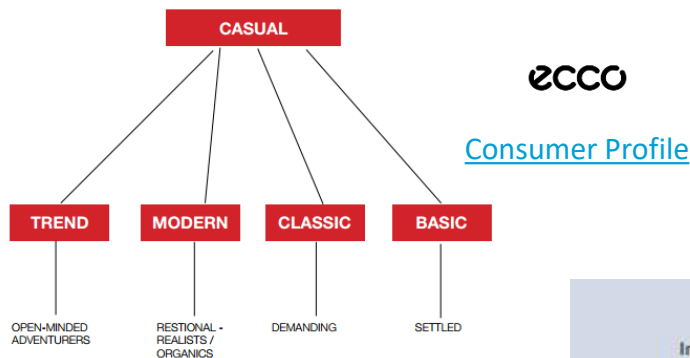




International survey with 24.000 respondents in two waves. Started in 1989; since then measurement of value changes. Up to 6.000 questions in the basic survey(s) to identify: value dimensions, lifestyles, a battery of indicators (Key Questions)

Psychographic Segmentation

- Roper Consumer Styles (GfK)
 - Based on Euro-socio-styles (since 1190s in European countries)
 - Covers 38 countries on 5 continents
 - Includes values, interests, free time spending, consumer behavior, media preference, ...
 - 8 main segments



Behavioral Segmentation

Bank and credit union marketers have traditionally relied on the use of demographic segmentation as a means of targeting customers for product and service communication.

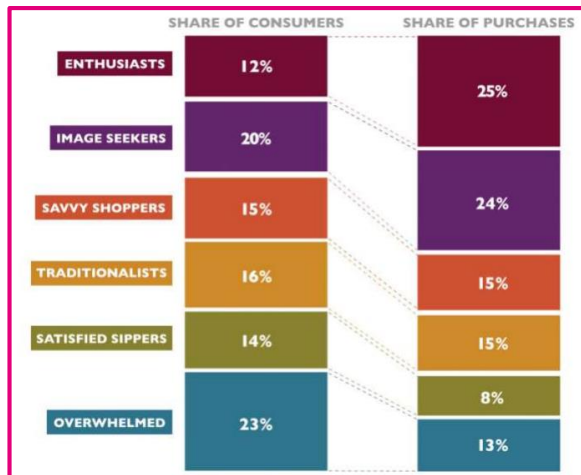
Recent studies, however, provide growing evidence that changes in product delivery, communication channels and competition may have made a demographic-based targeting approach much less effective compared to other approaches that use additional data sources.

[Demographics No Longer Effective For Financial Direct Marketing](#)

- Consumer behavior can be influenced by
 - Needs and perceived benefits for the customer

[Constellation Brands Survey](#) - 2008 a survey to identify major customer segments.

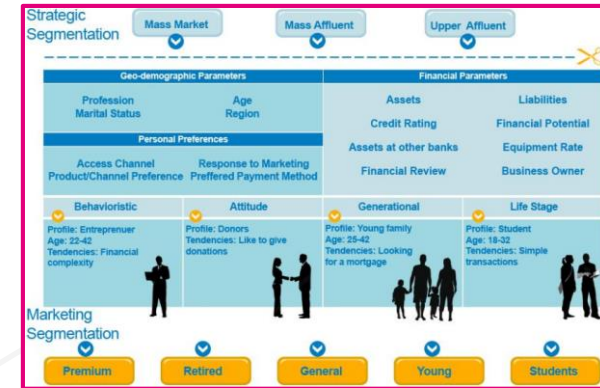
Six segments identified each with distinct wants and needs.



- Use and frequency of use

Common for sports gear – i.e. (beginner, advanced player)

[Roadrunner](#) segments customers according to the frequency of use, runner's weight and arch type



Behavioral Segmentation

— Occasions

- St. Valentines Day, SuperBowl, Independence day, Black Friday, holidays, ...

— Loyalty

- hard-core loyals – buy always the same brand
- split loyals – loyal to a few brands
- shifting loyals – moving from one brand to another
- Switchers – no loyal at all

Brown, George H. (1953) Brand Loyalty-fact of fiction. *Trademark Rep.* 43

There are many other loyalty model, i.e Aaker, D. A. 1991 *Managing Brand Equity: Capitalizing on the Value of a Brand Name*, The Free Press, New York

Customer loyalty is an illusion – and brands are learning that the hard way

Every company's customers can be divided into three categories:

Promoters, Passives, and Detractors The Net Promoter Score and System

Recommended reading: REICHHELD, Frederick F. The one number you need to grow. *Harvard business review*, 12/2003
 REINARTZ, Werner; KUMAR, VISWANATHAN. The mismanagement of customer loyalty. *Harvard business review*, 7/2002
 TIMOTHY, L. K.; LERZAN, A.; ALEXANDER BUOYE, Bruce Cooi. Customer Loyalty Isn't Enough Grow Your Share of Wallet. *Harvard Business Review*, 12/2011

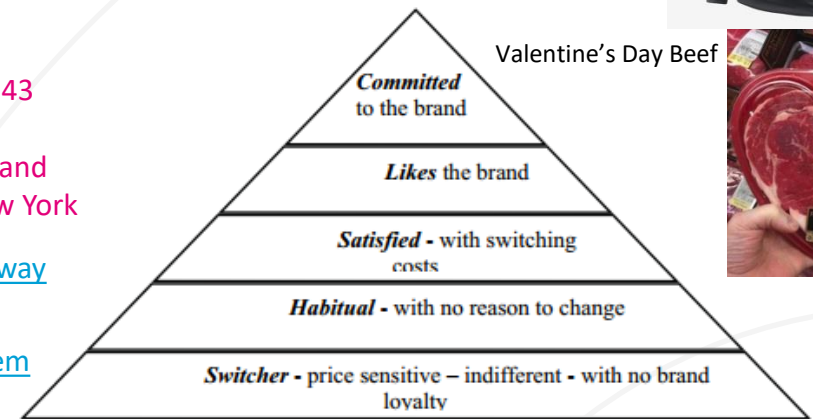
Black Friday Sale



SuperBowl Edition Nike Hoodie



Valentine's Day Beef

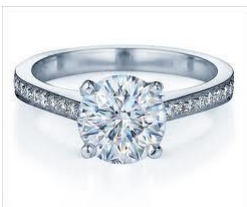
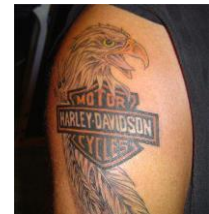


— Role in buying process – (family life cycle and different roles and behavior)

The chain of buyers refers to the different players involved directly or indirectly in the buying decision. Generally speaking there are three groups: purchasers, users, and influencers. Although these three groups may overlap, they often differ. For example, a sick child would be the user of a prescribed medicine, their parent, the purchaser, and the doctor, the influencer.

Normally an industry converges on a single buyer group. The pharmaceutical industry, for example, focuses overwhelmingly on doctors, the influencers.

When reconstructing market boundaries, challenge conventional definitions of who is the target buyer and look across the chain of buyers. Different buyer groups often hold different definitions of value. Thus, by shifting the focus to other buyer groups companies can often see new ways to unlock value. Chain of Buyers



Behavioral Segmentation

[How Target Figured Out A Teen Girl Was Pregnant Before Her Father Did](#)

Target assigns every customer a Guest ID number, tied to their credit card, name, or email address that becomes a bucket that stores a history of everything they've bought and any demographic information Target has collected from them or bought from other sources.

Target ran test after test, analyzing the data, and before long some useful patterns emerged. Lotions, for example. Lots of people buy lotion, but one of Pole's colleagues noticed that women on the baby registry were buying larger quantities of unscented lotion around the beginning of their second trimester. Another analyst noted that sometime in the first 20 weeks, pregnant women loaded up on supplements like calcium, magnesium and zinc. Many shoppers purchase soap and cotton balls, but when someone suddenly starts buying lots of scent-free soap and extra-big bags of cotton balls, in addition to hand sanitizers and washcloths, it signals they could be getting close to their delivery date.

They were able to identify about 25 products that, when analyzed together, allowed him to assign each shopper a "pregnancy prediction" score. More important, he could also estimate her due date to within a small window, so Target could send coupons timed to very specific stages of her pregnancy.

Probably HOAX, Target mixes up its offers not because it would be weird to send an all-baby coupon-book to a woman who was pregnant but because the company knows that many of those coupon books will be sent to women who aren't pregnant after all.

[How Companies Learn Your Secrets](#)

[Big data: are we making a big mistake?](#)

[Did Target Really Predict a Teen's Pregnancy? The Inside Story](#)

Related to BIG DATA, pretty common for most of the tech companies (Google and behavioral analysis to personalized advertising) or Amazon. Amazon does have an idea that may help it get ahead in the [same-day delivery war](#), using predictive analytics and a transportation model that would see products basically hovering around potential buyers, either in nearby hubs or on trucks. [WATCH: Amazon Thinks It Can Predict Your Next Order](#) Amazon said it may consider previous orders, product searches, wish lists, shopping-cart contents, returns and even how long an Internet user's cursor hovers over an item. [Amazon Wants to Ship Your Package Before You Buy It](#)



B2B Markets Segmentation

- There are frameworks available for B2B markets segmentation, i.e. [Mosaic Commercial](#) (UK, 50 segments in 13 groups)

- Differences on B2B markets
 - Less subjects on the markets
 - Closer relationship between sellers and buyers (often personal relationships)
 - More rational (even though the price isn't often the most important)
 - More long-term oriented
 - Geographical concentration
 - Shorter supply chain
 - Often non-elastic demand
 - Demand fluctuations
 - Derived demand
 - Other roles in decision process

Group	Description	Type	Description
A	Major Retail	A01	Major Retail
B	Industrial Blue Chips	B02	Consolidating Combines
		B03	New Born Subsidiaries
C	National Service	C04	Fliers and Fixers
		C05	Small Subsidiary Specialists
		C06	Large Subsidiary Specialists
		C07	Diversifying Services
D	Fleets and Finances	D08	Mini Money Movers
		D09	Major Money Movers
		D10	Couriers and Carriers
		D11	Motors and Mobiles
		D12	Motors and Movers
		D13	Vehicles and Veg
E	Monumental Monoliths	E14	Primary Extractors
		E15	Broad Brush Base
		E16	Farsighted High Fliers
		E17	Stable Backbone
F	Specialist Suppliers	F18	Wholesale Heavies
		F19	High tech Highlights
		F20	Metal Manipulators
		F21	Machine Makers
		F22	Expert Engineers
		F23	Chemistry Class
		F24	Research and Development
		F25	Printers and Publishers

Group	Description	Type	Description
G	Local Solid Rocks	G26	Small Scale Suppliers
		G27	Repair and Recreation
		G28	Loaves and Fishes
		G29	Small Town Stalwarts
		G30	Painters and Players
H	Hotels and Catering	H31	Champion Chains
		H32	Inns and Eats
I	Health and Social Work	I33	Carers and Careers
		I34	Nurses and Nannies
		I35	Doctors and Therapists
J	Property Portfolio	J36	Big Builders
		J37	Municipal Melting Pot
		J38	Bricks and Mortar
		J39	Landlords and Ladders
K	Independent Entrepreneurs	K40	First Year Survivors
		K41	Business Boosters
		K42	Developing Dynamos
		K43	Fledgling High Fliers
		K44	Bits and Bytes
L	Energetic Enterprises	L45	Professional Professors
		L46	Supply Chain Sophisticates
		L47	Growers and Garages
		L48	Support Supremos
		L49	New Kick-Offs
M	Cottage Industry	M50	Cottage Industry

- Initiators**—Users or others in the organization who request that something be purchased.
- Deciders**—People who decide on product requirements or on suppliers.
- Influencers**—People who influence the buying decision, often by helping define specifications and providing information for evaluating alternatives. Technical personnel are particularly important influencers.
- Purchaser**—People who have formal authority to select the supplier and arrange the purchase terms. Buyers may help shape product specifications, but they play their major role in selecting vendors and negotiating. In more complex purchases, buyers might include high-level managers.
- Gatekeepers**—People who have the power to prevent sellers or information from reaching members of the buying center. For example, purchasing agents, receptionists, and telephone operators may prevent salespersons from contacting users or deciders.
- Users**—Those who will use the product or service. In many cases, the users initiate the buying proposal and help define the product requirements.
- (Approvers)**—People who authorize the proposed actions of deciders or buyers.)

B2B Markets Segmentation

- Similar to B2C segmentation (including market mapping)
 - Demographic characteristics (Firmographics)
 - Industry, i.e. [SIC](#) – Standard Industrial Classification,
 - SIC developed in USA in 1940s, widely used in UK (USA began to use [NAICS](#) in 1990s, another alternative might be [ICIS](#) (UN) or ([CZ-](#))[NACE](#) (EU)
 - [Company size](#)
 - [Ownership or form of business organization](#)
 - Position and department of decision-maker
 - Geographical characteristics
 - Region, province, country, continent (memberships, i.e. EU, NAFTA, OECD, ...)
 - Type of territory (metropolitan, urban, rural, ...)
 - Psychographic characteristics
 - Company life cycle (start-up, growth, maturity, decline, turn-round)
 - Leadership styles (autocratic, democratic, liberal, ...)
 - Attitudes – risk-taking, acceptance of technologies, focus on CRM,...
 - Life-style – CSR, dealing with environmental issues , communication with stakeholders, ...
 - Behavioral characteristics (preference and focus on price, quality, additional services, delivery, ...)
 - Similar approaches as on B2C markets([B2B BuyerSphere reports](#))

B2B Markets Segmentation

Signode is leading worldwide manufacturer and distributor of protective packaging systems. In 1992 performed an analysis to identify buying behavior segments. Four major segments identified:



1. Programmed buyers (6,6 m) – small and viewed the product as a routine purchase item. The lowest average sales of any group and were not particularly price or service sensitive. The product was not very important or central to their operations
2. Relationship buyers (31 m) – relatively small, prefer Signode's partnership to a mere price exchange (but more knowledgeable about competitive offerings). The product itself was moderately important in their operations
3. Transaction buyers (24 m) – quite large buyers, wouldn't hesitate to switch suppliers, actively considered the price versus service tradeoffs (but often favored price over service)
4. Bargain hunters – (23 m) – large volume customers, the largest price discounts, sensitive to any changes in price or service; the product was very important to their operations, most like to switch suppliers



Most problematic segments - bargain hunters. To protect company margins, Signode decided that price cutting should be used only as a defense against price cuts of competitors. Instead, Signode offered additional service to improve sales volume

RANGAN, V.K., Moriarty R.T., and Swartz, G.S. (1992) Segmenting customers in mature industrial markets. *Journal of Marketing* 56.4.

PHILIPS



Philips Lighting US introduced the Alto, an environmentally friendly bulb. Traditionally, the industry focused on corporate purchasing managers who bought on the basis of how much the lightbulbs cost and how long they lasted. Everyone in the industry competed head-to-head along those two dimensions. By focusing on influencers, including CFOs and public relations people, Philips came to understand that the price and life of bulbs did not account for the full cost of lighting. Because lamps contained environmentally toxic mercury, companies faced high disposal costs at the end of a lamp's life. The purchasing department never saw those costs, but CFOs did. Philips Electronics, re-created its industrial lighting business by shifting downstream from purchasers to influencers.

MAUBORGNE, Renee, KIM, W. Chan Creating new market space. *Harvard Business Review* 1/1999.

Merging Micro-segments

- Based on the previous, dozens of micro-segments could be identified
 - Company is not able to serve all those identified segments and to adjust the marketing mix components to fit needs and wants of all segments
 - Merging the micro-segments – even though the customers may differ in some way (i.e. demographically), they could be using the product in a similar way (and living and buying in the same geographical location)

Market DBCs		Micro-segments and their DBC scores				
DBC – decisive buying criteria	Value	A1	A2	A3	A4	A5
		£30k	£20k	£20k	£20k	£30k
Local availability – access		40	50	45	30	30
Eco-friendly packaging		30	25	30	20	15
Trusted brand – reliability		20	20	15	40	45
Price		10	5	10	10	10
Total		100	100	100	100	100

Some (based on the square root of total difference) similar segments could be probably merged (A1 and A3 or A4 and A5)

Micro-segments	Micro-segments				
	A1	A2	A3	A4	A5
A1	0	12.2	7.1	24.5	30.8
A2		0	10.0	29.2	33.9
A3			0	30.8	36.7
A4				0	7.1
A5					0

Merging segments has a lot of advantages – less strategies to be prepared, segments may become large enough to be worth being served

Example: From the previous analysis, 5 micro-segments have been identified A1–A5 (i.e. various demographical groups). Each of the segments favor different product features. The difference between segments can be calculated

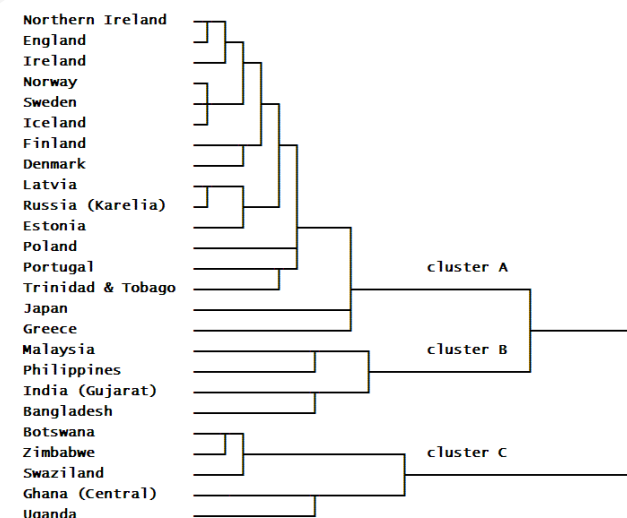
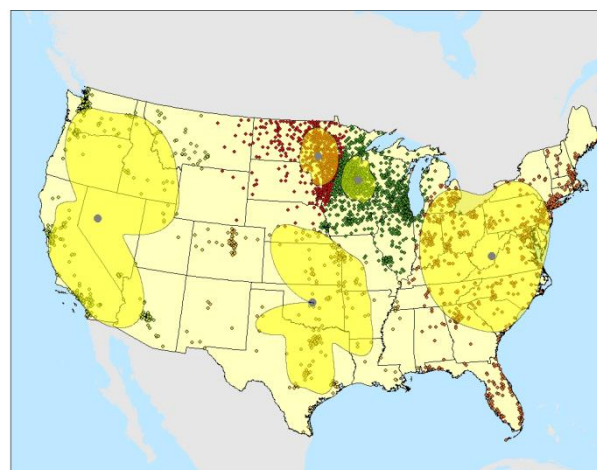
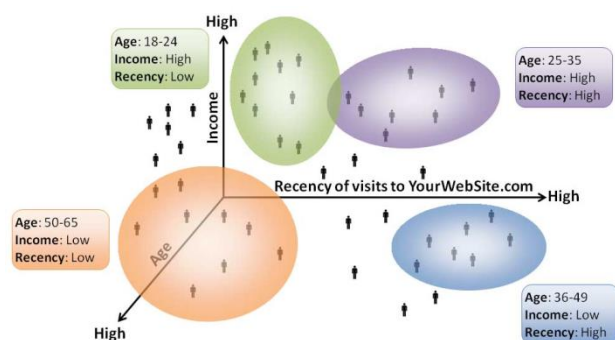
Market DBCs	Micro-segments and DBC scores		Difference between scores	Difference squared	Square root of total difference
	A1	A2			
			(A1 – A2)		√
Local availability – access	40	50	–10	100	–
Eco-friendly packaging	30	25	5	25	–
Trusted brand – reliability	20	20	0	0	–
Price	10	5	5	25	–
Total	100	100	–	150	12.2

DBC values for merged segments can be calculated as a weighted average of original segments (weights – segment size or value)

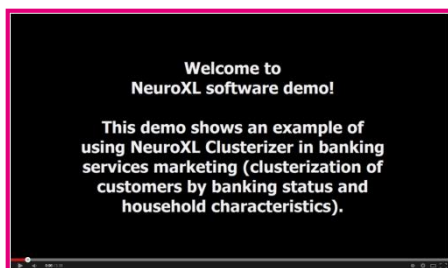
Market DBCs	Clusters, micro-segments and weighted average DBC scores			
	CL1 (A1 and A3)		A2	CL2 (A4 and A5)
	Value	£50 000	£20 000	£50 000
Local availability – access		42	50	30
Eco-friendly packaging		30	25	17
Trusted brand – reliability		18	20	43
Price		10	5	10
Total		100	100	100

Merging Micro-segments

- Analyzing a few or several micro-segments is not necessarily challenging and can be performed manually
- With many (dozens or hundreds) micro-segments (and DBCs), advanced statistical approaches are usually utilized
 - Cluster analysis – grouping objects in a way that objects in the same group are more similar to each other than to those outside the group

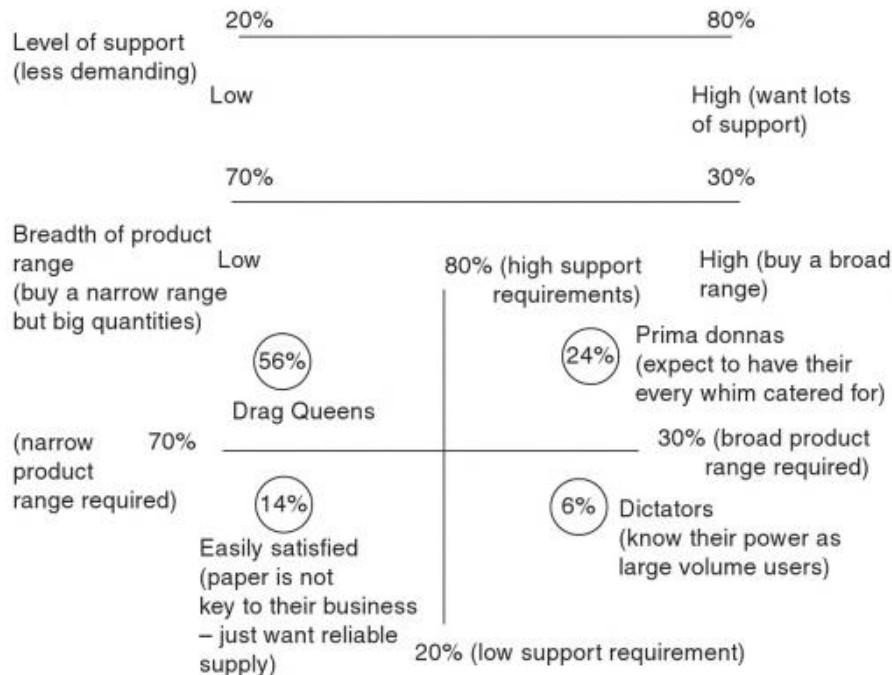


- Statistical software usually include a specialized modules or components ([SAS](#), [SPSS](#))



Merging Micro-segments

- Allows quick (but rough) segmentation of the market
- Quick market segmentation solution
 - Write down the main benefits sought by customers
 - Focus on motivators (satisfactors, excitement factors, delighters)
 - Leave hygiene factors (basic needs)
 - Choose two major motivators (Decisive Buying Criteria) and draw a chart with these factors on the axes
 - Identify main groups of customers



Example: Copiers paper manufacturer

Customers consider following factors as crucial:

1. Level of support (on-time delivery, reliability, order placement)
2. Breadth of product range
3. Environmental issues (recyclability)
4. ...

(80 % of customers demand a high level of support, 70 % of customers are not interested in wide product range (buy a narrow range but big quantities), ...

Draw the chart -> Four main segments identified (Drag Queens, Prima donnas, Easily satisfied, Dictators)

Drag Queens are quite large segment, subsequent analysis to further divide (according to other DBCs) this group into sub-segments could be performed

Merging Micro-segments



EPICURES

Prefer specialty beers

Epicures are characterized by their ardor and appreciation for beer and how it's made. Not surprisingly, *they have an affinity for microbrews and local breweries.*

Refined taste

Known for their zealous pursuit of beer that is worthy, they are a tough crowd to impress. Armed with a discriminating palate and a mouthful of opinions, they will gladly let you know what they think about their latest beer discovery or mishap.

Beer personality

They exhibit a strong preference for quirky beers with an interesting background story. To others, it may seem like they purposefully choose obscure brands. *Epicures don't care; they're looking for beer brands with personality.*

Favorite brands: Rogue, Harpoon, Victory, Ommegang, Duvel, Chimay, Fat Tire, and Kronenberg

Fun fact: Compared to the other segments, Epicures are more likely to be older and male (71% are male).

"My favorite beer? Kronenberg in a bottle or Warsteiner on tap. If it's available. These usually aren't."



BEER SNOBS

Developed tastes

This segment *prefers to drink premium*, recognizable brands. They bring their own beer to the party and they don't like settling for less.

High expectations

Sometimes viewed as hard to please, this segment has strong preferences when it comes to how their beverages are served. Blue Moon must be served with an orange slice. And don't even bother opening a bottle of Modelo Especial if you haven't got a lime.

Image conscious

Compared with other segments, *Beer Snobs tend to define themselves by the beer they drink.*

Favorite brands: Newcastle, Blue Moon, Sam Adams, Bass, Dos Equis, Modelo, and Stella Artois

Fun fact: Beer Snobs are more likely than other segments to allow their friends to influence which new beers they try.

"I'd choose any Mexican beer over American because of the flavor and use of a lime."



CHAMELEONS

Eclectic tastes

What sets Chameleons apart from the other segments is their versatility. Their tastes span from PBR to Three Philosophers, confounding beer novices and connoisseurs alike. Most interestingly, their drinking decisions are largely based on their mood.

Beer discovery

Because of their spontaneous nature, *they are prone to discovering new beers.* In fact, 88% of this group reported frequently trying new beers.

Price responsive

This segment is just as fickle when it comes to pricing. They might have one brand in mind as they enter the store, but *if the price doesn't agree with their wallet, they're just as happy with their second choice.*

Favorite brands: Any and everything, from Yuengling and Guinness to Smithwicks and Dogfish Head

Fun fact: Relative to the other segments, Chameleons are more inclined to drink late-night.

"There are many different choices for many different moods."



HEDONISTS

Drink for pleasure

Hedonists drink for the sheer joy of drinking. They are more concerned with the effects of alcohol than the taste of the beer. This may explain their unrivaled appreciation for drinking games.

Brand loyal

Perhaps because they view beer as a means to an end, they aren't likely to deliberate over which brand to buy in the grocery aisle. *They tend to stick to one or two favorite brands.*

Value-driven

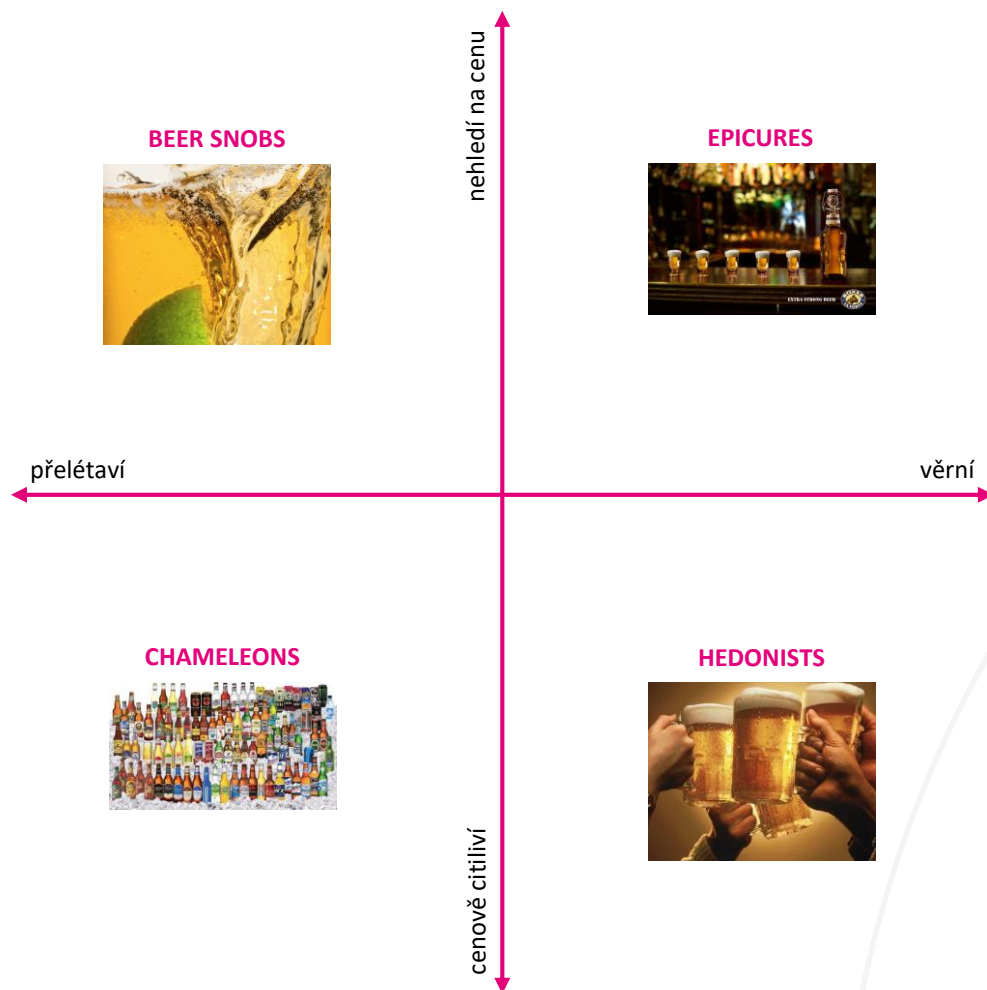
Hedonists seek a balance between price and taste, and price almost always wins. When it comes to the flavor of beer, they rate good beer in terms of its imperceptible aftertaste.

Favorite brands: Bud Light, Miller Lite, Coors Light, PBR, Busch, and Natural Light

Fun fact: Hedonists are most likely to enter into a love/hate relationship with beer. They hate the taste, but they love the results.

"I'm a cheap bastard and I'm usually only drinking to get drunk."

Merging Micro-segments



RECOMMENDATION - EPICURES

Brand Personality

This segment would appreciate the passionate irreverence Flying Dog puts into making its craft beers. The brand's profane attitude and non-conformist outlook would resonate with our target.

Non-trad Approach

Epicures would respond well to Flying Dog's artistic, engaging branding. They prefer brands that fly under the radar with non-traditional communications.

Community Focus

Our target would relish the opportunity to take part in the beer creation process. And they would respect a brand that invites opinions and builds a sense of community among its fans.

Market Position

The brand's provocative nature is reflected in names of their brews, such as the Doggie Style Classic Pale Ale and the In-Heat Wheat Hefeweizen. This attitude is mirrored in the design of their labels and the recipes themselves.

Advertising

Flying Dog almost exclusively practices nontraditional advertising. According to their Marketing Director, the brand is perhaps best known for their "Good beer. No shit." debacle. They made headlines for printing the aforementioned inscription on the caps of their Road Dog Scottish Porter. "Purposeful in the pursuit of making bold, yet highly drinkable craft beers and provocative and irreverent in the way we view and communicate with the world around us."

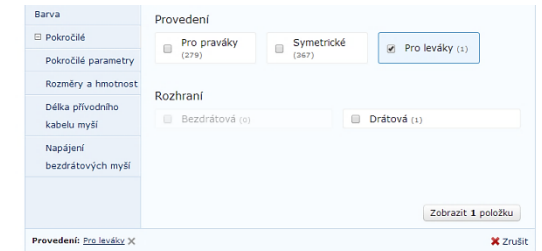
Open Source Beer

Flying Dog recently gained recognition for pioneering the idea of creating a collaborative beer in the states. They solicited suggestions from homebrewers on their blog to craft a Doppelbock beer, which they named Collaborator. The recipe and label are shared on their website.

Segmentation – Summary

- Customer segment should be
 - Identifiable) – it is possible to identify the customers and their characteristics
The share for male and female Coca-Cola customers is the same 50/50 (doesn't work for Diet Coke)
 - Substantial – segment is large enough to be profitable
Left-hand computer mouse? Left-handedness only 3-5 % of the population
 - Accessible) – segment can be reached via marketing communication and distribution
i.e. distant location, but also segments that communicate in a specific way (social networks)
 - Stable – segment should be stable enough for a long enough period of time to be marketed to strategically
i.e. lifestyle or fashion products can disappear quickly from the market
 - Differentiable – customers within the segment should be similar but clearly distinguishable from others
 - Actionable – company is able to serve the segment (is able to provide product/service customers are interested in+

Recommended reading: GAVETT, Gretchen [What You Need to Know About Segmentation](#)



F6

Vysoká škola
ekonomická v Praze
Fakulta managementu

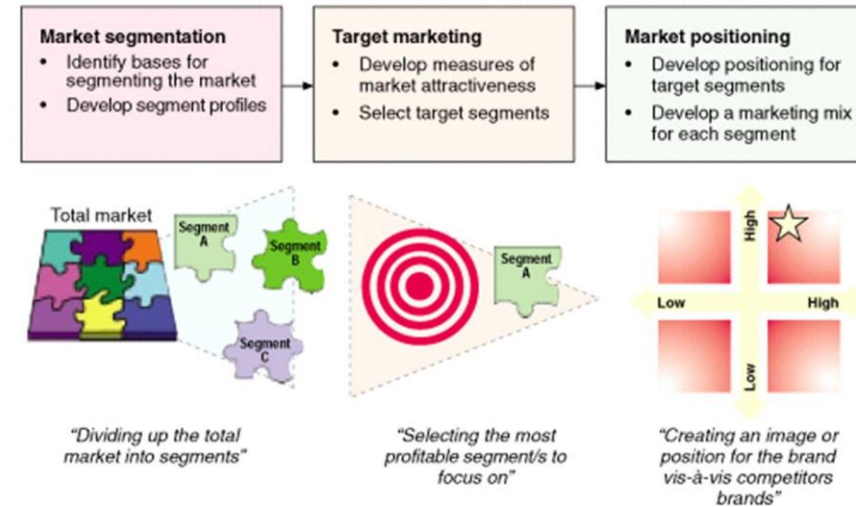
fm.vse.cz

Targeting

Targeting

- Evaluating potential of each segment and decision what segment will be served
 - Segment attractiveness includes
 - Size of the segment (units, value), growth rate, price sensitivity, characteristics of the product (support services), cyclicalities, seasonality, bargaining power in the supply chain (upstream and downstream)
 - Competition and its market share, market concentration, vertical/horizontal integration,...
 - Margins, economies of scale, experience effect, entry/exit barriers, production capacity utilization
 - Social trends, regulations and laws, stakeholders, communities, ...
 - Not possible to evaluate all factors, usually considered just a few (~5) most important. Subsequently factor scoring and weighting → segments prioritization

Attractiveness factors	Weight	Segment 1		Segment 2		Segment 3	
		Score	Total	Score	Total	Score	Total
Growth	25	6	1.5	5	1.25	10	2.5
Profitability	25	9	2.25	4	1.0	8	2.0
Size	15	6	0.9	5	0.75	8	1.2
Vulnerability	15	5	0.75	6	0.9	6	0.9
Competition	10	8	0.8	8	0.8	4	0.4
Cyclicalities	10	2.5	0.25	3	0.3	2.5	0.25
Total	100		6.45		5.0		7.25



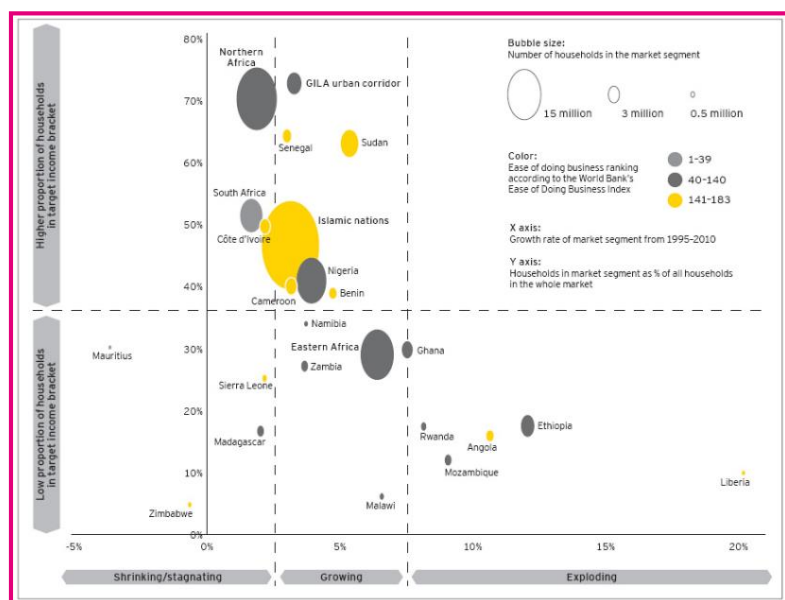
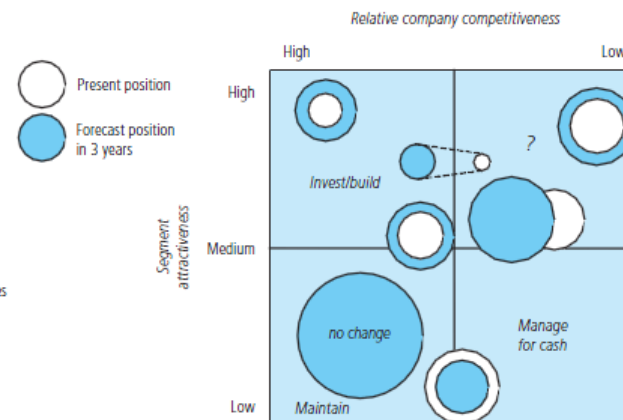
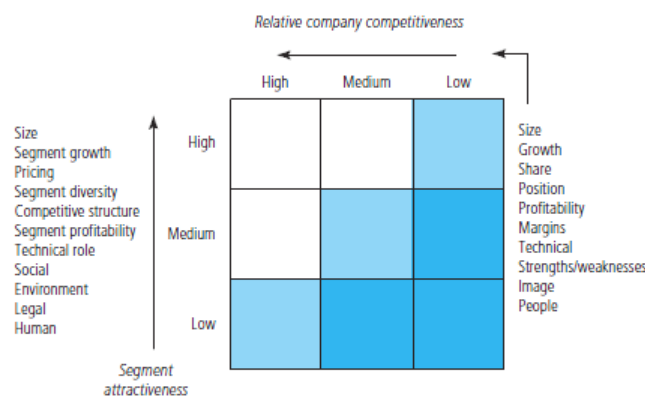
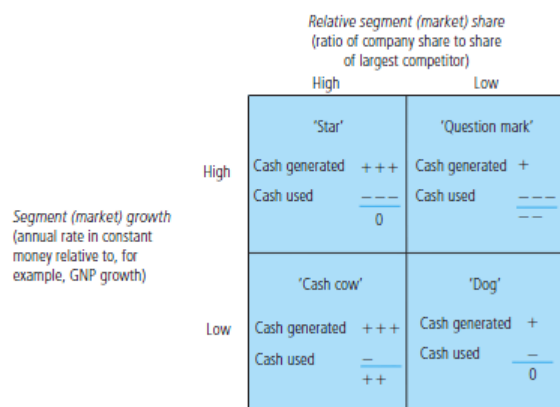
Superconsumers—the top 10% of highly engaged consumers who can drive 50% of category profit—will continue to increase in importance and determine which brands win and which don't. [Why Marketing Needs More Introverts.](#)

Companies that listen to their super-consumers and use their insights to refine their message ultimately grow sales and margins across all segments. These companies aren't trying to convert light users into heavy users. Rather, they're figuring out what it is the super-consumers like so much and then offering it to them. [Tap into Your Super-Consumers](#)

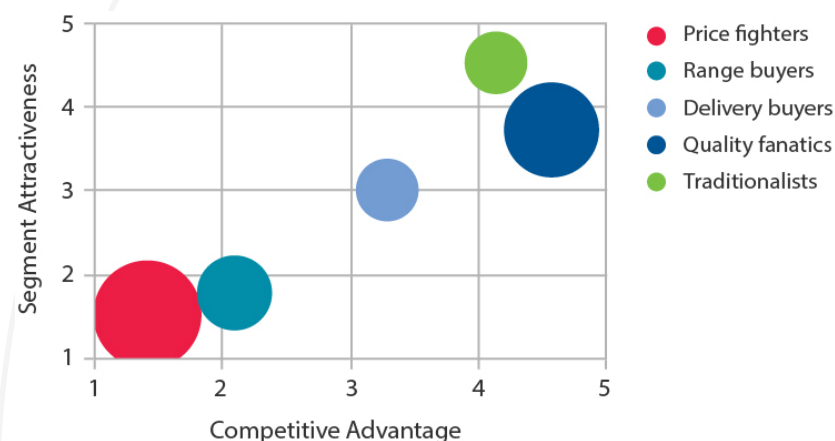
Super Consumers are a key group to unlocking profitable growth in your category. In any category, they are the subset of consumers who drive the most value and are the most heavily engaged in the category. Across the more than 200 categories analyzed, they are the approximately 10% of households that drive 30% of sales, 40% of category growth and 50+% of category profit. [Super Consumers. Who They Are, Why They Matter](#)

Targeting – Tools

- Evaluating segments – similar tools as in [portfolio analysis](#) (BCG, GE, directional policy matrix)
 - Market attractiveness is replaced by segment attractiveness, competitive capabilities are based on DBCs (decisive buying criteria, weighted, scores assigned)
 - Future perspective can be included



Invest/grow Selectivity/earnings Harvest/divest



Market Segmentation in B2B Markets

Segment factors	Competition
<ul style="list-style-type: none"> • Size (money, units or both) • Growth rate per year • Sensitivity to price, service features and external factors • Cyclicalit • Seasonality • Bargaining power of upstream suppliers • Bargaining power of downstream suppliers 	<ul style="list-style-type: none"> • Types of competitors • Degree of concentration • Changes in type and mix • Entries and exits • Changes in share • Substitution by new technology • Degrees and types of integration
Financial and economic factors	Technological factors
<ul style="list-style-type: none"> • Contribution margins • Leveraging factors, such as economies of scale and experience • Barriers to entry or exit (financial and non-financial) • Capacity utilization 	<ul style="list-style-type: none"> • Maturity and volatility • Complexity • Differentiation • Patents and copyrights • Manufacturing process technology required
Socio-political factors	
<ul style="list-style-type: none"> • Social attitudes and trends • Laws and government agency regulations • Influence with pressure groups and government representatives • Human factors, such as unionization and community acceptance 	

McDonald, M., & Dunbar, I. (2004). *Market segmentation: How to do it, how to profit from it*. Butterworth-Heinemann.

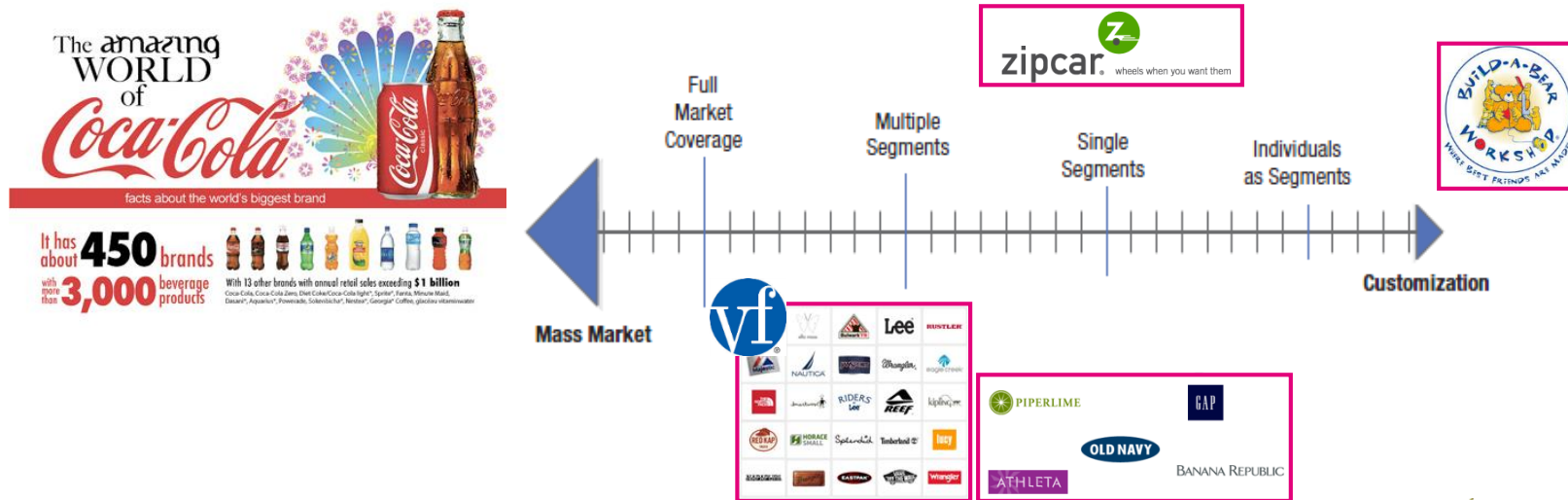
Based on research of UK Times 1000 companies, the three most important criteria for selecting target markets were profitability, market growth, and market size. Likely customer satisfaction, sales volume, likelihood of sustainable competitive advantage, ease of access of business, opportunities in the industry, product differentiation, and competitive rivalry rounded out the top ten criteria.

A decade later, profitability was the number one market selection criterion followed by four frequently cited drivers – market growth, market size, likely customer satisfaction and sales volume.

Brotspies, H., & Weinstein, A. (2017). Rethinking business segmentation: a conceptual model and strategic insights. *Journal of Strategic Marketing*, 1-13.

Decision about Targeted Segments

- Decision about targeted segments – Product-by-Segment Matrix



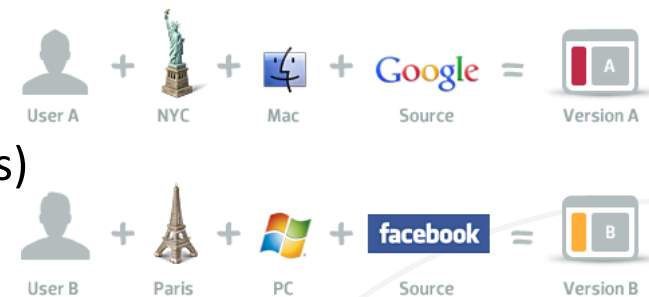
- Recently a boom of behavioral targeting (doesn't work for all cases)



Case study: [Coca-Cola's New Vending Machine \(A\) Pricing to Capture Value](#)

- Evaluation of segments is often included in segmentation frameworks (i.e. PRIZM)

Individual marketing is challenging - in 2012 Lego canceled its service [DESIGN byME](#). The original Design byMe vision was for a unique customization service, where consumers could design whatever they imagined, display it and get the model sent to them in their own LEGO box. Design byMe as a concept attracts several million people each year to build a huge range of amazing creations using the LEGO Digital Designer (LDD) software. Despite this success, the overall Design byMe experience has struggled to live up to the quality standards for a LEGO service. [Design byME to close in January](#)



Product-by-Segment Matrix

- Identification of targeted segments, how the segments are served (by company's products)
- Five approaches can be identified
 - Concentration on one segment (served by one product)
 - Market specialization (satisfy all needs of one segment by multiple products)
 - Product specialization (satisfy needs of multiple segments by one product)
 - Selective specialization
 - Full coverage



Where are opportunities to leverage our product and customer strength?

PRODUCT/MARKET MATRIX

Market size US\$m	>\$500m	Clear Leader
	\$200m-\$500m	One of leaders
	\$50m-\$200m	Follower
	\$10-\$50m	Minor player
	<\$10m	No presence

Products/Services	Segment 1: Hi-tech	Segment 2: FMCG/Retail	Segment 3: Healthcare	Segment 4: Automotive
Shipping				
Inbound logistics				
Outbound logistics				
Inventory management				
Outsourced supply chain				

Reebok

MARKET SEGMENT		PRODUCT									
GENERAL	GROUP WITH NEED	RUNNING SHOES	AEROBIC SHOES	TENNIS SHOES	BASKETBALL SHOES	KIDS SHOES	WALKING SHOES	CROSS-TRAINING SHOES	GOLF SHOES	KIDS TRAXTAR SHOES	ADULT SMART TRAIN DMX SHOES
		(1981)	(1982)	(1984)	(1984)	(1984)	(1988)	(1988)	(1997)	(2001)	(2001)
Performance-oriented 27%	Runners	P						P			P
	Aerobic/fitness exercisers		P					P			P
	Tennis players			P				P			
	Basketball players				P			P			
	Golfers								P		
	Adventure seekers							P			P
Nonathletic-oriented 73%	Walkers	S	S	S	S		P	P			S
	Children					P				P	
	Comfort/Style-conscious	S	S	S	S		S	S			S

Key: P = Primary market S = Secondary market

Targeting based on customer value – RFM score

- RFM (Recency-Frequency-Monetary) – customer value score based on
 - Recency* – How recently did the customer purchase? (if he/she purchased recently, is going to buy again soon?)
 - Frequency* – How often do the customer purchase (number of transaction in monitored period – if buying more often, is going to buy again soon)
 - Monetary* – How much did the customer spend (total/average value or total/average margin – if spending more, is going to buy again soon and again for more]
- Behavioral segmentation (purchase behavior) Pareto rule 80 % of sales is generated by 20 % of customers

Evaluation of parameters (values set and weighted according to the situation)

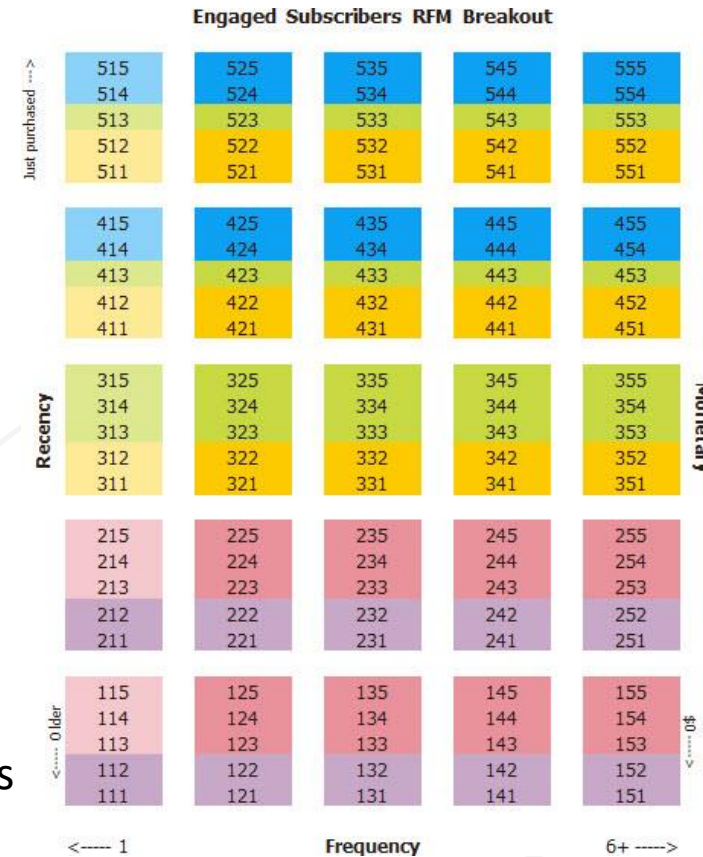
Recency Ranking	Recency (Days since last purchase)	Frequency Ranking	Frequency (number of purchases)	Monetary Ranking	Monetary (amount spent)
5	70 days	5	more than 8 times	5	more than \$ 4000
4	71 - 140 days	4	5-7 times	4	\$ 3000 - \$3999
3	141 - 210 days	3	3-4 times	3	\$ 2000 - \$2999
2	211- 280 days	2	2 times	2	\$1000 - \$1999
1	281 - 365 days	1	once	1	less than \$1000

Subsequently, RFM score is calculated (a matrix for all combinations of RFM)

RFM Cell Score	Customer Information		
	Recency (Days since last purchase)	Frequency	Monetary
555	45 days	10 times	\$4500
451	123 days	9 times	\$950
324	156 days	2 times	\$3600
232	250 days	4 times	\$1650
111	350 days	once	\$500

Targeting based on customer value – RFM score

- RFM score mostly used in mailing campaigns
 - To support the decision who to address with company offerings and to predict the response
 - Optimization of discounts and incentives based on previous behaviors
 - Analysis of marketing tools (what tactics lead to activization of customers with high RFM score)
- Simple and popular among companies
- RFM limitations
 - Just a short-term prediction (long-term behavior cannot be predicted, discounting value)
 - Provides just a limited perspective to customers' behaviors
 - Does not include acquisition costs
 - Does not work for all industries and all types of businesses
 - **RFD** – Recency, Frequency, Duration; **RFE** – Recency, Frequency, Engagement; **RFM-I** – Recency, Frequency, Monetary Value – Interactions; **RFMTC** – Recency, Frequency, Monetary Value, Time, Churn rate



Recommended reading: GUPTA, Sunil et al., 2006. [Modeling Customer Lifetime Value](#). *Journal of Service Research*, 9(2), str. 139-155

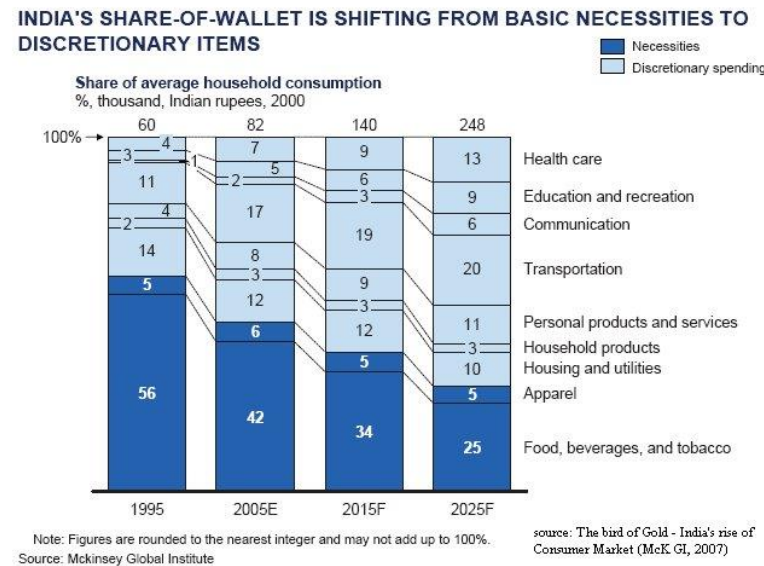
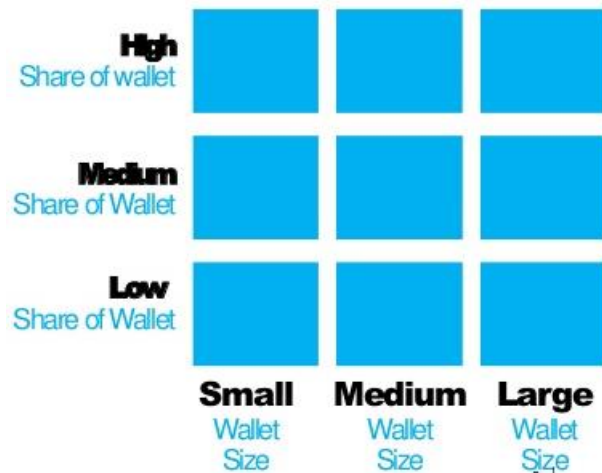
FADER, Peter S., Bruce G. S. HARDIE a Lee Ka LOK, 2005a. [RFM and CLV: Using Iso-Value Curves for Customer Base Analysis](#). *Journal of Marketing Research*, 42(4), str. 415-430.

MUTYALA, Sridhar, 2015. *Using RFM to Identify Your Best Customers*. <http://www.eightleaves.com/2011/01/using-rfm-to-identify-your-best-customers>

Targeting based on customer value – SoW

• Share of Wallet

- How much of a customer's expenses for a product or service goes to a specific company compared to his total expenses
- Can compare expenses on a specific product or product category, spending in a shop, etc.
- Captures changes in consumers' behavior
- Can include "the size of the wallet" – wallet matrix



Recommended reading: TIMOTHY, L. K.; LERZAN, A.; ALEXANDER BUOYE, Bruce Cooi. [Customer Loyalty Isn't Enough Grow Your Share of Wallet](#). *Harvard Business Review*, 12/2011

- Limitations - low correlations between loyalty and SoW – Wallet Allocation Rule includes loyalty perspective

1 Establish the number of brands (or stores or firms) customers use in the product category you want to analyze. Let's say that Stuart, Mary, and Joe all buy Acme, Mega, and Brand X detergent.

2 Survey customers and obtain satisfaction or other loyalty scores for each brand; convert the scores into ranks. In the case of a tie, take the average—for instance, if two teams tie for first place, assign each a rank of 1.5.

The chart below shows the ranks of the three detergents according to the satisfaction scores provided by Stuart, Mary, and Joe.

	ACME	MEGA	BRAND X
STUART	3	1	2
MARY	3	2	1
JOE	3	1	2

3 To arrive at a brand's share of wallet for a given customer, plug the brand's rank and the number of brands into the Wallet Allocation Rule formula:

$$\text{SHARE OF WALLET} = \left(1 - \frac{\text{RANK}}{\text{NUMBER OF BRANDS} + 1}\right) \times \left(\frac{2}{\text{NUMBER OF BRANDS}}\right)$$

Stuart's share of wallet for Acme detergent:

$$\begin{aligned} & \left(1 - \frac{3}{3+1}\right) \times \frac{2}{3} \\ &= (1 - 0.75) \times 0.67 \\ &= 0.25 \times 0.67 \\ &= 0.1675, \text{ ROUNDED TO } 17\% \end{aligned}$$

Repeat the calculation for each customer and brand. To obtain a brand's overall share of wallet, take the average of all customers' share-of-wallet scores.

	ACME	MEGA	BRAND X
STUART	17%	50%	33%
MARY	17%	33%	50%
JOE	17%	50%	33%
BRAND SHARE OF WALLET	17%	44%	39%

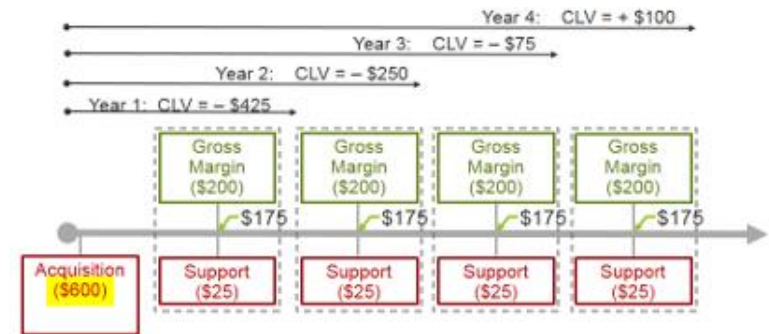
Targeting based on customer value – CLV

- Prediction of the net profit attributed to the entire future relationship with a customer
 - Can calculate with nominal or discounted values
 - Consumer Relationship Management

$$CLV = \{GC * \sum_{i=0}^n [r^i / (1 + d)^i]\} - \{M * \sum_{i=1}^n [r^{i-1} / (1 + d)^{i-0.5}]\}$$

Basic model, includes just one purchase/year, acquisition and retention costs are constant, as well as net profits

- Extended models include more (less) frequent purchases (i.e. monthly subscription or car leasing), variable acquisition/retention costs and net profit
- Limitations and problems
 - Hard to calculate acquisition and retention costs per customer (marketing costs/number of customers?)
 - Not including acquisition costs for current customers (PCV – past customer value)
 - High spending customers may not generate the highest profit (high acquisition/retention costs)



CLV – Customer Lifetime Value

GC – yearly gross contribution per customer

n – horizon (in years)

r – yearly retention rate

d – yearly discount rate

M (relevant) retention costs per customer per year

Tools to calculate CLV - [How Valuable Are Your Customers?](#)

Targeting based on customer value – CLV

- Extended model can be used as a basis for dynamic pricing – to predict customers' price sensitivity and its influence on customers' retention
- Allows comparison of quite different customers (i.e. customer buying large volumes once a year vs small customer buying small volumes several times a year) and calculation of maximum acquisition/retention costs

CALCULATING

Lifetime Value

A CASE STUDY »

One way to analyze acquisition strategy and estimate marketing costs is to calculate the Lifetime Value ("LTV") of a customer. Roughly defined, LTV is the projected revenue that a customer will generate during their lifetime. In this graphic we'll briefly cover how to calculate LTV and how to use LTV to help solidify your marketing budget. Special thanks to [@avinash](#).

Case Study: Starbucks

» Despite the shaky economy, Starbucks is opening new stores around the world. In 2012, Starbucks expects to open 600 new locations internationally, about 25 percent of which will be in China. It's no secret that Starbucks' acquisition strategy is closely scrutinized and routinely copied. Using rough sales figures from 2004, we're able to estimate the LTV of an average Starbucks customer. The sales data from Starbucks may not reflect current marketing trends, and is only provided to illustrate the steps necessary to calculate LTV.



Step 1: Average Your Variables

CUSTOMER EXPENDITURES PER VISIT



AVG. ACROSS 5 CUSTOMERS (IN USD)

→ **5.90** → (s)

NUMBER OF VISITS PER WEEK (THE "PURCHASE CYCLE")



AVG. ACROSS 5 CUSTOMERS

→ **4.2** → (c)

AVG. CUSTOMER VALUE PER WEEK (EXPENDITURES × VISITS, IN USD)



AVG. ACROSS 5 CUSTOMERS (IN USD)

→ **24.30** → (a)



Step 2: Calculate Lifetime Value (LTV)

CONSTANTS

- t** The Average Customer Lifespan (how long someone remains a customer). In the case of Starbucks, the average customer lifespan is **20 years**.
- r** Customer Retention Rate. The percentage of customers, who, over a given period of time, repurchase, when compared to an equal and preceding period of time. Starbucks: **75%**.
- p** Profit Margin per Customer. Starbucks: **21.3%**.
- i** The Rate of Discount. The "rate of discount" is the interest rate used in discounted cash flow analysis to determine the present value of future cash flows. Usually this number falls between 8% and 15%. Starbucks: **10%**.
- m** Avg. Gross Margin per Customer Lifespan. Starbucks has a profit margin of 21.3% (see constant "p"). If the average customer spends \$25,272 (see the "Simple LTV Equation" results below) during their time as a customer ("t"), Starbucks has gross margin per customer lifespan of **\$5382.94**.

DIFFERENT WAYS TO CALCULATE LTV

Companies like Starbucks will typically use **several different equations** to calculate the LTV. We've included 3 common LTV equations below. Companies will typically use these equations (separate or in combination) to help determine their marketing budgets, and, ultimately, the cost of acquisition.

SIMPLE LTV EQUATION

$$52(a) \times t$$

EQUATION FILLED

$$52(24.30) \times 20$$

CALCULATED LTV

\$25,272

CUSTOM LTV EQUATION

$$t(52 \times s \times c \times p)$$

EQUATION FILLED

$$20(52 \times 5.90 \times 4.2 \times 0.213)$$

CALCULATED LTV

\$5,489

TRADITIONAL LTV EQUATION

$$m \left(\frac{r}{1 + i - r} \right)$$

EQUATION FILLED

$$5382.94 \left(\frac{0.75}{1 + 0.1 - 0.75} \right)$$

CALCULATED LTV

\$11,535

Breaking Down LTV Further

LTV WILL BE DIFFERENT FOR DIFFERENT KINDS OF CUSTOMERS

Step 2 in this graphic is intended to help you determine LTV as a total average (an average of all your customers). To do this, companies will typically average the data from randomly chosen customers (as shown in Step 1 above). Sometimes it's helpful to break down the average further and perform separate LTV calculations for different kinds of customers. Try and segment your customer base by total purchases over a long time period, and it will help you determine the LTV of a "good" customer versus an "average" one. This type of analysis will help you determine how much more you should pay in order to acquire a "good" customer. See chart below.

INVESTING IN "GOOD" CUSTOMERS

Companies should be worried about the lasting impact of "buying cheap customers." How likely are these customers to buy another product, or hang around for a few years? Sometimes it pays to invest in "good" customers. "Good" customers might cost more to acquire, but they'll likely be more profitable as well.

Let's say that the LTV of an "average" customer is \$8,000, and the LTV of a "good" customer is \$10,000. By subtracting the two LTVs, you can see that you might expect to pay \$2,000 more to acquire "good" customers.



Recommended reading: BERGER, Paul D.; NASR, Nada I. Customer lifetime value: Marketing models and applications.

Journal of interactive marketing, 1998, 12.1: 17-30.
JAIN, Dipak; SINGH, Siddhartha S. Customer lifetime value research in marketing: A review and future directions.

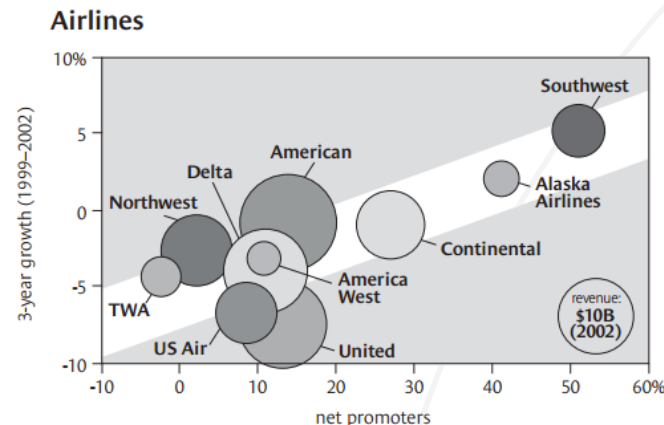
Journal of interactive marketing, 2002, 16.2: 34-46.

Targeting based on customer value – NPS

- Net Promoter Score
 - Simple (but powerful?) metrics measuring the likelihood that the customer would recommend to a friend or colleague.
 - A satisfied customer spends more and spreads actively positive Word-of-Mouth
 - Transforming customers to promoters

Doporučené čtení: REICHHELD, Frederick F. [The One Number You Need to Grow](#). *Harvard business review*, 12/2003

- Some studies confirm the relation between company growth and the share of promoters



- Misinterpretations?
 - Studies addressed sales not profits
 - Turning customers to promoters may be extremely expensive (not worth it)
 - Cultural bias (6-7 a 8-9 rankings on the scale may have different meanings in different cultures)

Recommended reading: REICHHELD, Frederick F. BENDLE, Neil T.; BAGGA, Charan K. The Metrics That Marketers Muddle. *MIT Sloan Management Review*, 2016, 57.3: 73.



Conny's example looked purely at revenue generated by the individual themselves, and clearly showed that Promoters spend more than Detractors and so it makes good business sense to improve your NPS. Looking at expenditure on LEGO, over the same time period customer spend was as follows:

- Promoters spent 208 Euros
- Fence Sitters spent 165 Euros
- Detractors spent 136 Euros



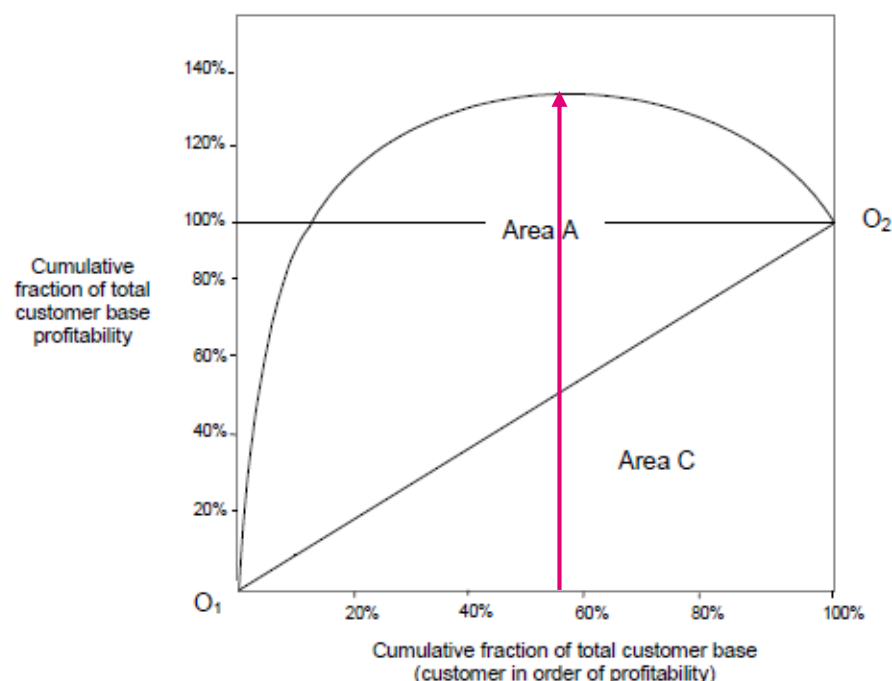
So, for LEGO, a Promoter will spend 53% more on their product than a Detractor. He considered not just direct spend that the individual makes on the product, but the total contribution they make to the brand – including from recommending others (or indeed otherwise). When looked at like this, the average lifetime value for the network providers was as follows:

- Each Promoter brings an additional \$693 in revenue
 - Each Detractor is responsible for \$1,495 in lost revenue
- So the difference between a Promoter and a Detractor was almost \$2,200.

[THE NET PROMOTER SCORE AND THE VALUE OF PROMOTERS](#)

Evaluation of segment profitability

- Pareto Rule – not all segments generate (the same) profit
- Analysis of profit distribution among segments – Stobachoff curve
 - X axis – segments (sorted by profits from the most profitable)
 - Y axis – cumulative profit



The example: profitable customers represent just about 60 % of all customers. Profitable customers subsidize unprofitable segments.

Should the unprofitable segments be served – a complicated question (may help to achieve experience effect, economies of scale, or such segments may be important influencers)

All segments are profitable, all segments are similar in terms of profit. Optimal distribution

Just a few highly profitable segments that subsidize a large number of unprofitable segments. Risky strategy

	Low Subsidizing	High subsidizing
Low Dependence (Many profitable customers)	High % of profitable customers. Little or no subsidizing 	High % of profitable customers. Significant subsidizing of a small number of customers.
High Dependence (Few Profitable Customers)	Low number of profitable customers. Unprofitable customers are not highly unprofitable. 	Low number of profitable customers with some highly unprofitable customers.

A high share of profitable customers, some segments remain unprofitable. The situation can be improved

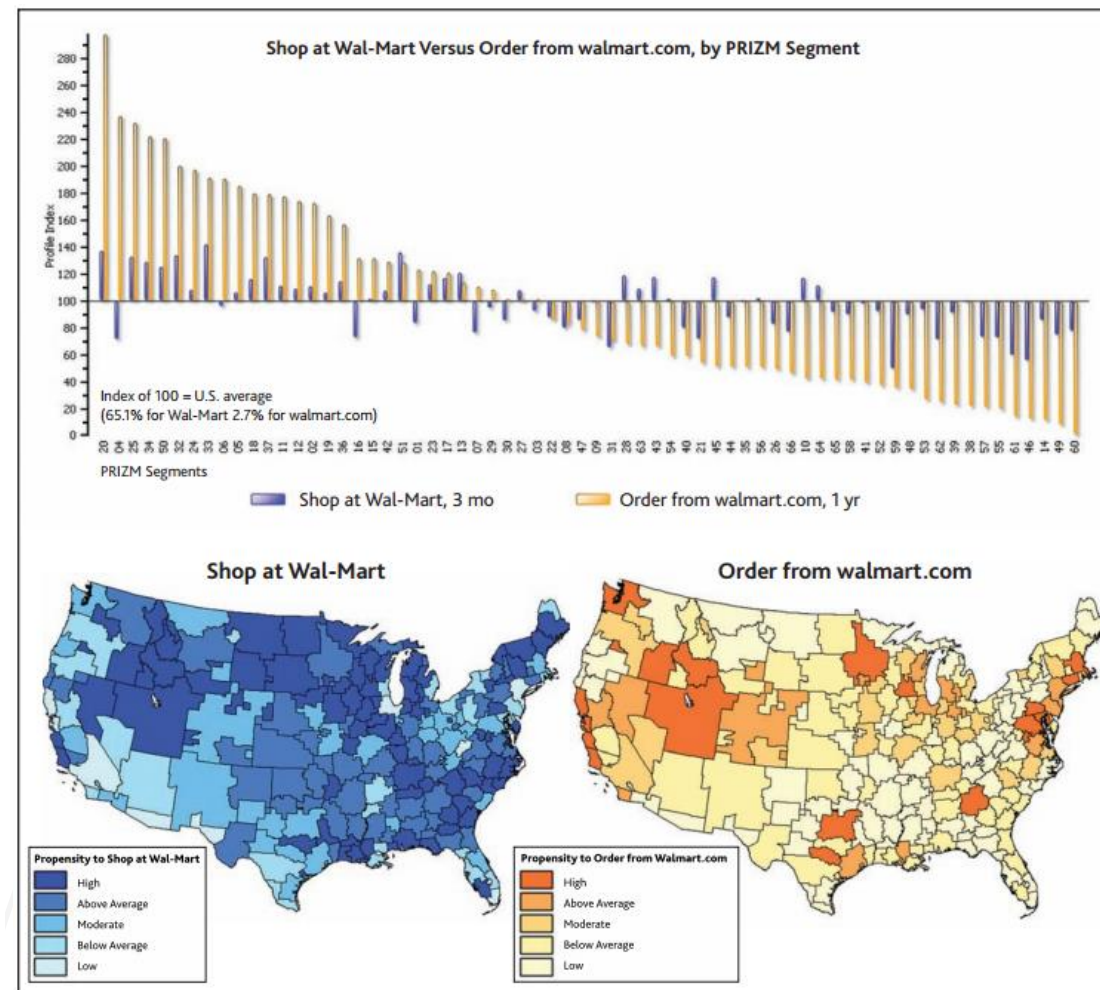
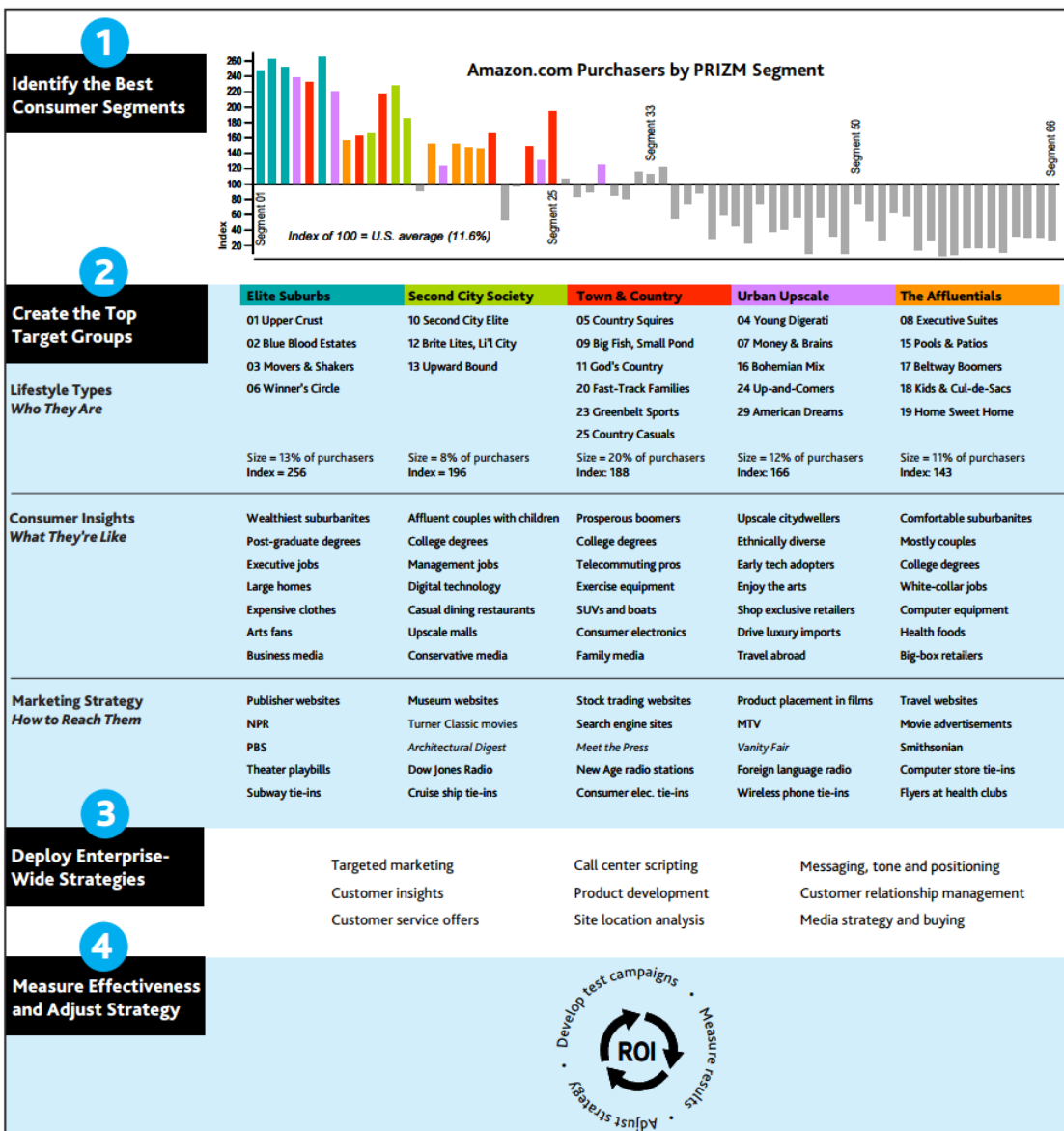
Just a few highly profitable segments, quite high number of unprofitable customers. Very risky strategy

Stobachoff index 0 – all segments are profitable

Stobachoff index ~1 - the company profits depend just on a few segments

Targeting – segmentation frameworks

- PRIZM Target Segment Index (TCI)



Consumer segmentation shows that the best customers for a retailer's brick-and-mortar stores may be very different from its best online shoppers. According to the bar chart displaying Nielsen PRIZM segments, Wal-Mart's most loyal fans are found in midscale and working-class exurban segments like New Homesteaders (32) and Big Sky Families (33), and the company should prospect for new customers in the dark blue areas in the map on the left. To expand the customer base for walmart.com, however, the company should focus on younger, metro segments like Young Digerati (04) and Fast-Track Families (20) in the dark orange markets in the right map. And to increase the most loyal customers—who shop at both Wal-Mart and walmart.com—the company should design cross-channel marketing and merchandising initiatives to segments like Mayberry-ville (37) and Shotgun & Pickups (51).

Sources: Nielsen PRIZM, Mediarm Research & Intelligence.

Targeting

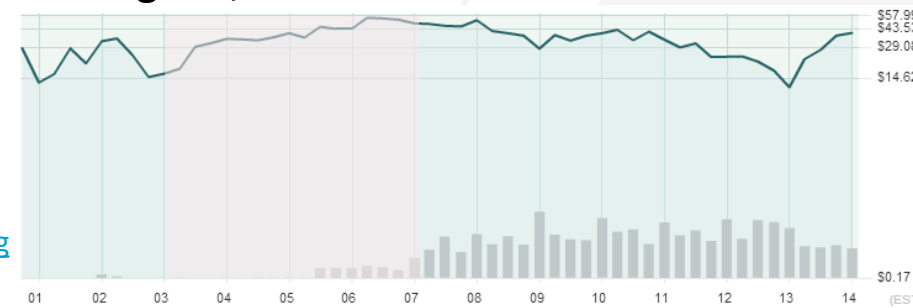


- Is there such think as a bad customer?
 - Best Buy – US electronics retailer (more than 1 400 stores in US), in TOP10 US retailers
 - V 2002 customers behavior and segmentation analysis – 20 % of customers (angels) generated the bulk of the profit, snapped up HDTVs, portable electronics, and newly released DVDs without waiting for markdowns or rebates
 - In contrast another 20 % of customers (100 million customers that visit Best Buy stores every year) represents “demons” – bargainers, loading on loss leaders and flipping the goods on eBay, frequent goods returns,...
 - Analysis revealed that the angels fell into eight groups of typical Best Buy shoppers each with unique needs and spending habits
 - “Barrys,” high-income men; “Jills,” suburban moms; “Buzzes,” male technology enthusiasts; “Rays,” young family men on a budget; or “Charlies and Helens,” empty nesters with money to spend.
 - Embracing the Angels – stores and services redesign, stocking more products, better services (Geek Squad), Reward Zone loyalty program,
 - Ditching the Demons – reduced promotions, restocking fee, ...

(2009) Best Buy's consumer preference rating reached 35 % last month up from 31 % year over year, while Wal-Mart, reached 20 % from 18 %.

[Trailing Best Buy and Wal-Mart, Target Gaining in Electronics Sales](#)

Today – a completely different story – [Why Best Buy is Going out of Business... Gradually](#), [Survey: Best Buy And Walmart Are Most Popular Stores For Showrooming](#)



Targeting

- Own segmentation analysis – introducing ClubCard – to create a „DNA profile“ based on customer's behavior. 40 different dimensions
 - Based on the collected data, each ClubCard owner receives a personalized vouchers (4 million different combination just in UK)
 - Consumer behavior analysis reveals the responses to various promotions, price sensitivity, etc.
 - Tesco utilizes the data to select new stores locations and types
 - Six types of stores (Tesco Extra, Tesco Superstores, Tesco Metro, Tesco Express, One Stop, and Tesco Homeplus)
 - Private labeling (Finest, Mid-range, Value)
 - Other services (mobile carrier, credits and loans, ISP, ...)
- Market share growth up to 30 % (UK), second largest retailer worldwide (after Walmart), KPIs growth
- Careful and detailed segmentation important even for FMCG and mass markets



TESCO Bank



F6

Vysoká škola
ekonomická v Praze
Fakulta managementu

fm.vse.cz

Positioning

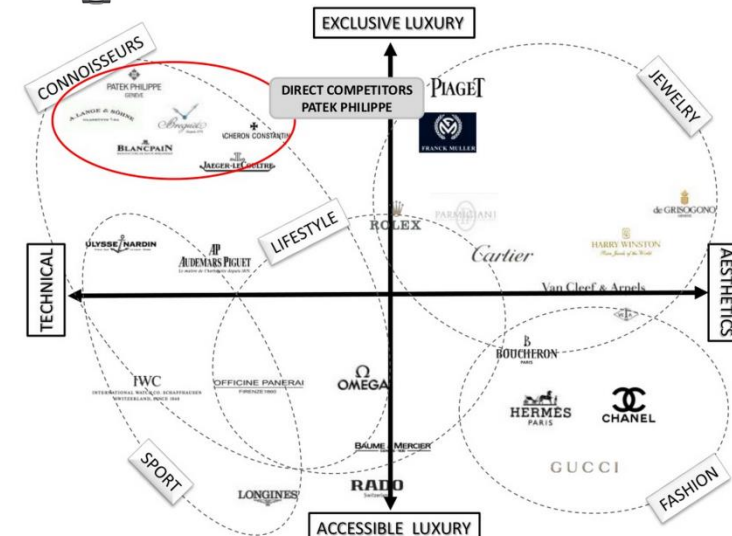
Positioning

- Segmentation, targeting, and positioning together comprise a three stage process
- Positioning involves implementation of targeting
- Based on company's competitive advantage
- The way, how the product is defined in the minds of customers in comparison with competing products
 - Customers are overwhelmed by the amount of information available
 - Cannot consider all product features and characteristics – they constantly arrange products in mind into certain categories and define them against each other
 - Differences between product positioning may or may not be based on physical differences, feelings, impressions, perceptions (could) play also an important role
 - Companies claim position of the product through brand

Aspects / Brands	MORGAN	PORSCHE
Domain	Luxury Sports Cars	Luxury Sports Cars
Heritage	Family Design Innovation Craftsmanship Racing Performance	Family Engineering Performance Racing
Values	Performance and Tradition	Performance and Modernity
Assets	Uniqueness Classic Design Tailored	Exclusivity Modern Design Width and Depth
Personality	Gentleman James Bond	Playboy Bud Fox (Wall Street 1)
Reflection	Timeless elegance	Power



How Patek Philippe can sell the cheapest watch for 10 000 USD (and the most expensive over a million)?



The Ritz-Carlton is a place where the genuine care and comfort of our guest is our highest mission.

We pledge to provide the finest personal service and facilities for our guests, who will always enjoy a warm, relaxed yet refined ambiance. The Ritz-Carlton experience enlivens the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests.

Positioning



- Optimally top-of-mind awareness - when you say ... the customer will think of ... It may as well be local Czech beer
- It happens all the time, with/without the support of company's marketing Best burger in Prague
- Can be based on various aspects
 - Nature of product/product line
 - Product quality or performance
 - Price
 - Distribution network, channels
 - Marketing communications
 - Use or users
 - ...
- Always based on competitive advantage



Walmart – save money, live better
Competitive advantage is based on a comprehensive distribution network and company's own logistics – allows to operate with lower costs than competition



Audi – Vorsprung durch Technik
Audi wanted to join the German premium club (BMW, Mercedes) in 80s. The emphasis on technical innovation and drivability. Introducing the [Quattro](#) technology (1986)

- Creating a Unique Selling Proposition (USP)
 - Not necessarily just a single USP (but customers usually remember just the most prominent)
 - Can vary according to the targeted segments



Honda in Japan
Sporty, for youngsters, high-tech
Honda in US
Daily use, suburban, ...

Unique Selling Proposition

- USP must be
 - Important – delivers benefits/value to the customers
 - Distinctive – no competitor has the same offerings
 - Superior – the difference is superior to competing products
 - Communicable – can be communicated (and understood) and is visible to the customer
 - Pre-emptive – can't be copied easily (difficult on [hypercompetitive markets](#))
 - Affordable – buyers can pay for it
 - Profitable – company makes profit on it

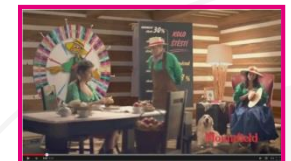
- 4C's of positioning
 - Clarity – focused, makes sense to the audience
 - Compelling – based on something the target audience actually *cares about*?
 - Credible – believable
 - Contrasting - contrasts the company enough with its biggest competitor?



Renault Fluence – positioning as a limousine? [In India yes.](#)



[Volkswagen Loses A Staggering \\$6.25 Million On Each Bugatti They Sell](#)



[Wal-Mart's Ongoing Fashion Struggle](#)

[Dell Streak vs Samsung Note - The Perils of Poor Product Positioning](#)



What are the nano-particles good for?

[Bottled water has become liquid gold](#)

"When you held a Perrier bottle up, it said something about yourself, it said you were sophisticated"... It was a perfect beverage for the young up and coming business executives, the trend-setters."

Limited editions of Evian bottles designed by [JP Gaultier](#)



Customer Value Proposition (CVP)

- Positioning based on CVP

Customer Value Proposition (CVP)

- Target customer**
- Job to be done** to solve an important problem or fulfill an important need for the target customer
- Offering**, which satisfies the problem or fulfills the need. This is defined not only by what is sold but also by how it's sold.

PROFIT FORMULA

- Revenue model** How much money can be made: price x volume. Volume can be thought of in terms of market size, purchase frequency, ancillary sales, etc.
- Cost structure** How costs are allocated: includes cost of key assets, direct costs, indirect costs, economies of scale.
- Margin model** How much each transaction should net to achieve desired profit levels.
- Resource velocity** How quickly resources need to be used to support target volume. Includes lead times, throughput, inventory turns, asset utilization, and so on.

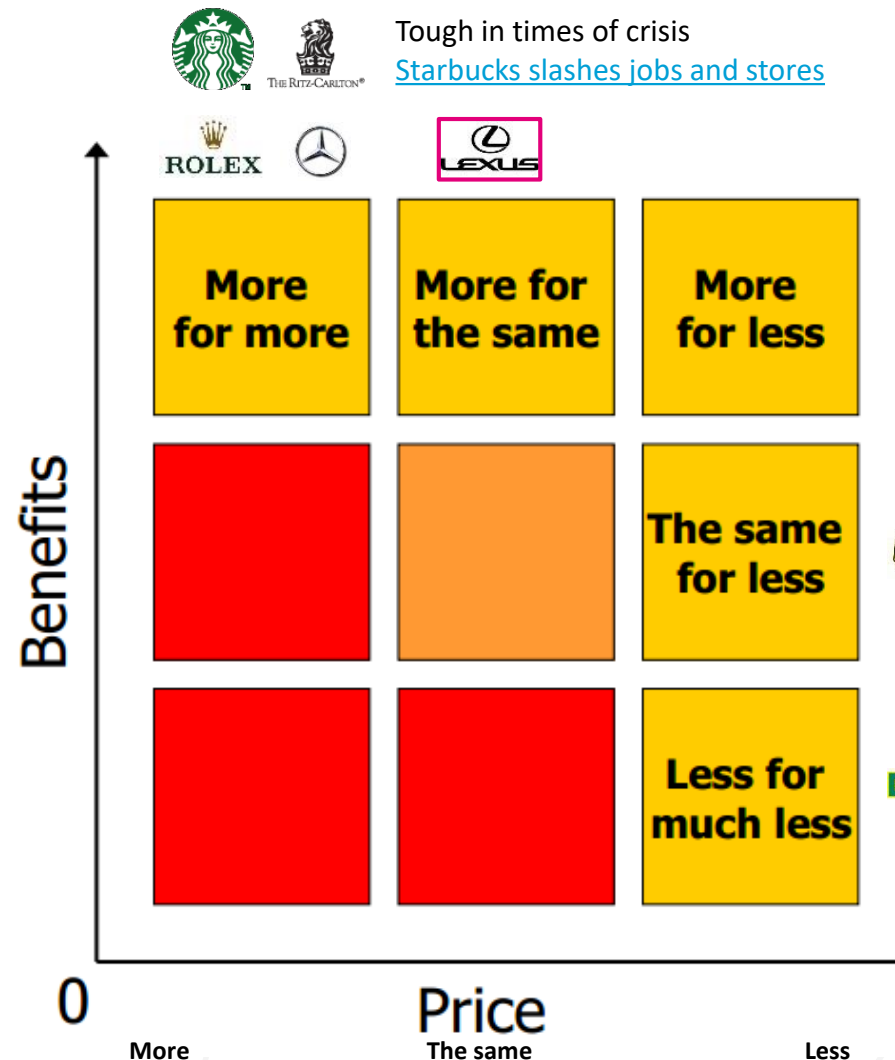
KEY RESOURCES

needed to deliver the customer value proposition profitably. Might include:

- People
- Technology, products
- Equipment
- Information
- Channels
- Partnerships, alliances
- Brand

KEY PROCESSES, as well as rules, metrics, and norms, that make the profitable delivery of the customer value proposition repeatable and scalable. Might include:

- Processes:** design, product development, sourcing, manufacturing, marketing, hiring and training, IT
- Rules and metrics:** margin requirements for investment, credit terms, lead times, supplier terms
- Norms:** opportunity size needed for investment, approach to customers and channels



Where is the truth?
Long-term sustainability?

Related closely to business model

Recommended reading : JOHNSON, Mark W.; CHRISTENSEN, Clayton M.; KAGERMANN, Henning. [Reinventing your business model](#). *Harvard business review*, 12/2008

Concerns B2B markets as well!

Recommended reading: ANDERSON, James C.; NARUS, James A.; VAN ROSSUM, Wouter. [Customer value propositions in business markets](#). *Harvard business review*, 3/2006

Positioning Statement

- Summarizes the positioning



Mercedes-Benz

Engineered like no other car in the world



The only business school that trains managers who are global, cross-functional, good leaders, and leveraged by technology



The short-haul, no-frills, and low-priced airline



We are only Number 2, but we try harder



THE RITZ-CARLTON®

We are Ladies and Gentlemen serving Ladies and Gentlemen

[4 Steps To Building A Compelling Value Proposition](#)

How to distinguish yourself from the competition to be sure you have a preferred place in your target customer's mind

You know who you are. But do your customers? Are you who you were last year? If not, have you communicated how you've changed?

Many emerging growth companies struggle with how to position their companies and communicate what they stand for. If you don't do it right, the market doesn't know whether to buy from you, whether you have the knowhow it seeks, or whether you'll follow through and meet its needs.

Positioning is the process of distinguishing yourself from competitors in specific ways in order to be the preferred provider for certain market segments. It's the act of designing your company's offer and image so it occupies a distinct and valued place in the targeted customer's mind. The main benefit of clear positioning is that it controls how the market perceives you and helps make your products and/or services more attractive. [The Power of Positioning](#)

Alternatives to Positioning and Product Life Cycle Extension

- Reverse positioning

Recommended reading: MOON, Youngme. [Break free from the product life cycle](#). *Harvard Business Review*, 5/2005
MORSE, Gardiner [When Customers Will \(Willingly\) Pay More for Less](#)

- Stripping away features consumer expects in (a mature) product
- IKEA – in-store sales support, assembly; Starbucks – decaf, online banks – no branches, online banking

Most players in a category continually augment their value proposition because they assume customers can never be fully satisfied. Reverse positioners, however, assume that although customers do want something more than the baseline product, they don't necessarily want an endless parade of new features. Such firms make the heretical decision to step off the augmentation treadmill, shedding product attributes the rest of the industry considers sacred. Once a product is returned to its baseline state, reverse positioners supplement the stripped-down product with one or more carefully selected attributes that would typically be found only in a highly augmented product. This unconventional combination of attributes allows the product to assume a new competitive position within the category and move backwards from maturity into a growth position on the life cycle curve.



- Breakaway positioning

- Combining features of products in distinct categories
- SWATCH – cheap watches as fashion accessories; The Simpsons – adult cartoon

With reverse positioning, a product establishes a unique position in its category but retains its clear category membership. With breakaway positioning, a product escapes its category by deliberately associating with a different one. Marketers leverage the new category's conventions to change both how products are consumed and with whom they compete. When a breakaway product succeeds in leaping out of its category and into a new one, it can redefine its competition.



- Stealth Positioning

- Associating product with a category consumers embrace more

Sony AIBO – rather than (limited) household aide positioned as a lovable pet

Companies that use stealth positioning adopt a covert approach. They conceal the true nature of their products by affiliating them with a different category. This is a powerful strategy for marketers when a category is in some way tainted. Consumers may feel intimidated by products in the category (as can be the case with new technologies); they may be skeptical of the products because previous offerings have failed to live up to expectations; or they may have personal objections to products or companies in the category. By using stealth positioning, companies can, in effect, sneak products into the market and gain acceptance that might otherwise prove elusive. [In Japan, robot dogs are for life - and death](#)

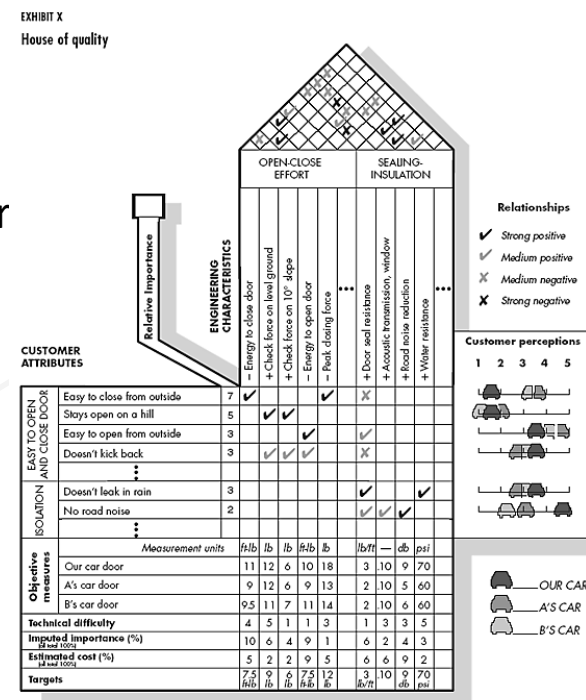


Becherovka liquor
used to be sold as a
medicine with a story that it has been invented by a pharmacist. Much more successful on the market than a liquor

Determining what characteristics customers embrace at most (in comparison to competing products) is an integral part of product design process and all company internal processes as well

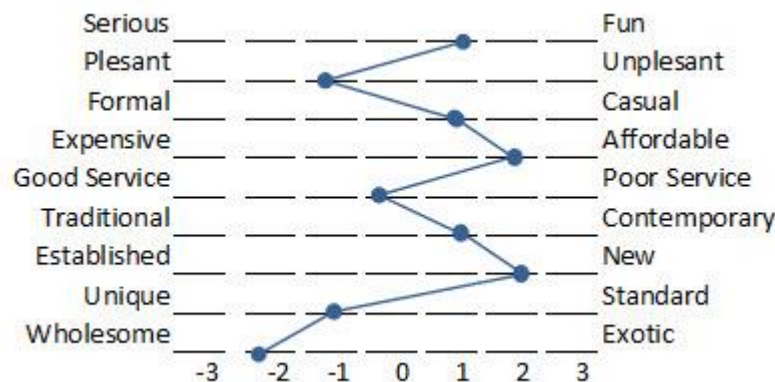
Positioning and Marketing Research

- Measuring opinions and attitudes towards the products
- May be related to
 - Use of the product – satisfaction (how the product solves customer issues), hierarchy of needs, motivations (to use product)
 - Product benefits (utility) – expectations, who decides about purchase, characteristics and benefits
 - Product image
- Semantic differential, perceptual maps, multidimensional scaling, C-D maps, ...
- Semantic differential in marketing
 - A set of important (identified by pre-survey) criteria (usually 10–25)
 - Expressed as bipolar adjectives (bipolar but not binary!)
 - Analysis at the items level – polarity profile
 - Global evaluation in semantic space



Recommended reading: MINDAK, William A., 1961. [Fitting the Semantic Differential to the Marketing Problem](#). *Journal of Marketing* 25(4), p. 28–33

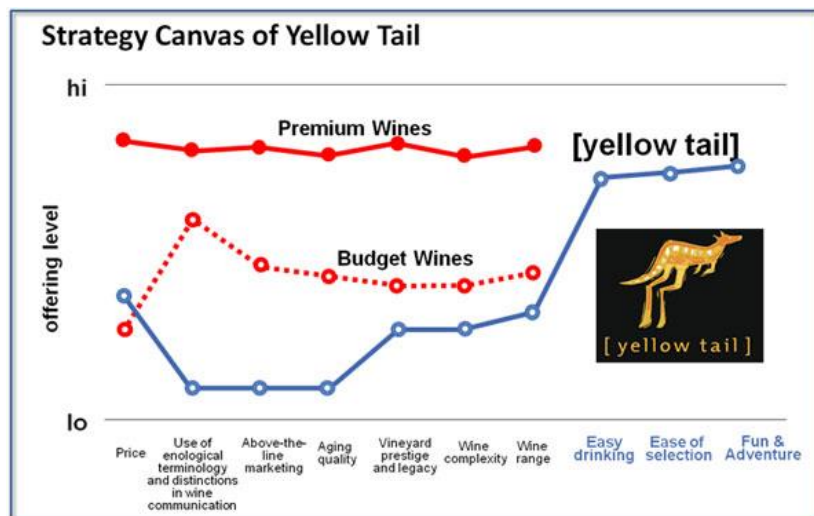
How to use semantic differential in marketing



Not just a bipolar adjectives but also alternative scales are often used

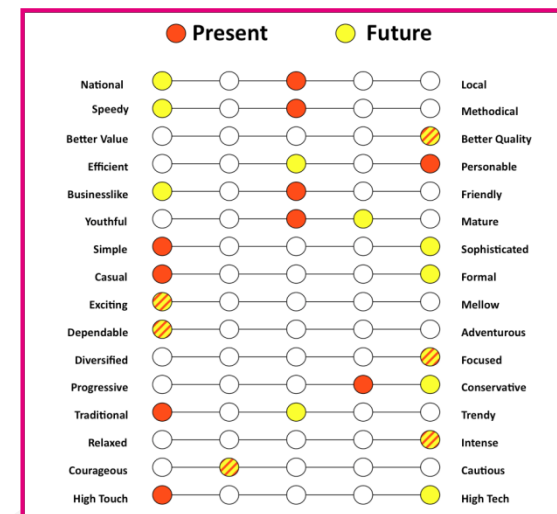
Cleans pots and pans without scrubbing	○ ○ . . ○ ○					Have to scrub to get pots and pans clean						
	Definitely Agree	Probably Agree	Probably Do Not Agree	Definitely Do Not Agree								
Rinses off easily	4	3	2	1								
A modern product	Absolutely True ()	Mostly True ()	Somewhat True ()	Somewhat False ()	Mostly False ()							
Sprays on easily	True	10	9	8	7	6	5	4	3	2	1	Not True
My kind of product												

Positioning and Marketing Research

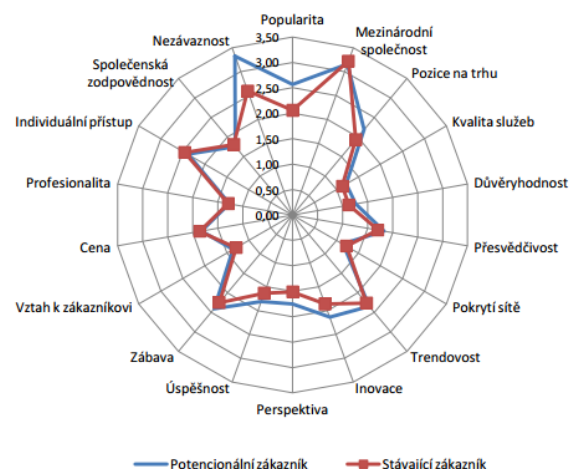


[Constellation Brands Survey](#) - a large segment of those who are overwhelmed by so many wines on the shelves. – Opportunity for Yellow Tail – clearly distinguishable (label), no wine varietal emphasized, easy drinking wine. [Blue Ocean Strategy](#) – new product dimensions created

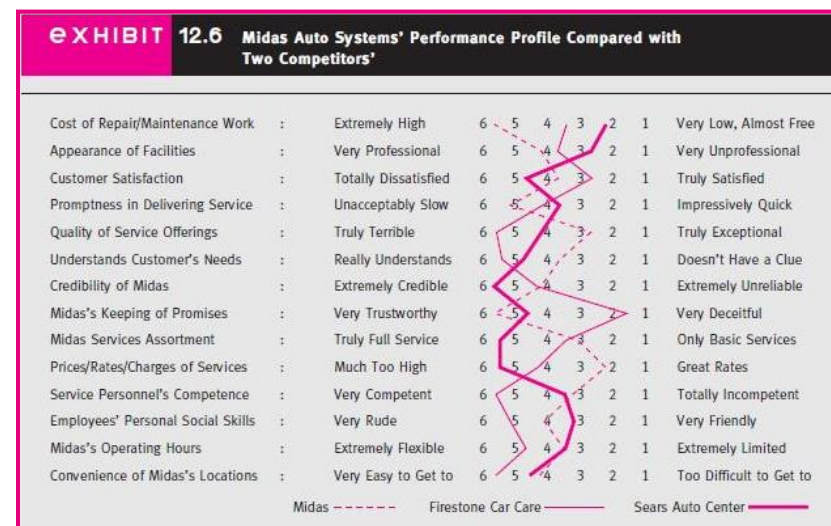
Present–future positioning



Leavy, B. (2005). Value pioneering-how to swim in your own ocean. *Strategy & Leadership*, 33(3).



Analýza tržních nik, hledání potenciálu
Fackenbergová, L. Vnímání a hodnocení značky vybrané společnosti. Diplomová práce. Ekonomická fakulta JČU. 2010



Semantic differential ≠ Likert scale

The color blue makes me feel...

Sad ○ ○ ○ ● ○ ○ ○ ○ Happy

The color blue makes me feel sad.

N/A ● Strongly Disagree ○ Disagree ○ Neither Agree or Disagree ○ Agree Strongly ○ Agree

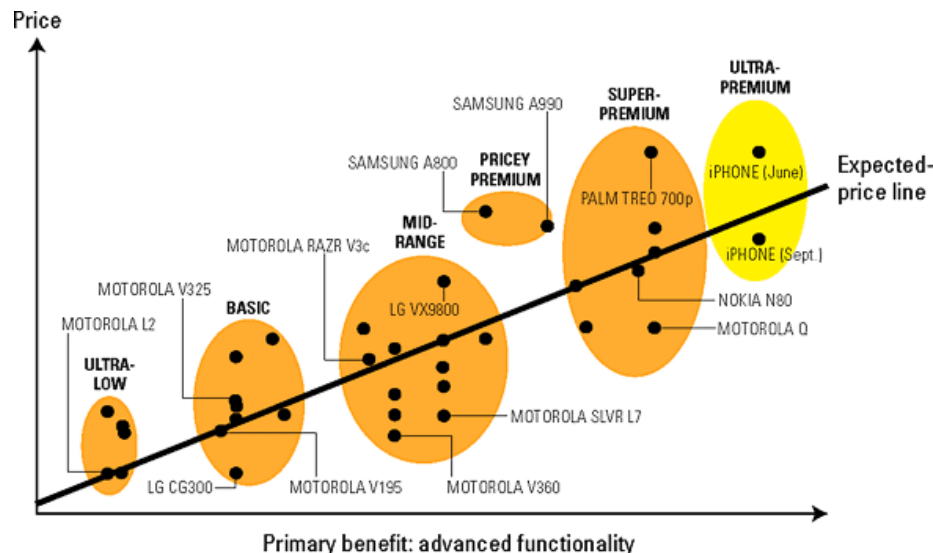
Can be mean values calculated from either Likert scales or Semantic differential scales?

Likert scale is ordinal but semantic differential scales are interval variables

Positioning and Marketing Research

- Perceptual mapping
 - Visually display the perceptions of customers in two(more)-dimensional space
 - Dimension (axis) represents key characteristics of the product (Decisive Buying Criteria identified by previous marketing research)
 - One dimension is often price – price-benefit map
 - Size of the point – market share

I decided to conduct a three-year historical analysis of the 1,700 restaurants in the city on which Zagat, the restaurant guide, had data. **The primary driver of variations in food prices wasn't restaurants' locations or the type of cuisine, as one might expect.** It was a composite factor I called **"customer experience"**—the extent to which the decor, the taste of the food, and the service satisfied customers. **That explained 73% of the variation in prices**, whereas cuisine accounted for a mere 3.5% and location just 2.5%. Other features, such as outdoor tables and dancing, were each responsible for only 1% of the differences in price. [Mapping Your Competitive Position](#)



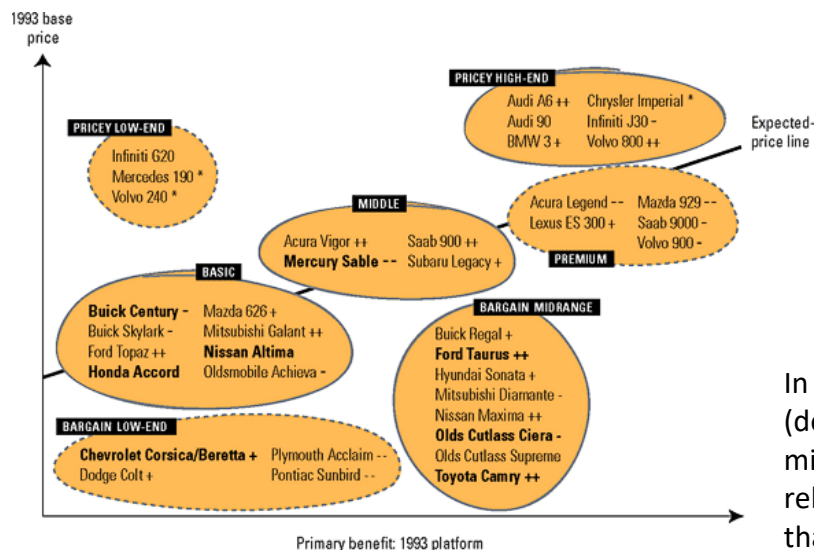
The curve (not necessarily a line) represents suggested (or expected) price for each product. Products can lay above or below the curve. What happens when the premium manufacturer lowers the prices?

Recommended reading: D'AVENI, Richard. A. [Mapping Your Competitive Position](#). Harvard Business Review 11/2007

If customers don't know what they're paying for, and managers don't know what they're charging for, it's almost impossible for companies to identify their competitive positions. Whenever I've asked senior executives to map the positions of their company's brands and those of key rivals, we end up confused and dismayed. Different executives place their firm's offerings in different spots on a price-benefit map; few know the primary benefit their product offers; and they all overestimate the benefits of their own offerings while underestimating those of rivals. The lack of understanding about competitive positions is palpable in industries such as consumer electronics, where the number of features makes comparisons complicated; in markets like computer hardware, where technologies and strategies change all the time; and when products, such as insurance policies, are intangible. [Mapping Your Competitive Position](#)

Positioning and Marketing Research

- Perceptual mapping
 - Changes over time



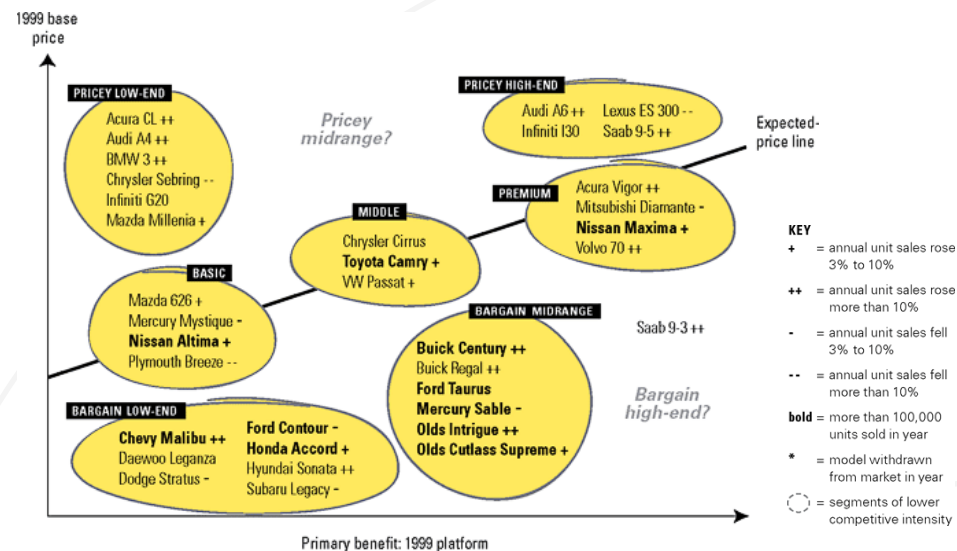
Many experts criticized BMW for repositioning the 3 Series. The map indicated there was an opportunity at the pricey low end—and history tells us that BMW capitalized on it.

1993 -> 1999



In 1993, some sub-segments (dotted ovals) of the U.S. midsize-car market – were relatively less competitive than the others.

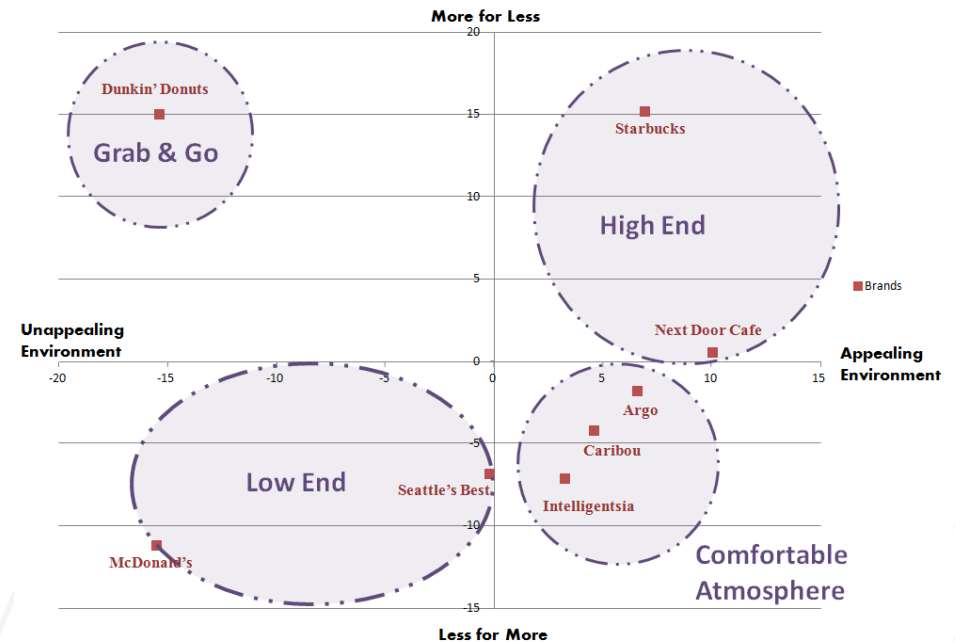
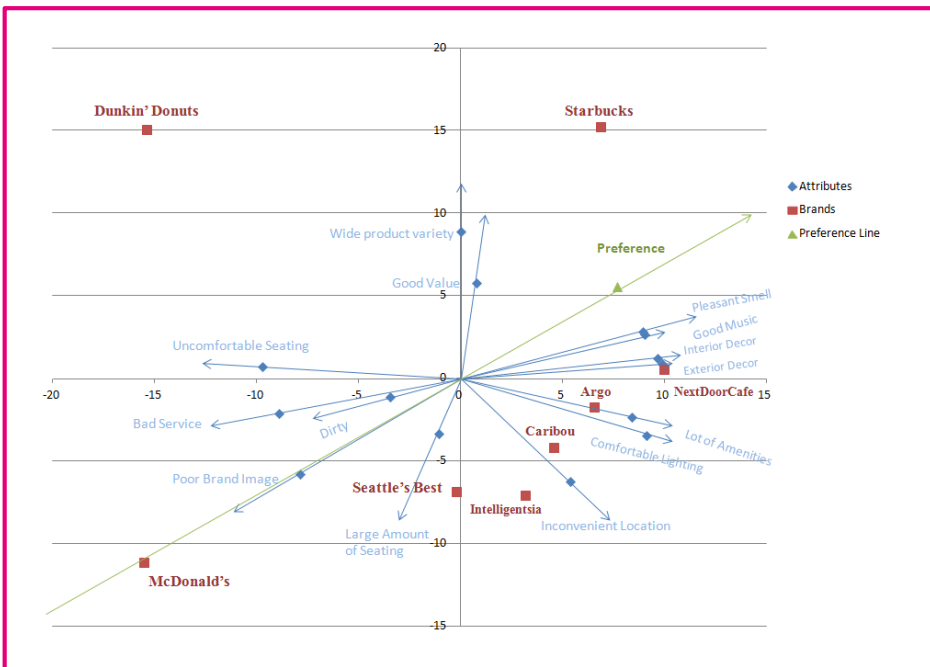
Manufacturers recognized the opportunity and repositioned their products



KEY
 + = annual unit sales rose 3% to 10%
 ++ = annual unit sales rose more than 10%
 - = annual unit sales fell 3% to 10%
 -- = annual unit sales fell more than 10%
bold = more than 100,000 units sold in year
 * = model withdrawn from market in year
 ○ = segments of lower competitive intensity

Positioning and Marketing Research

- Multidimensional scaling
 - Mapping multiple attributes – a greater understanding of the marketplace and of consumers' perceptions (and their correlations) can be achieved
 - Identifying “hidden” or composite factors



First the dimension that explains most of the variance is identified (a characteristic through which consumers distinguish between products at most)

Subsequently, other attributes (second-third-... best explaining the variance) are identified.

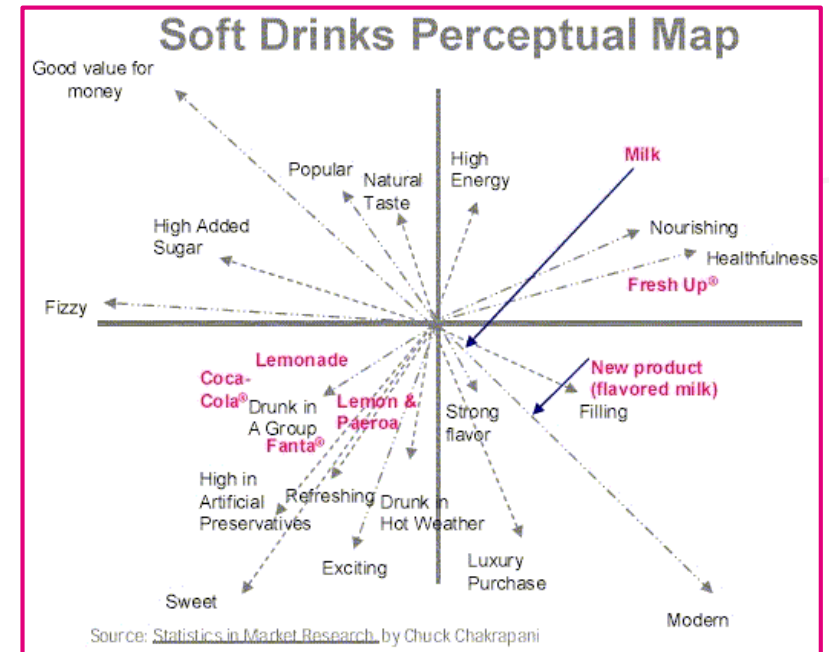
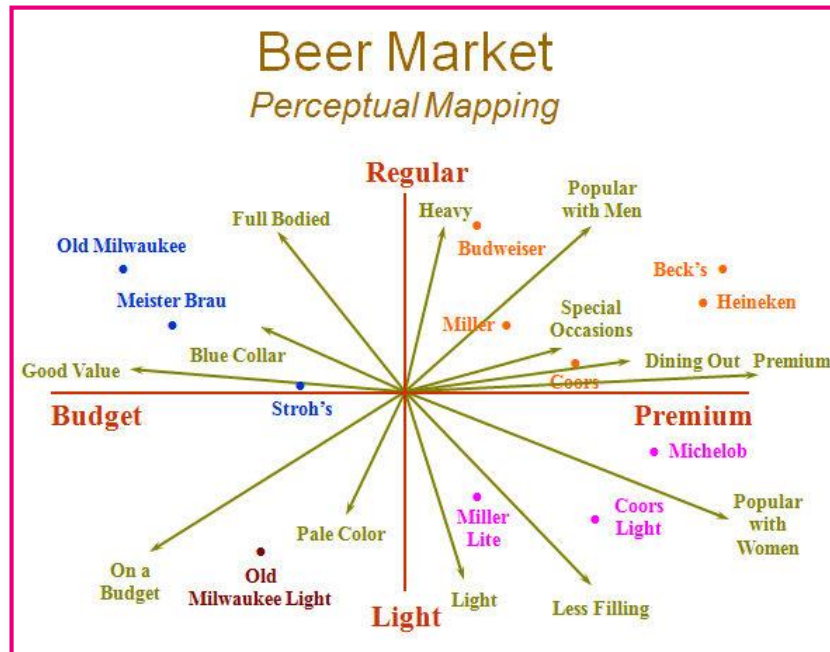
The angles between factors explain the correlation between perceptions – 180 ° means negative correlation 90 ° means no correlation

The length of the vector reflects the size of the effect (ability to distinguish between products)

Grouping similar vectors – identifying “hidden” or composite factors

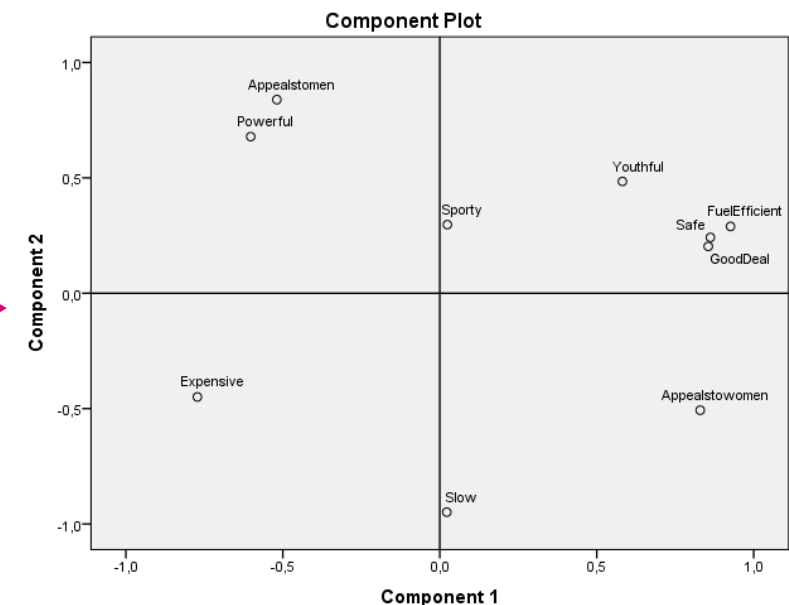
Statistical methods like Principal Coordinates Analysis, Factor analysis, discriminant analysis, cluster analysis, logit analysis.

Positioning and Marketing Research



Brand	Sporty	Youthful	Safe	GoodDeal	Appealstowomen	FuelEfficient	Powerful	Slow	Expensive	Appealstomen
Buick	30	30	50	50	40	40	90	60	40	90
Chevrolet	60	90	40	70	40	60	90	60	30	100
Chrysler	40	30	50	80	100	60	60	80	40	50
Ford	30	70	80	100	70	80	90	60	20	80
Honda	50	90	100	90	100	100	70	60	10	70
Hyundai	30	70	60	90	90	90	60	70	20	60
Mazda	70	100	90	90	90	90	60	60	30	70
Pontiac	70	60	30	60	60	50	80	60	30	90
Saturn	50	80	60	60	100	50	60	80	30	60
Toyota	50	80	100	100	100	100	70	60	10	80

Statistical detour – statistical softwares and packages like SPSS usually allow multidimensional scaling analysis (Analyze->Dimension Reduction->Factor->Loading Plots...

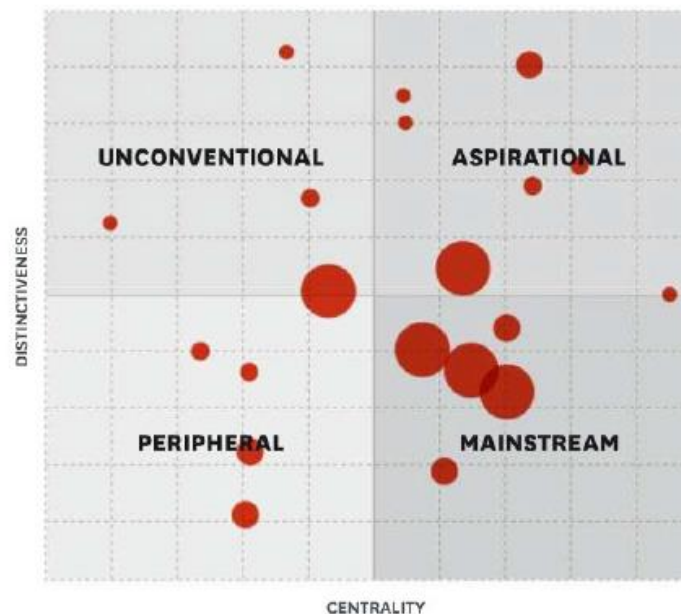


Positioning and Marketing Research

- Criticism of perceptual mapping and multidimensional scaling
 - Link missing between market positioning, strategy and performance evaluation
- C-D mapping – directly connects brand's position and business outcomes
 - Centrality – top-of-the-mind (McDonald's or Coca-Cola), how much is the brand the most representative of its type
 - Distinctiveness – how the brand differentiates, how it stands out from the crowd and avoids direct competition (Tesla or Mini)
 - Can a company achieve both or is it a trade-off?
 - Begins with geographical identification of the market. Then a survey on consumers' perceptions of the brand's centrality and distinctiveness (scored on a 0–10 scale) is conducted

Market niches, clearly differentiated brands. Low volumes, high margins (Tesla, Mini)

Cheaper alternatives and substitutes to mainstream (Kia, Hyundai, Mitsubishi)
Still the companies can achieve quite large market share



Differentiated from mainstream, but still quite high sales volumes. High margins. Widely appealing to the audience (BMW, Mercedes)

Top-of-the-mind, popular, first choice, mainstream tastes. Market share leaders, lower prices (Ford, Chevrolet),

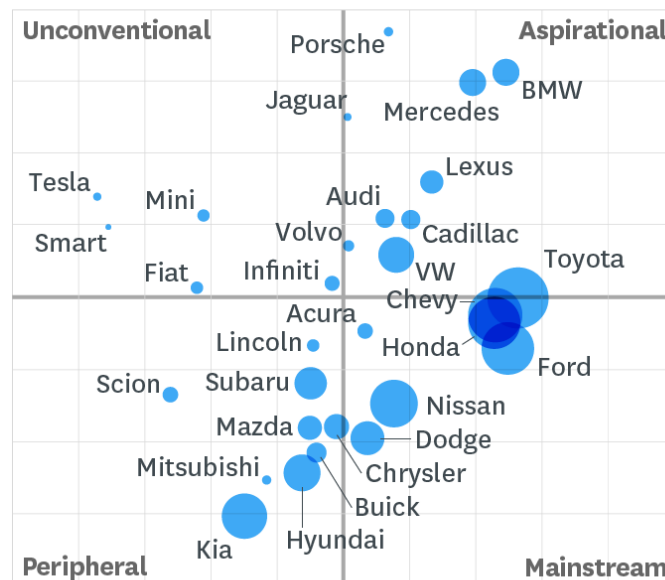
Positioning and Marketing Research

- Brand strategy must reflect its position on C-D map

Low volumes, high margins, market niches.
Increase sales (without compromising distinctiveness – Tesla cars) to move closer to Aspirational brands.
Making unique features more mainstream (or introduce such features) to become more central – as the market evolves (but a threat of brand erosion)

“Me to” strategy. Market followers. Consumers typically buy as (cheaper) substitutes to mainstream.
Low-cost strategy (Kia).
Increase volumes (through intensive marketing) to become more mainstream, (Hyundai) or add distinctive features to become Aspirational brand

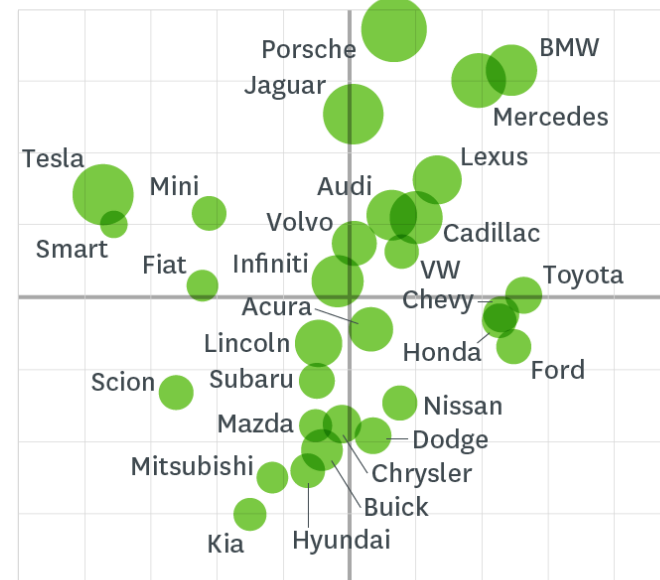
CARS SALES VOLUME



Notes Brands are at the parent level. Cars are passenger only.

Point size according to brand's financial performance

CARS PRICE



Well positioned to launch innovations in the industry (Mercedes and autonomous systems, safety; Lexus and hybrid technology). Take advantage of both high sales and premium pricing. Defend position against Mainstream and Unconventional challengers. Make distinctive features more mainstream to be widely appealing

High sales, lower margins. Risk aversion, careful engineering, product development to align with mainstream preferences. Challengers recruit from Unconventional (as the market evolves – Tesla) and Peripheral (same features but cheaper – Kia) brands aspiring to become more central and mainstream.

- C-D mapping helps to assess brand's positioning strategy
- To reveal the disconnection between strategy and objectives (i.e. price increase for mainstream brand), track the competition, manage brand portfolio (Toyota, Lexus)
- Similar aspects as in C-D mapping are assessed in brand equity surveys, i.e. [Young and Rubicam's BrandAsset Valuator](#), nebo [Millward Brown's Brand Pyramid \(Brand Z\)](#)

Positioning

- Dunkin' Donuts: Positioning for the Average Joe
 - Both Dunkin' Donuts and Starbucks are large global coffee chains
 - Targeting different segments, different positions on the market
 - Starbucks targets professionals, intellectuals, „coffee snobs“, featuring a „third place“ (work, home, Starbucks), contemporary music, wireless, couches, encourages to spend your time. This also reflect product names (tall, grande, venti, panini, ...)
 - Dunkin' Donuts targets „blue collars“ („If I want to sit on a couch, I stay at home “), simple names (small, medium, large, stuffed melt), less fancy, rather grab&go. Targeting on „Average Joe“
 - Both chains sell coffee and have properties right next to each other – still not necessarily competing each other
 - In 2009 Dunkin' Donuts grew by 2,5 % and opened new stores, Starbucks dealt much worse with the crisis (6 % drop and closing stores). Since 2010 Starbucks grows again



Starbucks Coffee			
	Grande	Venti	
Brewed	\$1.65	\$1.95	\$2.05
Iced	\$2.00	\$2.35	\$2.70
Average amount spent per visit: \$6.36			
Average time per order: 2 minutes, 55 seconds			

Donuts	Muffins	Bagels
Baked cream 100 cal Chocolate frosted 270 cal Jelly donut 100 cal Vanilla frosted 100 cal Strawberry frosted 260 cal Chocolate glazed 270 cal Apple cinnamon 100 cal 6 Glazed donuts 15 cal ea 6 Chocolate donuts 15 cal ea	Chocolate chip muffin 260 cal Strawberry muffin 100 cal Coffee cake muffin 100 cal Plain croissant 100 cal \$1.63 Coffee Combo w/ Donuts	Plain 100 cal Sesame 100 cal Poppy Seed 100 cal Wheat 100 cal Everything 100 cal Cinnamon Raisin 100 cal w/ Sugar \$1.34 w/ Cream Cheese \$1.71
\$1.00		
Medium	Small	Medium
\$3.64	\$1.39	\$1.49
	Large	
	\$1.85	\$2.35
		\$2.75
Average amount spent per visit: \$5.92		
Average time per order: 2 minutes, 4 seconds		