Global Marketing

Contemporary theory, practice and cases

By Ilan Alon, Eugene Jaffe, Christiane Prange & Donata Vianelli
Chapter 5
Segmenting, Targeting and Positioning for Global Markets
Learning objectives

After reading this chapter you should be able to:

• Develop an international market selection process.

• Segment global markets through macro and micro segmentation

• Evaluate market attractiveness and competitive strength.

• Apply different methods to define market size.

• Apply the criteria for targeting markets.

• Understand the difference between concentration and diversification.

• Understand the difference between concentrated, differentiated and undifferentiated strategies.

• Show how to gain competitive advantage through positioning.
What is Segmentation, Targeting and Positioning (STP)?

• **Segmentation**
  • Segmenting the market and profiling the different segments

• **Targeting**
  • Used to evaluate the segments attractiveness and competitive position for a specific target segment.

• **Positioning**
  • Develop positioning for different target segments
  • Communicating target segments to show competitive advantage to competitors products

• When the STP process is used properly it allows the company to create a marketing mix for each segment.
STP on Global Markets

• **More complex than domestic markets** because one must:
  • Identify target countries based on macro-segmentation, prioritization, and countries who hold the highest strategic value
  • Must identify target consumers within global markets by micro-segmentation and targeting the micro-segments that show greatest opportunity.

• **Two options from STP on global markets are:**
  • There can be a similar segmentation found that is used to the domestic market, making the marketing mix easy to use
  • Segmentation can find a completely different market where a new marketing strategy will be needed to succeed.
Criteria for Good Segmentation

• **Homogeneous within the segment**: guarantee similar response to marketing mix variables

• **Heterogeneous between the segments**: different enough to warrant changes in the marketing mix in different segments

• **Measurable**: It is possible to calculate market potential

• **Substantial**: Large enough to be profitable

• **Operational**: dimensions of segment allow ease with identifying consumers and help formulate an effective marketing mix decision
Market selection process

1) **First screening (Macro-segmentation)** by macroeconomic indicators (PESTEL analysis)

2) **Second screening (Prioritization)** based on market attractiveness and competitive position

3) **Micro-segmentation** based on the identification of segments in each country (multinational segmentation) or across different countries (global/horizontal segmentation)
First screening: an example of Macro-Segmentation

<table>
<thead>
<tr>
<th>Population size</th>
<th>Per capita income</th>
<th>&lt; 100 million</th>
<th>≥ 100 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $10,000</td>
<td>Cluster 1:</td>
<td>Country G</td>
<td>Country B</td>
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<td></td>
<td>Country G</td>
<td>Country G</td>
<td>Country B</td>
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<tr>
<td>≥ $10,000</td>
<td>Cluster 3:</td>
<td>Country D</td>
<td>Country I</td>
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<td>Country I</td>
<td>Country I</td>
<td>Country O</td>
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</tbody>
</table>

15 countries to be screened

- Remember **PESTEL-GNP** size, GNP growth, GNP per capita, population size, family size, etc.- to group countries into market segments
- Such an approach enables a company to **make a first segmentation and targeting without carrying out an in-depth analysis of each country**, that could be expensive and time consuming.
Prioritation: second screening

- The purpose is to **find the best foreign markets for expansion potential**

- Each firm must decide for itself **which criteria are relevant to its performance** and consequently evaluate, in each screened country, factors such as:
  - market size and growth,
  - product match,
  - intensity of competition,
  - required capabilities and resources,
  - entry barriers, etc.

- Possible to use **directional policy matrices** to help prioritize countries:
  - McKinsey/General Electric matrix (better than BCG)
  - Portfolio analysis
# Factors in Markets/Countries Attractiveness

## Market attractiveness

<table>
<thead>
<tr>
<th>Country</th>
<th>Weight</th>
<th>Rating (1-5)</th>
<th>Score</th>
<th>Rating (1-5)</th>
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<th>Rating (1-5)</th>
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<tbody>
<tr>
<td>Growth rate</td>
<td>0.20</td>
<td>5</td>
<td>1</td>
<td>3</td>
<td>0.6</td>
<td>2</td>
<td>0.4</td>
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<tr>
<td>Industry profitability</td>
<td>0.15</td>
<td>4</td>
<td>0.6</td>
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<td>Intensity of competition</td>
<td>0.10</td>
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<tr>
<td>Market size</td>
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<td>Political risk</td>
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<td>Entry and exit barriers</td>
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<tr>
<td>Government regulation</td>
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Rating: 1=very poor; 5=very good;  
Score: rating x weight
### Factors in Markets/Competitive position

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<td>Product match</td>
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<td>Quality relative to competitors</td>
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<td>0.75</td>
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<td>0.75</td>
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<td>Managers' experience with the country</td>
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<td>Access to distribution channels</td>
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<td>0.4</td>
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<tr>
<td>Profit margin relative to competitors</td>
<td>0.10</td>
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<td>0.3</td>
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<td>0.4</td>
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<tr>
<td>Total</td>
<td>1.00</td>
<td>4.25</td>
<td>4.2</td>
<td>2.85</td>
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</tbody>
</table>

Rating: 1=very poor; 5=very good;  
Score: rating x weight
An example of second screening based on the General Electric / McKinsey matrix

**FIGURE 9.3**
An Example of Second Screening Based on the McKinsey/General Electric Matrix
Source: Compiled by Author
An example of second screening based on Portfolio analysis

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<td>SBU 1</td>
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<td>H</td>
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<td>SBU 2</td>
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<td>SBU 3</td>
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<td>SBU 4</td>
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<td>H</td>
<td>M</td>
<td>H</td>
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<td>SBU 5</td>
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<td>SBU 6</td>
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<td>H</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>L</td>
<td>M</td>
</tr>
<tr>
<td>Overall evaluation by country</td>
<td><strong>INVEST</strong></td>
<td><strong>INVEST</strong></td>
<td>Selectivity or Wait &amp; See</td>
<td><strong>INVEST</strong></td>
<td>Selectivity or Wait &amp; See</td>
<td>Drop</td>
<td><strong>INVEST</strong></td>
<td>Selectivity or Wait &amp; See</td>
</tr>
</tbody>
</table>

H=high potential; M= moderate potential; L=low potential
Methods of Estimating Market Potential

• Traditional Method

• Method by analogy

• Competitor's based methods

• Method based on import/export information
Traditional Method

• This method is based on the analysis of consumer demand and can be calculated as:

  Total Population x % of potential clients x frequency of use x average unit sales per client

• For example: Consider a country with a population of 5 million people, of which about 15% can be the target for the product: if they buy the product about 8 times a year and in average every time they spend 40$, the estimated market size is of 240 million $.

  \[5,000,000 \times 15\% \times 8 \text{ times/year} \times 40\$ = 240,000,000\]
Method by Analogy

• When a company analyzes a country based on another country with similar consumer behavior as a benchmark

• **For example:** Consider the calculation of market potential for premium sport footwear in Country A. The company is already present in Country Y, that is considered a benchmark because of similar consumer behavior. In country Y the sport footwear spending is about 40% of footwear. Using the data in the following slide, it is possible to calculate the market potential of Country A.
# Method by Analogy: an example

<table>
<thead>
<tr>
<th></th>
<th>Country A (market analysis)</th>
<th>Country Y (benchmark)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Total Population (mn)</td>
<td>50</td>
<td>12</td>
</tr>
<tr>
<td>(a) Average disposable income ($)</td>
<td>4,000</td>
<td>2,500</td>
</tr>
<tr>
<td>a x b = Total disposable income (bn $)</td>
<td>200</td>
<td>30</td>
</tr>
<tr>
<td>(a) Footwear market size (bn $)</td>
<td>---</td>
<td>5</td>
</tr>
<tr>
<td>(a) Footwear market potential (X) (bn $): 200:30=X:5</td>
<td>33.33</td>
<td>---</td>
</tr>
<tr>
<td>(a) Sport Footwear market size (40% of c) (bn $)</td>
<td>---</td>
<td>2</td>
</tr>
<tr>
<td>(a) Sport Footwear market potential (40% of d) (bn $)</td>
<td>13.33</td>
<td></td>
</tr>
<tr>
<td>Premium sport footwear market size (8% of e) (bn $)</td>
<td></td>
<td>0.16</td>
</tr>
<tr>
<td>Premium sport footwear market potential (8% of f) (bn $)</td>
<td>1.06</td>
<td></td>
</tr>
</tbody>
</table>
Competitor’s based methods

• If there are few competitors in a highly concentrated market, a company can use information from analyzing their competitors. Two ways to do this are:

  • Summing the sales of all competitors

  • Identifying one competitor and its share of the market
    For example, if a competitor has sales for 5 mn $ and it is known that its market share is about 10%, the total market size will be approximately 50 mn $.

• Please note that the first method is usually more difficult due to lack of information on some competitors
Method Based on Import/Export Information

• Based on production, import and export figures

• This method can be used only if the product has an identifiable customs position

• Can be calculated through this formula:
  
  Local production + import – export +/- changes in stock size
Micro-Segmentation: Based On Demand and Product Group

Segmentation based on demand:

- Geographic segmentation
- Demographic segmentation
- Socio-economic segmentation
- Psychographic segmentation
- Behavioral segmentation
- Benefit segmentation

Channels of distribution (specialty stores, internet, etc.)

Segmentation by product group:

An example for special steels:

- Creep resistant steels
- Hardened steel
- High-speed steels
- Tool steels

Segmentation based on demand:

Companies (BtoB)

Individuals (BtoC)
## Variables of Micro-Segmentation

<table>
<thead>
<tr>
<th>Geographic variables</th>
<th>Demographic variables</th>
<th>Socio-economic Variables</th>
<th>Psychographic variables</th>
<th>Behavioral variables</th>
<th>Benefit sought</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region</td>
<td>Age</td>
<td>Income/turnover (BtoB)</td>
<td>Lifestyles</td>
<td>Shopping habits</td>
<td>Product features</td>
</tr>
<tr>
<td>Country</td>
<td>Gender</td>
<td>Family/company (BtoB) size and life cycle</td>
<td>Personality</td>
<td>Product use</td>
<td>Price</td>
</tr>
<tr>
<td>City</td>
<td>Nationality</td>
<td>Family life cycle</td>
<td>Interests</td>
<td>Usage situation</td>
<td>Experience</td>
</tr>
<tr>
<td>Rural vs Urban areas</td>
<td>Race and ethnic origin</td>
<td>Occupation / Industry (BtoB)</td>
<td>Values</td>
<td>Frequency of use</td>
<td>Status</td>
</tr>
<tr>
<td>County</td>
<td></td>
<td>Education</td>
<td>Attitudes</td>
<td>Loyalty</td>
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<tr>
<td>Climate</td>
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<td>Religion</td>
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<td>Social class</td>
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<td></td>
<td></td>
<td>Population density</td>
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</tbody>
</table>

### Geographic Variables
- Region
- Country
- City
- Rural vs Urban areas
- County
- Climate

### Demographic Variables
- Age
- Gender
- Nationality
- Race and ethnic origin

### Socio-economic Variables
- Income/turnover (BtoB)
- Family/company (BtoB) size and life cycle
- Family life cycle
- Occupation / Industry (BtoB)
- Education
- Religion
- Social class
- Population density

### Psychographic Variables
- Lifestyles
- Personality
- Interests
- Values
- Attitudes
- Opinions

### Behavioral Variables
- Shopping habits
- Product use
- Usage situation
- Frequency of use
- Loyalty

### Benefit Sought
- Product features
- Price
- Experience
- Status
Multinational Segmentation & Global Segmentation

- **Multinational Segmentation** consists of a company identifying different segments within a country then develops a **targeting strategy country by country**.

- Countries will try to find similarities to help group different markets but sometimes they are completely different.

- **Global Segmentation** aims to **target segments that are similar between certain countries**.

- The **best variables for global segmentation** are **psychographic** and **benefit segmentation**.

- Remember for international market segmentation the variables vary with the type of products.
Multinational Segmentation: an example

Segmentation variables:

Country A: income (<$5,000, $5,000-$15,000; >$15,000)
Country E: type of product
Country H: income (<$5,000, $5,000-$25,000; >$25,000)
Country P: usage occasion
Global Segmentation: an example

Apple and Dirk Bikkenbergs: examples of brands targeting global segments
One of the most long-lived and authoritative systems that segment people on the basis of personality traits is VALS, owned and operated by Strategic Business Insights (SBI);

The basic tenet of VALS is that people express their personalities through their behaviors.

VALS specifically defines eight consumer segments on the basis of those personality traits that affect behavior in the marketplace:

- Innovators
- Thinkers
- Believers
- Achievers
- Strivers
- Experiencers
- Makers
- Survivors

Targeting

Once all viable segments have been identified in the targeted markets, the process of selecting the most promising segments—those with the highest potential to generate sales and profits for the company—and deciding how to address their needs begins.

Main criteria for Targeting:

• **Market size**—the larger the segment, the more sustainable and profitable it is likely to be
• **Growth rate**—the faster a segment is growing, the more sales it is likely to generate
• **Competitive position**—the less competitive offerings are available for the target segment, the more likely the company is to gain large market share
• **Market accessibility**—the more cost-effectively and quickly a segment can be reached, the more attractive it will be
• **Customer fit**—the more compatible the segment is with the company’s brand and resources, the more likely it is that sales will follow
Concentration vs Diversification Strategies

• Given a fixed amount of resources, the amount assigned to each market in a diversification strategy would be less than for concentration. Therefore, for SMEs, which are often characterized by small amounts of resources, concentrating marketing effort and resources in one or a few markets should determine larger market share and, subsequently, higher profits.

• However, if competition is intense, then small firms should avoid direct competition with larger firms. In this case, it would be preferable to have small market shares in a larger number of markets.

• There are market factors such as growth rates and sales stability in each market. If sales are not stable and/or the market growth is limited, it is risky to concentrate only in one country and it is better to diversify.

• Another factor is the need for standardization or adaptation: if entering in a foreign market requires adaptation of the product or the advertising (higher costs), the company will probably opt for concentrating all its efforts in one country and only later expanding in other markets.

• The shape of the sales response function, that relates the value of investment in marketing effort to the revenue generated (or profit, units sold, etc.), is another influencing factor. The sales curve can be S-shaped or concave.

• Additional factors are short competitive lead time (which makes it important to enter markets quickly), high spillover effects between countries (e.g., the use of the same patents), and little gain from distribution economies of scale. In reality, these factors are not dichotomous (either high or low), but somewhat in between.
Sales response function
Undifferentiated Approach

• Also called mass marketing or standardized marketing

• Assumes that customer segments across the world will accept the same product with no regard of their cultural, behavioral, or socio-economic differences.

• Marketing on the common needs of its customers are the base of the company instead of on the differences.

• Typical of commodities and business to business market
Differentiated Approach & Concentrated Approach

• The **differentiated approach** aims to adapt the product and the marketing mix to each target market segment

• Most brands use this approach to stay competitive and to appeal to more market segments

• **Concentrated** can also be called **niche targeting**.

• Focuses only on one segment and tailors their market specifically for that segment
Customized of micromarketing approach

• Deeper segmentation of products for very specific sub-segments.

• One prime example of this is the “I ♥ New York” market that is very small and specific market.

• The online environment has played a key role in the growth of the marketing customization trend.

• Efforts have increased for GPS, internet cookies, and direct mail to make this type of marketing more cost effective.
Positioning

- It is uncontrollable by marketers due to perceptions of customers since it represents “the way consumers, users, buyers, and others view competitive brands or types of products” meaning it happens in the minds of consumers.
- Marketers try to control this through planned positioning (their positioning strategy, i.e. their promise to the consumers) and perceived positioning (the opinion of consumers mentally).
- When done successfully consumers should have strong, long-term emotional ties to the brand.
- The promise is implemented through the marketing mix and the perceived promise represents the positioning in the mind of consumers.
- The critical point of this process in global marketing strategies is how consumers perceive the brand: in different countries there are different competitors, different needs and buying behavior, different motivations, culture and attitudes.
- Furthermore, the control of the channel of distribution can be weak, and the distribution strategies and tactics can be implemented by intermediaries in the wrong way; similarly, price sensibility can be different and communication requires adaptation.
## Brand positioning strategy

<table>
<thead>
<tr>
<th>TARGET</th>
<th>Brand</th>
<th>Product type</th>
<th>POD (Point of Difference)</th>
<th>Benefit</th>
<th>Supporting Evidence</th>
<th>Brand Personality</th>
<th>USP (Unique Selling Proposition)</th>
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<td></td>
<td>Young fashion lovers</td>
<td>'Brand name'</td>
<td>A unique style of beauty</td>
<td>Special moments of emotion in everyday life</td>
<td>Italian lifestyle and artisanal tradition</td>
<td>Elegant and dynamic</td>
<td>Artisanal product / Italian fashion designers / store experience</td>
</tr>
</tbody>
</table>
Perceptual map: an example in the fashion industry

- Positioning at brand level is often conceptualized with a positioning map, also called **perceptual map**. Brands are positioned in the map in relation to **positioning bases** (in this example price and style).
- The map clearly points out the position occupied by the brand (for example Brand A) and by competitive brands in the mind of consumers. **In different countries**, due for example to cultural differences, consumers’ perception can be different, and also competitive brands can vary.
- In the map it is also possible to identify what is the position of the ideal brand for the target segment.
- A company can also plan a **repositioning strategy** in order to move closer to the ideal product. Repositioning strategies can be very expensive, especially if carried out at a global level.
Point of Difference (POD)

Positioning requires the identification and communication of the POD (Point of Difference) that will be operationalized through the USP (Unique Selling Proposition).

The POD can be based on one or more of the following different criteria:

- Benefit, attribute or price
- Usage situation
- Product use
- Users
- Against competitors
- Product class
- Company image
Small companies and global segments: the case of Moroso

Victoria & Albert (2000)
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Klara (2010)
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Discussion Questions

1. Explain the difference between segmenting, targeting and positioning.

2. Illustrate how Fiat is targeting its cars in the United States.

3. China is characterized by regional differences. Describe how retailers in China market to these differences.