Global Marketing

Contemporary theory, practice and cases

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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

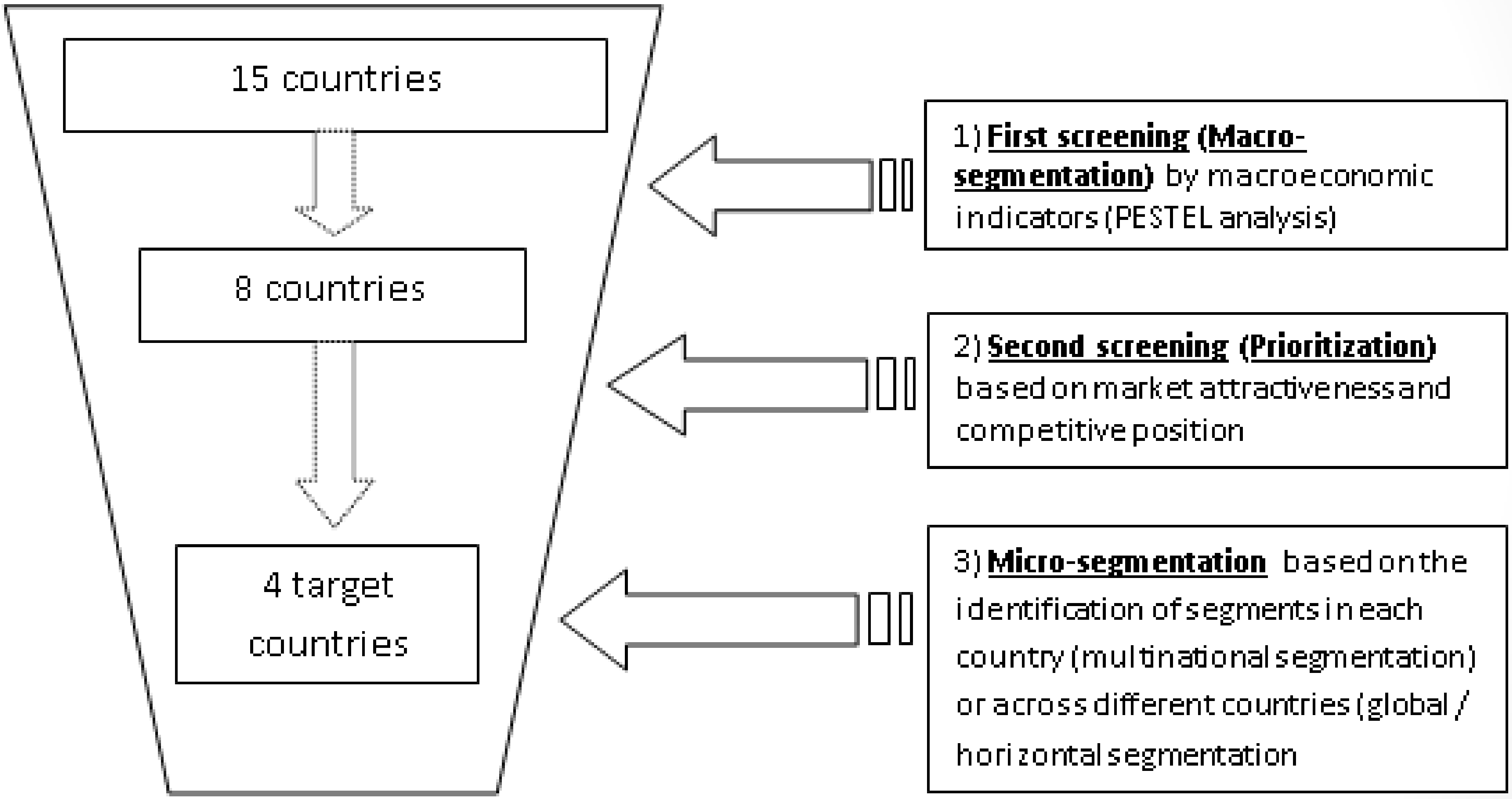
- **More complex than domestic markets** because one must:
  - Identify target countries based on macro-segmentation, prioritization, and countries who hold the highest strategic value
  - Must identify target consumers within global markets by micro-segmentation and targeting the micro-segments that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



First screening: an example of Macro-Segmentation

15 countries to be screened

↓

	Population size	
Per capita income	< 100 million	≥ 100 million
< $10,000	**Cluster 1**: Country G Country B	**Cluster 2**: Country C Country N
≥ $10,000	**Cluster 3**: Country D Country I Country O	**Cluster 4**: Country A Country E Country F Country H Country L Country M Country P Country Q

- 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		Country A		Country E		Country F		Country …	
	Weight	Rating (1-5)	Score	Rating (1-5)	Score	Rating (1-5)	Score	Rating (1-5)	Score
Growth rate	0.20	5	1	3	0.6	2	0.4	…	…
Industry profitability	0.15	4	0.6	3	0.45	3	0.45	…	…
Intensity of competition	0.10	3	0.3	3	0.3	2	0.2	…	…
Market size	0.15	4	0.6	3	0.45	2	0.3	…	…
Political risk	0.20	5	1	4	0.8	2	0.4	…	…
Entry and exit barriers	0.10	2	0.2	2	0.2	2	0.2	…	…
Government regulation	0.10	3	0.3	4	0.4	2	0.2	…	…
Total	**1.00**		**4**		**3.2**		**2.15**	…	…

Rating: 1=very poor; 5=very good;
Score: rating x weight

Factors in Markets/Competitive position

Competitive position		Country A		Country B		Country C		Country …	
	Weight	Rating (1-5)	Score	Rating (1-5)	Score	Rating(1-5)	Score	Rating(1-5)	Score
Marketing capacity	0.20	4	0.8	4	0.8	3	0.6	…	…
Product match	0.15	4	0.6	4	0.6	2	0.3	…	…
Brand recognition	0.25	5	1.25	5	1.25	3	0.75	…	…
Quality relative to competitors	0.15	5	0.75	5	0.75	4	0.6	…	…
Managers' experience with the country	0.05	3	0.15	2	0.1	2	0.1	…	…
Access to distribution channels	0.10	4	0.4	3	0.3	2	0.2	…	…
Profit margin relative to competitors	0.10	3	0.3	4	0.4	3	0.3	…	…
Total	**1.00**		**4.25**		**4.2**		**2.85**	…	…

Rating: 1=very poor; 5=very good;
Score: rating x weight

An example of second screening based on the General Electric / McKinsey matrix

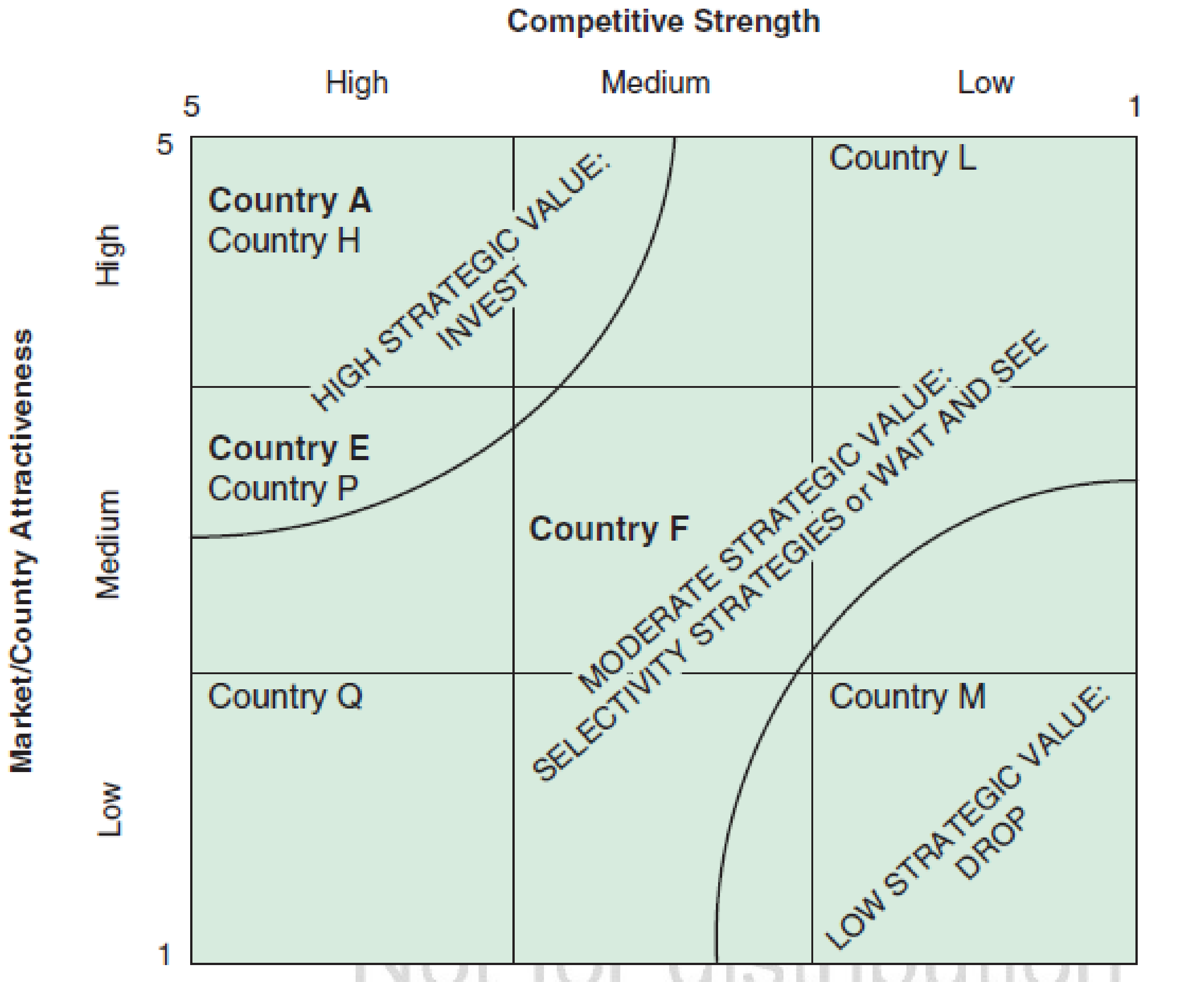


FIGURE 9.3
An Example of Second Screening Based on the McKinsey/General Electric Matrix
Source: Compiled by Author

An example of second screening based on Portfolio analysis

	Country A	Country E	Country F	Country H	Country L	Country M	Country P	Country Q
SBU 1	H	H	M	H	M	L	H	H
SBU 2	M	L	M	L	L	L	H	L
SBU 3	H	M	H	H	M	M	H	L
SBU 4	H	H	M	H	M	L	M	M
SBU 5	M	H	L	M	L	M	H	H
SBU 6	H	H	H	H	H	L	H	M
Overall evaluation by country	INVEST	INVEST	Selectivity or Wait & See	INVEST	Selectivity or Wait & See	Drop	INVEST	Selectivity or Wait & See

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 x 15% x 8 times/year x 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

	Country A (market analysis)	Country Y (benchmark)
(a) Total Population (mn)	50	12
(a) Average disposable income ($)	4,000	2,500
a x b = Total disposable income (bn $)	200	30
(a) Footwear market size (bn $)	---	5
(a) Footwear market potential (X) (bn $): 200:30=X:5	33.33	---
(a) Sport Footwear market size (40% of c) (bn $)	---	2
(a) Sport Footwear market potential (40% of d) (bn $)	13.33	
Premium sport footwear market size (8% of e) (bn $)		0.16
Premium sport footwear market potential (8% of f) (bn $)	**1.06**	

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 by product group

An example for special steels:

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

Segmentation based on demand

Individuals (BtoC)

Companies (BtoB)

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

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

Variables of Micro-Segmentation

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

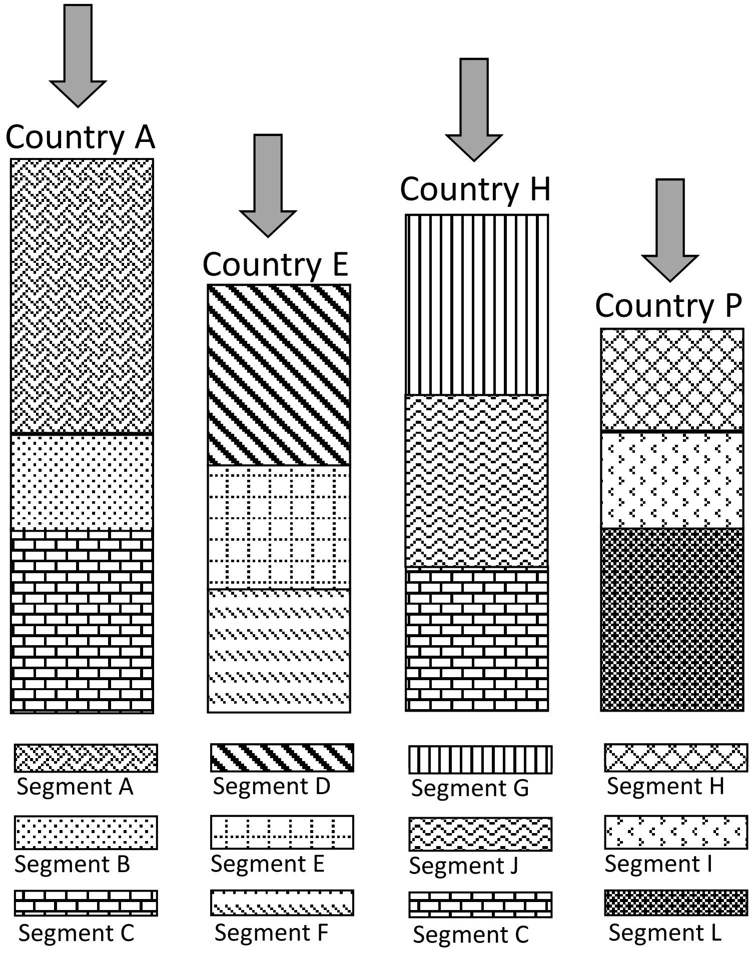
- Countries will try to find similarities to help group different markets but sometimes they are completely different

- **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

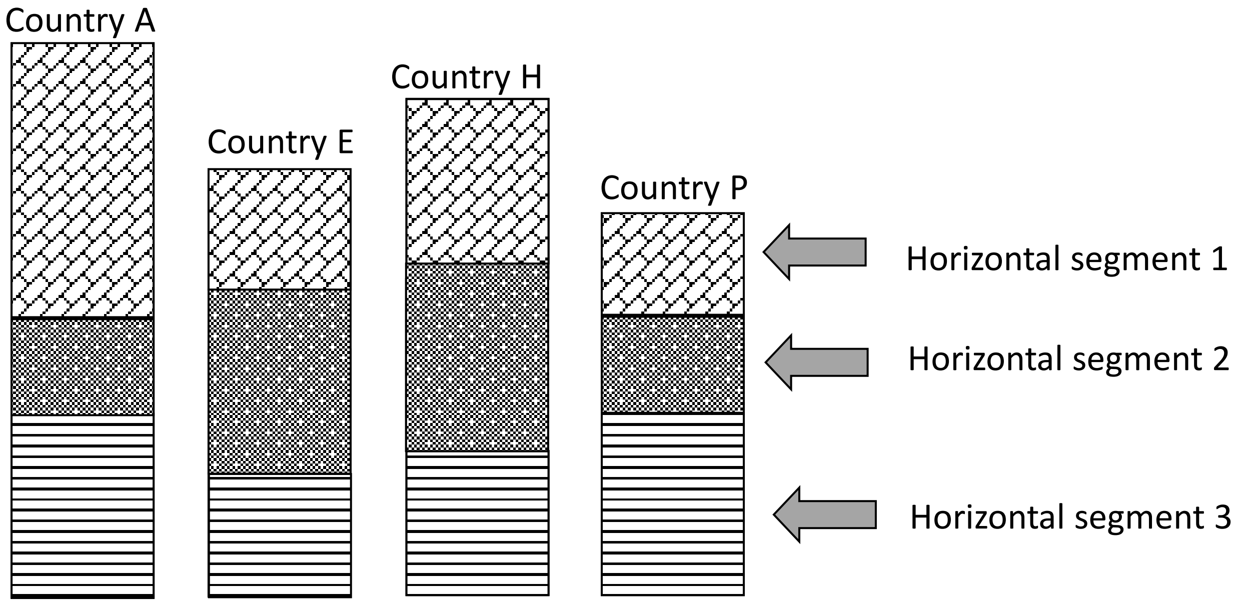
Multinational Segmentation: an example



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 Bikkenmbergs:

examples of brands targeting global segments

VALS system with the current US Market

- 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**

- http://www.strategicbusinessinsights.com/vals/; http://www.strategicbusinessinsights.com/vals/ustypes.shtml#types

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.

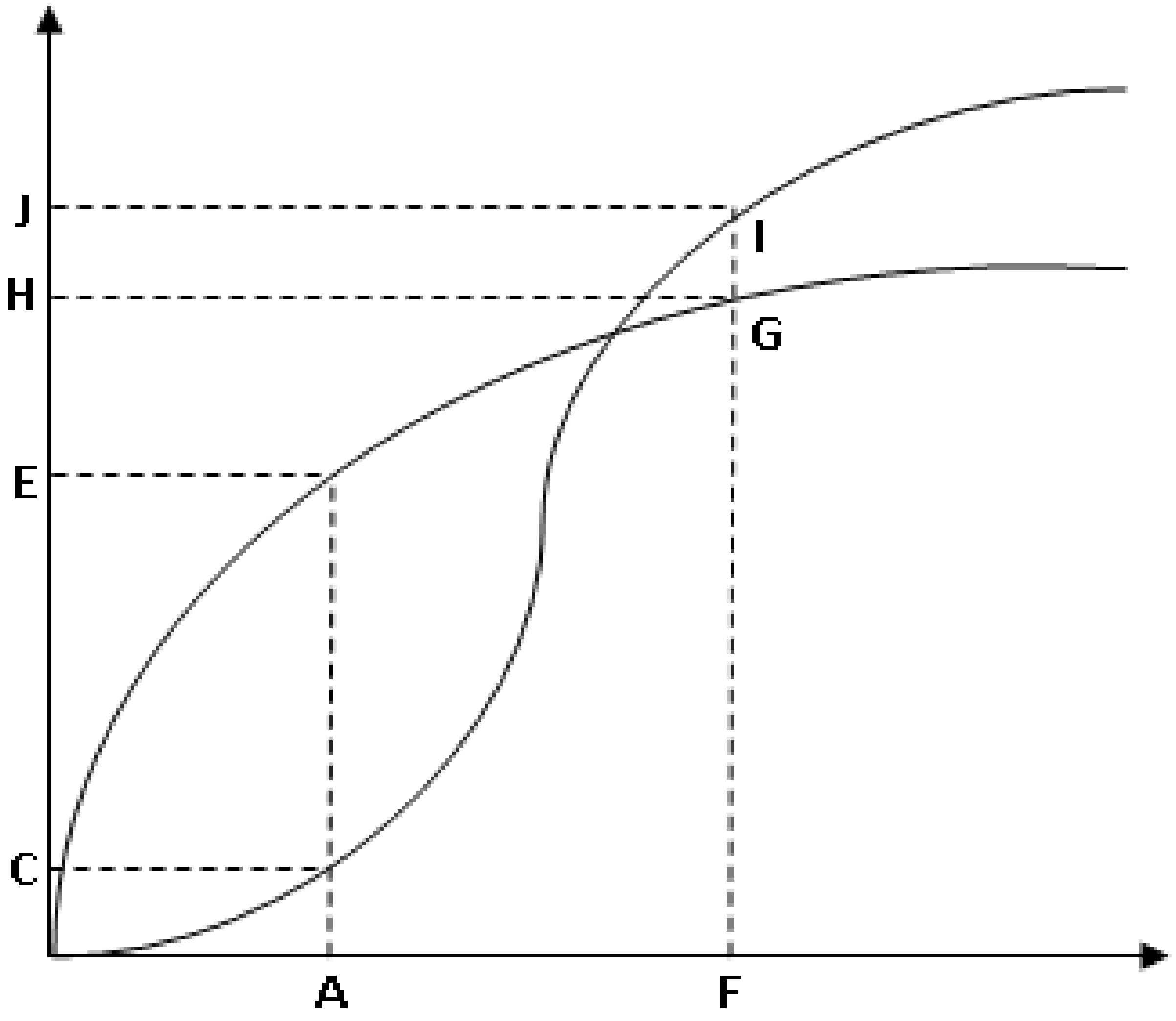
Main criteria for Targeting:

- **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

TARGET	TO	Young fashion lovers
BRAND	OUR	'Brand name'
PRODUCT TYPE	OF ALL	Women apparel
POD (POINT OF DIFFERENCE)	DELIVERS	A unique style of beauty
BENEFIT	WHICH PROVIDES	Special moments of emotion in everyday life
SUPPORTING EVIDENCE	BECAUSE OF	Italian lifestyle and artisanal tradition
BRAND PERSONALITY	PRESENTED IN A WAY THAT IS	Elegant and dynamic
USP (UNIQUE SELLING PROPOSITION	WHAT MAKES THE BRAND DIFFERENT FROM THE OTHERS IS	Artisanal product / Italian fashion designers / store experience

Perceptual map: am 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.

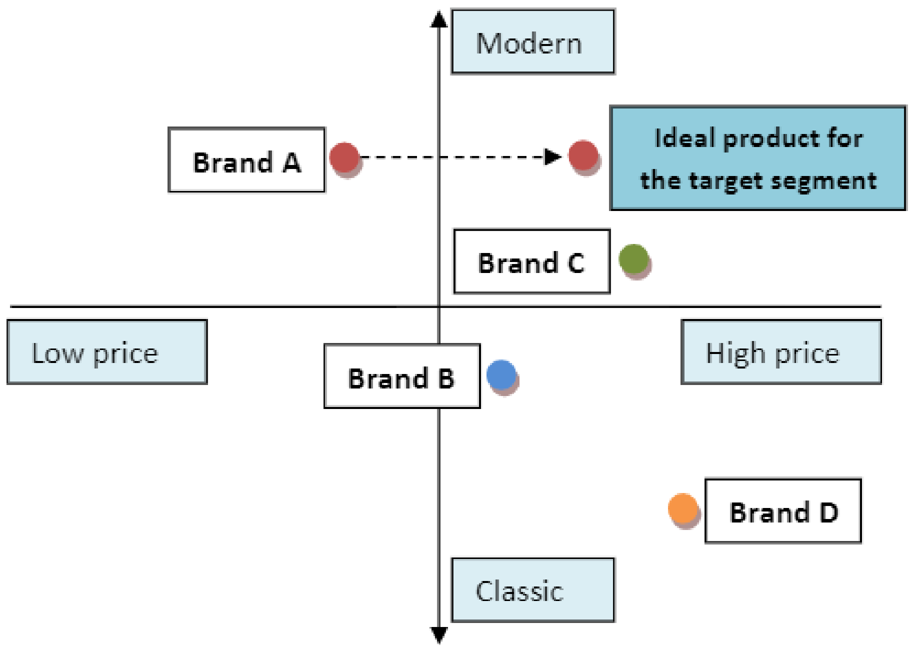


Figure 9.11 – An example of positioning map in the fashion industry

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)

Klara (2010)

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.