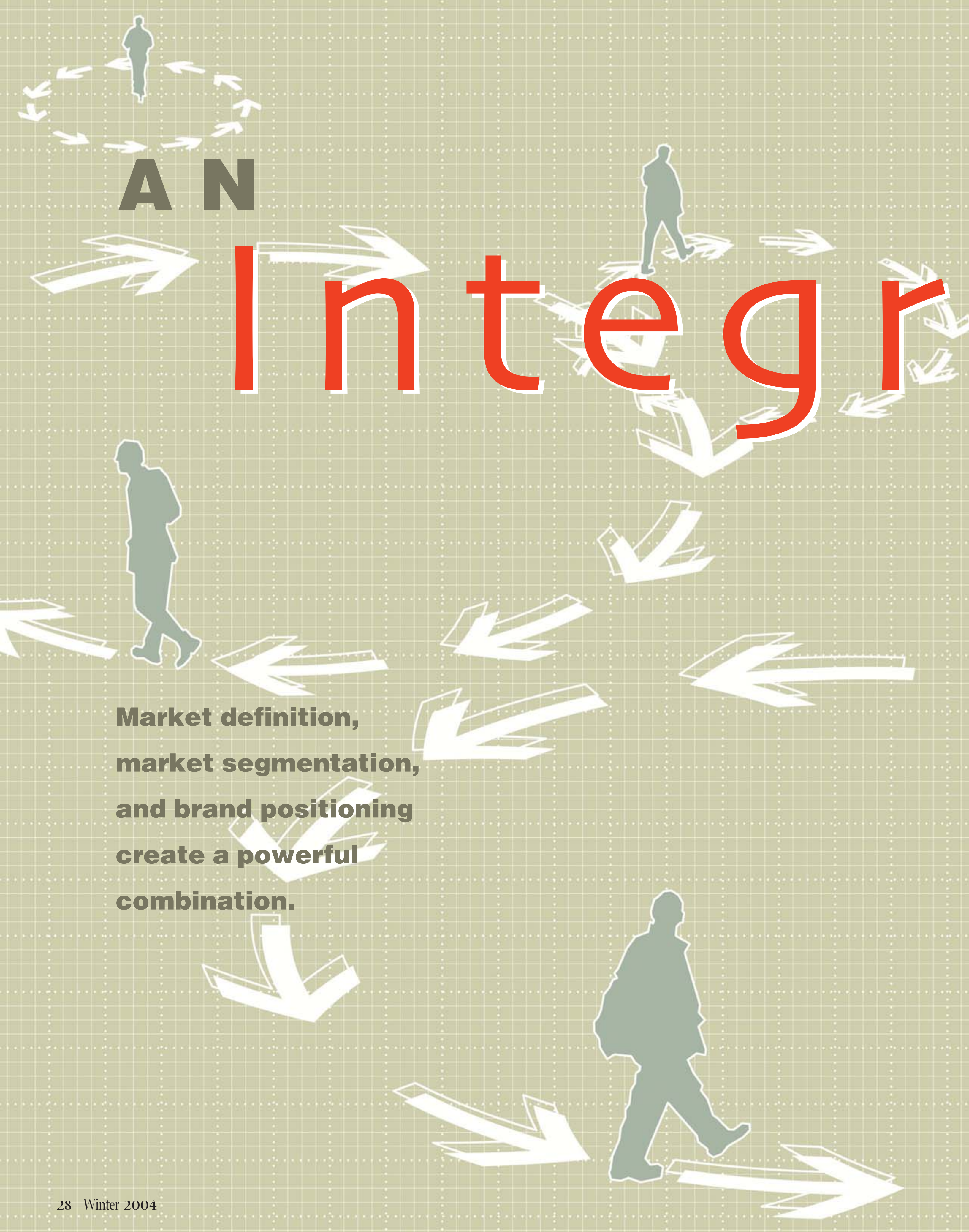

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Market definition, market segmentation, and brand positioning create a powerful combination.

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APPROACH

By Geraldine Fennell
and Greg M. Allenby

Current marketing thinking on the tasks of market definition, market segmentation, and brand positioning is in disarray. Segmentation, in particular, is often discussed in textbooks and articles without defining the market thats segments are to be identified. The researcher is looking for segments among current customers, consumers that currently are prospects in the product category, or individuals taken at random from some unspecified frame (such as people living in the United States). It matters how management defines its market. The definition should correspond to the strategic task that management is facing, and authors should state reasons for the definition they use. Some authors use the term "segmentation" when discussing how customers react to a current array of product offerings. Others consider segments to be groups defined through demographic categories, such as blacks, seniors, or newlyweds. Such groups are segments of the population, but on what basis can they be regarded as market segments? It's not clear exactly what market segmentation currently means and how it provides a distinct orientation to analysis that's different from market definition and brand positioning.

Strategic analysis in marketing has not always been so muddled. In a 1956 article in the *Journal of Marketing* ("Product Differentiation and Market Segmentation as Alternative Marketing Strategies," 21, 3-8), Wendel Smith stated that market segmentation and brand positioning are distinct forms of analysis. Market segmentation, according to Smith, involved analyzing the demand side of the market to obtain a rich understanding of where people are coming from and "the wants" they bring to the marketplace. Identifying such wants was in line with marketing's responsibility of guiding management to "make what people want to buy" by providing insight into the conditions individuals face in their everyday life and work. Smith clearly contrasted such an approach with a form of brand positioning that creates positioning differences without regard to what people want.

Segmentation has since become a general buzzword for any analysis that attempts to identify groups of individuals who are similar in attitudes, response to marketplace offerings,

Executive Summary

The authors of this article discuss an integrated approach to eight questions with answers management needs in order to do business. While market definition, market segmentation, and brand positioning are distinct forms of analysis, each with its own systematic contribution, an integrated approach that uses all three is necessary to answer management's strategic questions.

where they live, or how they are described—for just about any marketing-related task. Such a state of affairs results from many factors, including the ready availability of marketplace data and the hope that meaningful insights can emerge from data analysis, however lacking in strategic direction. In fact, marketing authors often seem to use "segmentation" where authors in other disciplines would speak simply of "analysis," seeking some form of order or pattern by creating and searching for differences among subgroups.

Consider the case of an urban transportation agency that wants to develop an image advertising campaign, perhaps prior to announcing a fare increase or floating a bond issue before voters. Such a case is not an instance of seeking to base product strategy and accompanying communication on one motivational segment found within a relevant universe, as described by Smith. Instead, management is bent on achieving an externally imposed objective other than satisfying prospects' wants as found. Analysis of current customers may identify groups of heavy users—some with negative attitudes about public transportation and others with more positive attitudes. While such analysis can provide useful information for implementing a targeted advertising campaign, it doesn't provide the insight needed to guide management to "make what people want to buy."

The analysis of customers, their attitudes to current offerings, and marketplace behavior in general is ambiguous regarding the reasons that people find value in a brand. Simply knowing that a brand or specific attribute is preferred doesn't provide insight into the conditions that people deal with, for which they would be glad of help and ready to part with money to receive that help.

Knowing the conditions that prospects face is critically important for tasks including brand (re)formulation and obtaining the attention of targets in mass media. Moreover, these conditions need not be reflected in or be retrievable from attitudes toward the offerings currently present in the marketplace—unmet demand (i.e., prospects' conditions that no brand is addressing) almost certainly exists in all markets.

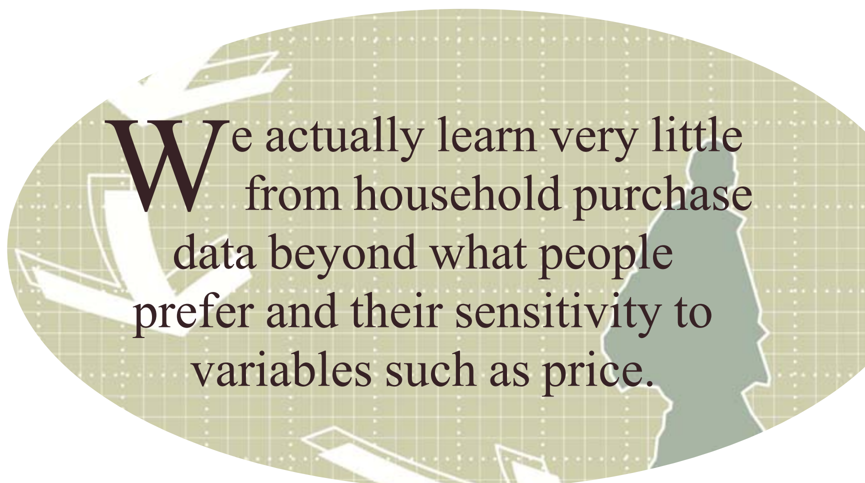
The tasks of market definition, market segmentation, and brand positioning are distinct, each with its own analytic framework and systematic place in marketing strategy. To make an adequate return on investment and monitor performance, a firm needs to have a clear understanding of its market. The firm also needs to offer distinctive brands that "work" for at least some conditions that prospects experience.

Market Definition

In our article "Market Definition: A Strategic Task" (*Marketing Research*, Fall 2003), we identify eight strategic questions that define the boundaries and dimensions of a market, and a method for answering them based on the marketing concept of "making what people want to buy." These questions are answered, either implicitly or explicitly, as firms go about their day to day business. The very nature of business enterprise and exchange in the marketplace requires answers. (See Exhibit 1.)

Defining one's market requires clear and specific answers to some questions. The geographic area, time frame, prospects, and broad price range need specific answers, while the remaining questions require only partial answers. The product offering, price, communication media, distribution channels, and the implicated competition are only partially answered when a firm defines its market. Regarding what to offer, the definition of one's market identifies a product category, not the attributes and benefits of a specific offering. The more detailed answers to the questions are provided by market segmentation analysis and brand positioning analysis.

In deciding whom to make an offering to, the answer comes in two stages. Specifying the outer reach of management's interest in the population found in the chosen geographic area is the first stage. Prospects are defined as individuals who might conceivably part with their money for the right to acquire and use some version of your product category. For market definition, we know only that they engage in everyday activities that qualify them as worth studying. Corresponding to the dog food category are individuals who own and/or care for a dog. Corresponding to the running shoe category are individuals who jog, walk, hike, or, because of a medical condition, need impact-resisting shoes—each of which may correspond to a different market. If in doubt about how to specify the qualifying or screening criterion for prospects, a good rule of thumb is to state it broadly (consistent with reasonable



cost) and ask additional questions to permit narrower definitions that may later seem advisable. It falls to the later task of market segmentation analysis to explore the conditions that people face when engaging in the "focal activity"—activity that corresponds to the product category. The second stage of addressing whom to make an offering to is reached under brand positioning, when it is answered along with "what shall we offer?"

The strategic question of what price to charge is answered in terms of broad price bands when defining a market as premium, standard, or discount, with offerings outside the band not considered a competitive threat. Luxury cars, imported beers, and upscale clothes are generally not considered to be in the same market as their less expensive counterparts. Volvo offerings compete with BMW and Saab offerings, but not with Ford and Chevy. Likewise, Heineken is thought to compete with Bass and other imported beers, but not with domestic offerings. Anheuser Busch Inc. and the Miller Brewing Co. do not include the more expensive imports in their calculations when computing market shares and investigating switching behavior.

Similarly, the brand offering, communications media, and distribution channels are identified only with regard to a general version or type. When defining its market, management knows it will compete in the luxury car or import beer market, but it has not yet chosen the specific attributes, media vehicles, or specific exchange venues. Fine grain decisions on such matters await further investigation and analysis.

An example of the creative use of market definition occurred in the long distance market for phone calls. Where other carriers had focused on individuals calling within the United States or to Europe, Americatel Corp. chose to focus on people calling to Latin countries. Consistent with defining its prospects in this manner, Americatel chose to advertise the service on Hispanic TV. It goes without saying that individuals in a market so defined are heterogeneous. Identifying and describing diverse wants regarding long distance telephone service to Latin countries is a task for market segmentation research.

Market definition sets the stage for additional analysis where specific answers to the strategic questions are obtained. An integrated approach to these strategic tasks involves separate analyses for the demand and supply sides of the market. The demand side of the market comprises individuals engaged in activities that are relevant to the product class identified in market definition. The purpose of market segmentation analysis is to identify, and quantify the incidence of, the within-activity conditions that form the context for the focal activity. The supply side of the market comprises the set of offerings and potential offerings competing for a share of the resources that prospects are ready to spend in the product category. The extent to which such offerings adequately respond to the qualitatively diverse range of demand-creating conditions (DCC) is studied in brand positioning analysis, where market targets are selected and specific product features, price, media vehicles, exchange venues, and competitors are identified.

Exhibit 1 A framework for strategic analysis

Strategic Questions	Market Definition	Market Segmentation	Brand Positioning
What geographic area will we operate in?	(e.g., domestic United States)		
What time frame have we in mind?	(e.g., calendar 2004, 2005)		
What will we offer?	Some version of product category X		Brand with attributes responsive to DCC_g
To whom will we offer it?	Define prospects (e.g., people who buy/use product category X or engage in corresponding activity Y.)	• Identify kinds of demand-creating condition (DCC_{a-n}) • Assess state of want-satisfaction for each kind • Order DCC with a view to ROI and choosing DCC_x to target	Prospects who experience DCC_g (i.e., targets)
What price will we charge?	State broad price band (e.g., discount, premium)		Specific price (e.g., $1.79)
How will we let them know about our offering?	State tentative ideas for media type		Media vehicles, attentional strategy, brand claims responsive to DCC_g
How/where will we engage in exchange with them?	State tentative ideas for exchange venue type		Specific exchange venues
Whom will we compete with?	State competitors implicated by choices on other dimensions	• State competitors implicated by (DCC_{a-n})	Competitors implicated by DCC_g

Market Segmentation

The purpose of market segmentation analysis is to understand where prospects are coming from. People engage in observed behaviors for many different reasons. They go swimming, walk the dog, take their car in for repair, and hire marketing research consultants for reasons that range from solving immediate problems to relishing some aspects of the activity itself. By developing their understanding of the DCCs that lead to action, marketers guide product formulation and meaningfully participate in the tasks and interests of prospects.

Some authors are on record as stating that market segmentation is a strategy of last resort—it is what firms do when they have a weak brand. If the brand isn't strong enough to appeal to everyone, then perhaps it could appeal to someone. We disagree with this orientation. No brand can legitimately claim to be responsive to all of the DCCs that lie behind an observed action in any product category. No one winter coat can protect all people from the elements they experience, no one oxidizing chemical works for all household stains, and no one marketing research publication can be responsive to all the conditions in which management allocates funds to conduct marketing research. If it were true that market segmentation is a strategy of last resort, we wouldn't see the extensive variety of offerings available in all product categories. Most obviously, the help that users can obtain from a product category ranges from strong (responsive to urgent or extreme versions of the underlying conditions) to mild or gentle (tailored to minimize the chance that the product's effect could be harmful).

Other authors have stated that market segmentation is a necessary evil that will diminish in importance as firms obtain more detailed records of household purchase transactions. We again disagree. As noted, DCCs are not retrievable from purchase behavior, or even from noting the objective consumption environment. We actually learn very little from household purchase data beyond what people prefer and their sensitivity to variables such as price. While such information is useful for devising price promotions for existing offerings, it offers little guidance to any of the strategic questions in Exhibit 1.

Market segmentation analysis is the discipline's classic research approach to providing information relevant to devising, assessing, and possibly changing management's product strategy and the accompanying communications message. It is firmly grounded in management's search for guidance on product strategy to make the best use of its resources, with a view to obtaining a satisfactory return on investment (ROI). Management's resources are used to best advantage when they build on the way people are bent on spending their resources.

For this reason, market segmentation research is directed to understanding motivational influences as they already exist in the everyday lives of management's prospects. It is a matter of plain common sense that resources are better allocated when management responds to pre-existing demand, rather than putting resources at risk by first trying to change the way people are ready to use their resources.

Corresponding to each product category is a domain of activity (e.g., for packaged vacations, there is taking a week's vacation away from home; for dog food, there is owning/caring for a dog). For each activity, prospects have a variety of orientations across individuals and, sometimes, within individuals over time (i.e., from one occasion of the activity to another).

A prime task of management is to investigate, describe, and roughly quantify the specifics (i.e., personal and environmental elements) of each of these orientations in its product category. This is the basic function of market segmentation research.

An implication of the present orientation is that segments of demand are identified, not imposed. What is at issue is identifying the naturally occurring kinds of demand—the conditions that preexist in the prospect's world, predisposing them to spend their resources in a particular way. Management is identifying a diversity that already exists. Accordingly, imposing some extraneously determined segmentation scheme is not at issue. Analytic groups derived from patterns of response to management strategy don't qualify as naturally occurring segments of demand because (1) respondents are constrained to express demand in terms of options that management has provided and (2) while the analysis of such imposed groupings may be useful for pursuing tactical management objectives, they don't address the strategic objective of deciding "what to offer to whom."

In our orientation, management defines its market and then selects from the natural diversity of demand that it finds therein, rather than imposing groupings determined outside the system or based on reactions to marketing efforts. The DCCs are considered fixed in the analysis for several reasons. First, they exist outside of the marketplace in the context of everyday life and work and are therefore difficult to influence. Also, the marketing concept, "make what people want to buy," is built on the premise that it's more profitable to tailor your offering to the prospect than to try to tailor the prospect to fit the offering.

Understanding where people are coming from involves conceptualizing and quantifying the DCCs relevant to an activity. In our article, "No Brand Level Segmentation?" (*Marketing Research*, Spring 2002), we discuss measuring DCCs as the motivational component of an occasion for action. Motivating conditions are expressed as the concerns and interests that lead people to action, and examples are provided for the act of brushing teeth. In research with Sha Yang, we have found that the concerns and interests are predictive of relative brand preference and offer a useful basis variable for market segmentation. Moreover, in other research we find that they provide an opportunity to consider unmet demand in a product category.

Management's resources are used to best advantage when they build on the way people are bent on spending their resources.

Once the DCCs are identified and measured, market segmentation analysis proceeds by assessing the state of want satisfaction for each kind of concern or interest. Conventional criteria for assessing segments of demand include characteristics such as "substantial" and "actionable." While adjectives such as these are difficult to disagree with, they provide little substantive guidance as to how a firm should proceed. Target selection must consider the capability of the firm to meaningfully respond to some subset of the DCCs given its capabilities, actual and perceived, related to core competencies. Here, the analyst is organizing the information obtained in market segmentation research to facilitate brand positioning—the next stage.

Brand Positioning

The strategic task of brand positioning refers to management's selecting as its market targets (1) a subset of conditions (DCCs) to address with a responsive offering and (2) the individuals who experience such conditions. In contrast to studying where people are coming from, which is the purpose of market segmentation analysis, the purpose of brand positioning is to influence the brands prospects choose in the marketplace. Broadly speaking, product strategy has to do with designing a brand so that it can claim and deliver getting enough prospects to where they want to be to provide management with a satisfactory ROI. More specifically, brand positioning analysis involves further refining answers to the strategic questions in Exhibit 1 in light of the defined market, the state of want satisfaction, competing offerings, and best use of management's resources.

As a strategic task, brand positioning is based on management's conducting an iterative evaluation of the inroads that an offering can achieve by designing it to respond to some region of the diverse kinds of demand as found. For each segment of demand, management reviews the current state of want satisfaction provided by existing offerings, with a view to assessing its ability profitably to improve on what is currently available. Such assessment takes account of the possible hegemony of the competitors in a segment. Segments of demand served by strong competitors are viewed as less attractive than those served by weak competitors. If a competing firm does not already have the segment locked up, specific levels of attributes are identified in response to the DCCs. Such attributes can be physical (e.g., breath freshening) and psychological (e.g., shows others you care about yourself). Management assesses likely credibility and attractiveness of the selling proposition as identified with the firm.

Now consider getting the brand's message to its targets—those prospects with conditions that the brand has been tailored for. From the initial selection of communications medium (e.g., nationwide TV, print, or billboards), management chooses specific media vehicles within that broad range. Getting the message to the brand's targets has to be thought of in two stages—choosing media vehicles that expose the message in the presence of prospects, and gaining the attention of targets among those prospects by what is shown and said in the advertising execution.

In stage 1, the link between prospects and media vehicles can be made via demographics. That is, sellers of media vehicles use demographic information to describe their audiences, and management knows the demographic profile of its prospects. Based on such a demographic matching, management seeks audiences that contain prospects disproportionately. In stage 2 (i.e., engaging the attention of its targets in such audiences), management must rely on how it constructs its advertising message to ensure that the ad portrays the conditions for which the brand has been tailored, and conveys the attributes that equip the brand to address those conditions.

Specific answers to the remaining variables of price and exchange venue are so dependent on the particular situation—product category, status in the marketplace, and options actually available—that it is generally not possible to prescribe a sequence of steps to arrive at optimal answers to these final strategic questions. Management may have access to a favorable exchange venue, or a specific magazine or other media vehicle may exist that efficiently provides access to prospects. Such factors affect determining an optimal, profit maximizing price.

Brand positioning and, indeed, finding the best answers to all the strategic questions in Exhibit 1, form a highly creative enterprise. By a process of successive approximation, it involves management's choosing the most advantageous position on each of the variables where its actions have strategic implications. These are the classic domains of strategic choice, where management seeks the best use of its resources in selecting (1) whom to include in its market (prospects), (2) which DCCs found among prospects to target by building responsive features into its offering (product), (3) how best to get its brand's message to its targets (promotion), (4) consistent with ROI, a minimal price in money terms (price), and (5) user-convenient arrangements for effecting exchange (place).

Advantages

Taking an integrated approach to the tasks of market definition, market segmentation, and brand positioning offers a number of advantages. First, the approach highlights the strategic and tactical nature of variables such as prospects, product, price, place, and promotion. Price, for example, plays a dual role in marketing. The general price band of an offering is associated with market definition, and the specific value of price within the band is used to optimize profits for a brand—given that it is a player in the market. Initially, the product category determines which individuals in a given population management regards as prospects. The type of communications medium, exchange venue, and price band have strategic implications for which prospects and competition the market comprises, while the specific media vehicle (e.g., specific magazine), message (e.g., ad content and execution), exchange venue (e.g., specific department store), and specific attribute levels (e.g., 6x zoom lens) influence whether or not the offering is chosen sufficiently often to provide satisfactory ROI.

Second, an integrated approach provides a context for considering answers to each of the major strategic questions that give due recognition to the user-producer interface. On the producer side, management starts with a geographic area in which it wants to do business and a product category of interest and selects relevant individuals from the population in its geographic area. Further defining its market, management puts in place the broad communications, exchange venue, and price bands of the venture. Taking that market as defined, it is then the role of market segmentation to study the conditions outside the marketplace that lead prospects to engage in the focal activity. We thus avoid circular definitions of consumer segments that are characterized in terms of their reaction to real or hypothetical offerings. Such analysis brings together the user and producer worlds prematurely. This leads to blurred understanding and a dilution of marketing's ability to represent the world of the consumer and give equal treatment to the systematic roles of users and producers. Attempting to read consumer wants by studying what people choose is limited by the offerings that happen to be present in the marketplace. When market segmentation research is, as here, based on a description of prospects' wants that is independent of marketplace offerings, it provides better guidance to firms to "make what people want to buy."

Finally, the present integrated approach leads to substantive analysis of users and producers. The task of market definition sets up bounds on the range of users, producers, and interface variables to be studied. Market segmentation analysis focuses primarily on the user side of the market, and brand positioning explores producers' product offerings and further productive capability in light of users' diverse wants. By focusing on the user side of the market, market segmentation analysis becomes a clearly defined task aimed at understanding qualified prospects in the context of their lives. Brand positioning analysis becomes similarly focused on the producer side, by studying how management's task of finding the best use for its resources can be achieved through its skill and creativity in leveraging those resources in light of the way people are ready to deploy their resources. The outcome is an integrated analysis that recognizes the systematic contribution of each task. ●

Additional Reading

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