**Chapter 3**

**International Market Segmentation, selection and positioning**

* 1. **Segmenting international markets**

Few companies have either the resources or the will to operate in all or even most of the countries in the globe. Although some large companies such as coca cola or Sony sell products in 200 countries, most international firms focus on a smaller set.

Global market segmentation can be viewed as the process of identifying segments whether they are country groups or individual buyer groups of potential customers with homogeneous attributes who are likely to exhibit similar buying behavior patterns.

There is consensus among practitioners and academics that the time and expense of conducting segmentation studies and implementing international segmentation systems is justified by the contribution of segmentation to effective brand positioning and performance. However, there has been limited attention given in the literature to identify the dimensions used to form international market segments (Steenkamp and Hofstede, 2002).

Complicating the segmentation issues in world markets is the need for companies to make strategic positioning decisions on leveraging brand equity and achieving economies of scale.

Operating in many countries presents new challenges. Because of differences in cultural, economic and political environment among various countries, international markets tend to be more heterogeneous than domestic markets.

Companies can segment international markets using one or a combination of several variables. They can segment by ***geographic location***, by regions such as Western Europe, the Middle East, Africa or the Pacific Rim. Geographic segmentation assumes that nations close to one another will have many common traits and behaviors. Although this is often the case, there are many exceptions. For example, although the United States and Canada have much in common, both differ culturally and economically from neighboring Mexico.

World markets can also be segmented on the basis of ***economic factors***. For example, countries might be grouped by their level of economic development and by population income levels. A country’s economic structure shapes its population’s product needs and therefore, the marketing opportunities it offers.

Countries can be segmented by ***political and legal factors*** such as the type and stability of government, its receptivity of foreign firms, monetary regulations, and the complexity of bureaucracy. Such factors play a crucial role in a company’s choice of which countries to enter and how. ***Cultural factors*** can also be used i.e. grouping markets according to common language, religions, values and attitudes.

Segmenting international markets on the bases of the aforementioned factors assumes that segments should consist of clusters of countries. However, many companies use a different approach called inter-market segmentation. Using this approach, they form segments of consumers who have similar needs and buying behavior even though they are located in different countries. For example, Mercedes Benz targets the world’s well-to-do groups regardless of their country.

MTV targets the world’s teenagers. They share more in common. One expert says ‘in their buying behavior, it is difficult to find anything different other than language among teenagers in Japan, in UK and in China”.

Depending on the number of countries involved, a firm operating in the international arena may find a segmentation strategy more appropriate than a firm that operates in a domestic market.

A primary difference between calling a firm international or global involves the scope and bases of segmentation. An international firm is one with a scope of segmentation based on few national markets. A global firm is one that views the globe broadly as part of its total market and develops segmentation strategies based on receptive segments of the markets, wherever they are in the world.

Despite the growing homogeneity of needs among consumers on a worldwide basis, some authors focus on the adaptation of products and marketing efforts on a country-by-country basis, as opposed to the standardization of products and marketing efforts on a global basis.

In domestic markets, customer characteristics such as age, sex, social class, personality, brand loyalty, product usage and attitudes toward the given brand are often used as bases for segmentation. In international markets, on the other hand a further dimension has to be considered, namely that of country characteristics.International markets can therefore be segmented in a two-step process.

First the macro segment composed of individual or groups of countries can be identified based on national market characteristics. Then, within each macro-segment, the market can be further sub-divided based on customer characterization.

The operational distinction between country characteristics and customer characteristics is that country characteristics are common to all customers of the given country such as national character or dominant cultural patterns. Customer characteristics on the other hand are those characteristics which enable a distinction among various customers within a country such as social classes, age, sex, etc.

The predetermined country characteristics of cultural, economic, geographic, technological, etc. are inadequate for segmentation when considered without behavioral bases like buyers’ responsiveness to the global marketing program.

Kale and Sudharshan (1987) propose a three-step analysis. First, select the appropriate countries to enter based on factors such as political climate and communications infrastructure. Second, identify specific customer segments to serve within each country based on product and marketing mix factors. Finally, select customer segments across a range of countries that may be served with a common marketing mix without regard to geographic boundaries.

This inter-market segmentation approach refers to “ways of describing and reaching market segments that transcend national boundaries or that cut across geographically defined markets”

This approach emphasizes that inter-market segments are based on variables other than national boundaries. A hybrid approach that considers both macro bases, as well as micro bases, is found to be more realistic.

* 1. **Evaluating and selecting market segments**

In evaluating different segments, a firm must look at the segment’s current size and growth, overall attractiveness and the firm’s resources and objectives.

Some attractive segments may not mesh with the firm’s long-run objectives or the firm may lack one or more necessary competencies to offer superior value.

After evaluating different segments, the firm can consider five patterns of target market selection.

1. **Single segment concentration**

Through concentrated marketing, the firm gains a strong knowledge of the segment’s needs and achieves a strong market presence. Furthermore, the firm enjoys operating economies through specializing its production, distribution and promotion.

However, the risk of segment’s taste change/sour and competitors’ invasion of the segment may be high. For example, when digital camera technology took off, Polaroid’s earnings fell sharply. For these reasons, many companies prefer to operate in more than one segment. If selecting more than one segment to serve, a firm should pay close attention to segment interrelationships on the cost, performance and technology side. Companies can try to operate in super segments rather than in isolated segments. A super segment is set of segments sharing some exploitable similarity.

1. **Selective specialization:** a firm selects a number of segments each objectively attractive and appropriate. There may be little or no synergy among segments but each promising to be a money maker. This multi-segment strategy ensures the firm’s risk diversification tendency.

The best way to manage multiple segments is to appoint segment managers with sufficient authority and responsibility for building the segment’s business.

1. **Product specialization**

The firm makes a certain product that it sells to several different market segments. An example would be a microscope manufacturer that sells to university, government agencies and commercial laboratories. The firm makes different microscopes for the different customer groups and builds a strong reputation in the specific product area.

1. **Market specialization**

A firm concentrates on serving many needs of a particular customer group. For example, a firm that sells an assortment of products only to university laboratories represents market specialization. The firm gains a strong reputation in serving this customer group and becomes a channel for additional products the customer group can use. The downside risk is that the customer group may suffer budget cuts or shrink in size.

1. **Full market coverage**

A firm attempts to serve all customer groups with all the products they might need. Large firms can cover a whole market in two broad ways: through undifferentiated marketing (shotgun approach) or differentiated marketing (rifle approach).

* + 1. **Costs of segmented marketing**

Differentiated marketing typically creates more total sales than undifferentiated marketing. However, it increases the costs of doing business as follows:

1. Product modification costs: modifying a product to meet different market segment requirements usually involves R & D costs.
2. Manufacturing costs: it is usually more expensive to produce 10 units of 10 different products than 100 units of one product. The longer the production setup time and the smaller the sales volume of each product, the more expensive the product becomes. However, if each model is sold in sufficiently large volume, the higher setup costs may be quite small per unit.
3. Administrative costs: the company has to develop separate marketing plans for each market segment. this requires extra marketing research, forecasting, sales analysis and channel management
4. Inventory costs: it is more costly to manage inventories containing many products
5. Promotion costs: the company has to reach different market segments with different promotional programs. The result is increased promotion planning costs and media costs.

**Segmented marketing gains**

* The firm gains more knowledge about customers’ needs, more sales
* More customer satisfaction and loyalty (brand bonding)
* Efficient resource allocation
	1. **Positioning for Competitive Advantages**

Beyond deciding which segments of the market it will target, the company must decide what positions it wants to occupy in those segments. A products position is the place the product occupies in consumers’ mind relative to competing brands. It is the way the product is defined by consumers on important attributes. Positioning involves implanting the brand’s unique benefits and differentiation in customers’ mind.

Customers are overloaded with information about products. They cannot reevaluate products every time they make a buying decision. To simplify the buying process, customers organize products and companies into categories and position them in their mind. So, a product’s position is the complex set of perceptions, impression and feelings that customers have for the product compared with competing brands.

Customers position products with or without the help of marketers. But marketers do not want to leave their product’s position to chance. They must plan positions that will give the products the greatest advantage in selected target markets and they must design marketing mixes to create these planned positions. Imitable

* + 1. **Choosing positioning strategies**

The goal of positioning is to locate the brand in the minds of consumers to maximize the potential benefit to the firm. The result of positioning is the successful creation of a customer-focused value proposition.

Some firms find it easy to choose their positioning strategy. For example, a firm that will be known for quality in certain segments will go for this position in a new segment if there are enough buyers seeking quality. Each firm must differentiate its offer by building a unique bundle of benefits that appeal a substantial group within the segment.

The positioning task consists of the following steps: identifying a set of possible competitive advantages up on which to build a position, choosing the right competitive advantages, selecting an overall positioning strategy and effectively communicate and deliver the chosen position to the market.

1. **Identifying Possible Competitive Advantages**

The key to win and keep the target customers is to understand their needs than competitors do and to deliver more value. To the extent that a company can position itself as providing superior value, it gains competitive advantage. But solid positions cannot be built on empty promises. If the company positions its product as offering the best quality, it must then deliver the promised quality. Thus, positioning begins with actually differentiating the company’s marketing offer so that it will give consumers more value than competitors’ offers do.

Competitive advantage is an advantage over competitors gained by offering consumers greater value, either through lower prices or by providing more benefits that justify higher prices.

To find points of differentiation, marketers must think through the customers’ entire experience with the company’s product. An alert company can find ways to differentiate itself at every point where it comes into contact with customers. A company’s marketing offer can be differentiated along the line of product, services, channel, people or image.

**Product differentiation** takes place along a continuum. At one extreme, we find products that allow little variation like steel, aspirin. On the other extreme, there are products that can be highly differentiated such as automobile, clothing, furniture. Such products can be differentiated on features, performance, or style and design. Companies can also differentiate their products on such attributes as consistency, durability, reliability or reparability. Beyond differentiating its physical product, a firm can also differentiate the service that accompanies the product. Some companies gain **service differentiation** through speedy, convenient and careful delivery. Installation can also differentiate one company from another. Some companies differentiate their offers by providing customer training service or consulting service, information system that buyers need. Firms that employ channel differentiation (coverage, expertise and performance), gain competitive advantage through the way they design their channels coverage, expertise and performance.

Companies can gain a strong advantage through **people differentiation**-hiring and training better people than competitors.

Even when competing offers look the same, buyers may perceive a difference based on company or brand image differentiation. A company or brand image should convey the products’ distinctive benefits. Developing a strong and distinctive image calls for creativity and hard work. A company cannot plant an image in the public’s mind overnight using only a few advertisements.

**Cultural symbol positioning** involves an item or brand achieving unique status within a culture or region. Cultural symbols reflect a characteristic of a nation or region and may evolve from popular culture, religion, or other factors that make an area distinct.

Consumers often buy a product when it is viewed as a cultural symbol.

1. **Choosing the right Competitive Advantages**

Suppose a company is fortunate enough to discover several potential competitive advantages. It now must choose the one on which it will build its positioning strategy. It must decide how many differences to promote and which ones.

* ***How many points of difference to promote?***

Many marketers think that companies should aggressively promote only one benefit to the target market. Other marketers think that companies should position themselves on more than one points of difference. This may be necessary if two or more companies are claiming to be best on the same product attribute. Today, it is a time where mass market is fragmented into many small segments. Companies are trying to broaden their positioning strategies to appeal to more segments.

* ***Which difference to promote?***

Not all differences are meaningful or worthwhile; not every difference makes a good differentiator. Each difference has the potential to create company costs as well as customer benefits. Therefore, the company must carefully select the ways in which it will distinguish itself from competitors. A difference is worth establishing to the extent that it satisfies the following criteria:

***Important:*** the difference delivers a highly valued benefit to target buyers.

***Distinctive:*** competitors do not offer the difference, or the company can offer it in a more distinctive way.

***Superior:*** the difference is superior to other ways whereby customers might obtain the same benefit.

***Communicable:*** the difference is communicable and visible to buyers.

***Preemptive****:* competitors cannot easily copy the difference.

***Affordable:*** buyers can afford to pay for the difference.

***Profitable:*** the company can introduce the difference profitably.

***Brand’s points of parity:***

Category points of parity are associations to the brand which consumers view as essential to be a legitimate and credible offering within a certain product category. In other words they represent necessary but not necessarily sufficient conditions for brand choice. For example travelers might not consider a travel agency truly a travel agency unless it is able to make air and hotel reservations, provide advice about leisure packages, and offer various ticket payment and delivery options.

On the other hand, competitive points of parity are associations designed to negate competitors’ points of difference. If, in the eyes of consumers the brand association designed to be the competitors’ point of difference is as strong for a brand as for competitors and the brand is able to establish another association as strong, favorable, and unique as part of its point of difference, then the brand should be in a superior competitive position. In other words if a brand can break-even in those areas where competitors are trying to find an advantage and can achieve an advantage in other areas the brand should be in a strong and perhaps unbeatable competitive position.

1. **Selecting an overall positioning strategy**

Consumers typically choose products that give them the greatest value. Thus, marketers need to position their brands on the key benefits that they offer relative to competing brands. The full positioning of the brand is called the brand’s value proposition-the full mix of benefits upon which the brand is positioned. It is the answer to the customers’ question “why should I buy your brand”. The following are some of winning value propositions upon which companies can position their products:

**More for more:** this positioning strategy involves providing the most upscale product and charging a higher price to cover the higher costs.

**More for the same:** companies can attack competitors’ having more for more positioning by introducing a brand offering comparable quality but at a lower price than the former.

**The same for less:** can be a powerful value proposition everyone likes. Companies following this positioning do not claim to offer different or better products; instead they offer many of the same brands at deep discounts based on superior purchasing power and low cost.

**Less for much less:** a market always exists for products that offer less and therefore costs less. Few people need, want or can afford “the very best” in everything they buy. In many cases, consumers will gladly settle for less than optimal performance.

**More for less:** of course, the winning value proposition would be to offer more for less.

1. **Communicating and delivering the chosen position**

Once it has chosen a position, the company must take strong steps to deliver and communicate the desired position to target customers. All the company’s marketing mix efforts must support the positioning strategy. Positioning the company calls for concrete action not just talk. If the company decides to build a position on better quality and service, it must first deliver that position. Designing the marketing mix-product, price, place and promotion involves working out the tactical details of the positioning strategy. Thus, a firm that seizes on a more-for-more position knows that it must produce high quality products, charges a high price, distribute through high quality dealers and advertise in high quality media. It must hire and train more service people, find retailers who have a good reputation for service and develop sales and advertising messages that broad cast its superior service. This is the only way to build a consistent and believable more-for-more position.

Companies often find it easier to come up with a good positioning strategy than to implement it. Establishing a position or changing usually takes a long time. In contrast, positions that have taken years to build can quickly be lost. Once the company has built the desired position, it must closely monitor and adapt the position over time in order to match changes in customers’ needs and competitors’ strategies. However, the company should avoid abrupt changes that might confuse consumers. Instead a product’s position should evolve gradually as it adapts to the ever changing marketing environment.