Marketing Playbook:

Segmentation and Positioning

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(PMEC)
West 2008

This was originally presented as a one hour session at PMEC West 2008, a conference produced by the Association of International Product Marketing and Management (www.aipmm.com). It will be offered as a 4 hour workshop at PMEC East 2008, October 13-15, 2008 near Washington, DC. The workshop will cover substantial new material that is not included here. If interested, I encourage you to attend (http://aipmm.com/html/pmec/#overview) or contact me (lee.shaeffer@plmassociates.com).

ORIGINAL SPEAKER'S NOTES:

As promised, this is the "Director' Cut" that includes speaker's notes and additional slides that were removed so the presentation would fit the allotted time.

My wife, an international copyright lawyer, wanted me to remind you that this is for private use only. This includes sharing it with your colleagues.

This presentation covers a lot of of ground in a short time. If you have any questions that didn't get answered during the session, please contact me. (My contact information is at the end.) I enjoy answering questions for free, with no strings attached, because it provides valuable feedback on what your issues and hot buttons are, which parts of the presentation may not have been clear and which sections I may want to embellish. I also view my end product as positive change within an organization, and answering your questions will help facilitate that.

Agenda

- Why Segment?

- Three Dimensions of Segmentation

- An Approach to Segmentation

- The "Community" as a Segment

- Product Positioning

- Q & A

There is much more to this topic than we can cover in ~1 hour

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We'll spend most of the time discussing market segmentation, since product positioning often depends heavily on the segment being targeted.

My Biography

- Managing Director, PLM Associates

- >20 years in Development, Product Management and Marketing
  - **Apple, Unisys, Imagery/Kodak…**

- Instructor of numerous workshops, including:
  - "Achieving Excellence in Product Marketing & Management"
  - "Successful Innovation and Development of Services"
  - "Successful Development of Products & Services"

- McKinsey & Company

- B.S.E.E. Massachusetts Institute of Technology; MBA, Stanford University

"When great theoretical solutions encounter human behavior, human behavior wins."

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I have over 20 years of product management and product marketing experience myself, so I can appreciate what most of you go through in your jobs.

Why Segment?

- "I suspect most (likely all) people have heard of market segmentation.

  "If that's true, then…why isn't it used more often?"

A question posed by an executive.

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This was a question posed by one of the board members of an association to which I delivered an earlier version of this presentation. We were preparing the publicity for this event and the question resonated, so I use it as a point of departure for the "Why Segment" discussion.

My observation is that most companies practice some form of segmentation already - unless they are trying to be all things to all people, which most aren't - but many are not being precise enough.

If my observation is correct, a better question might be, "If you were to spend more time and effort doing a better job at market segmentation than you are already spending, would the additional investment be worth it?"

Product Profit Versus Market Scope

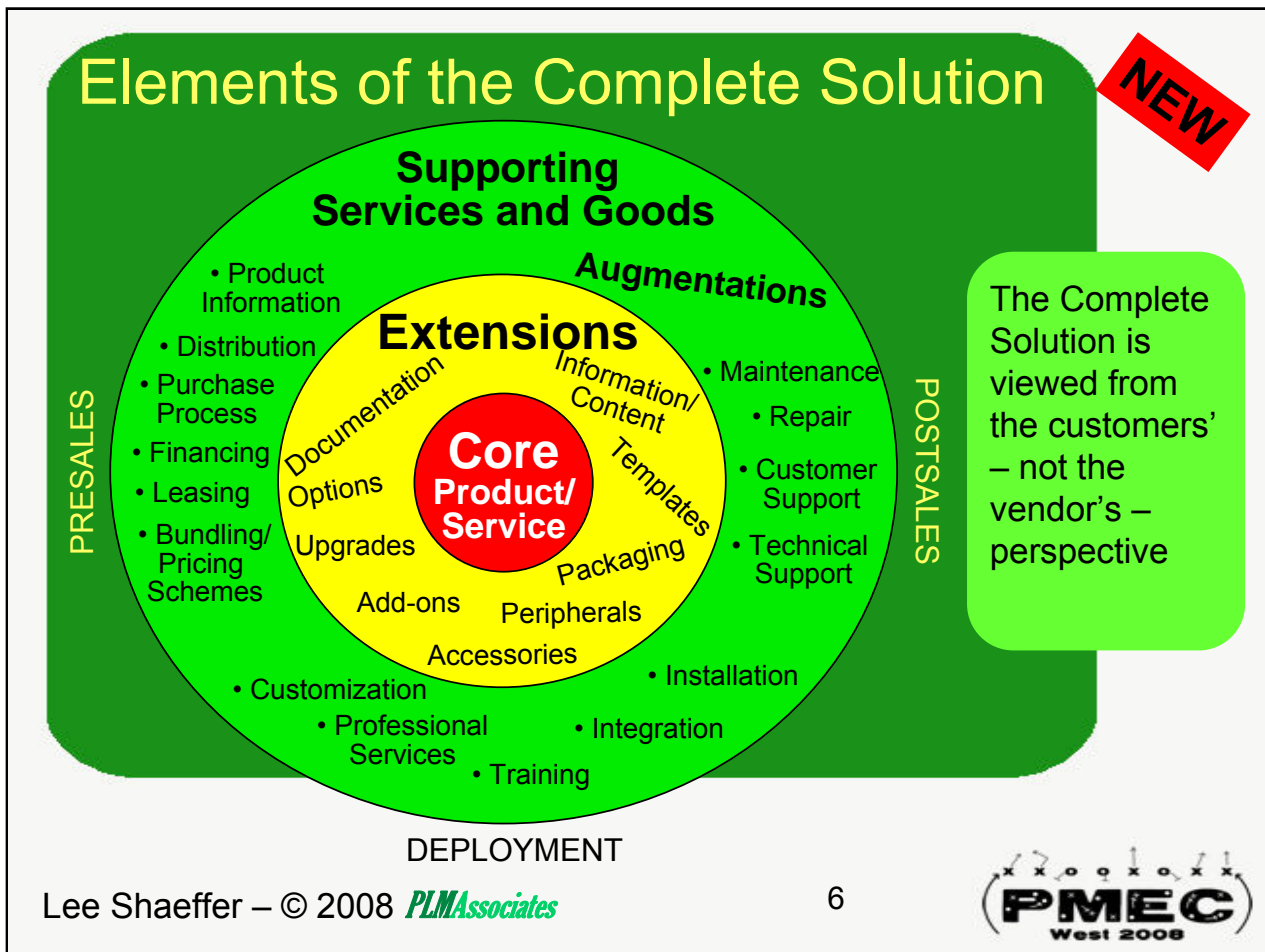Lee Shaeffer – © 2008 *PLMAssociates*   5
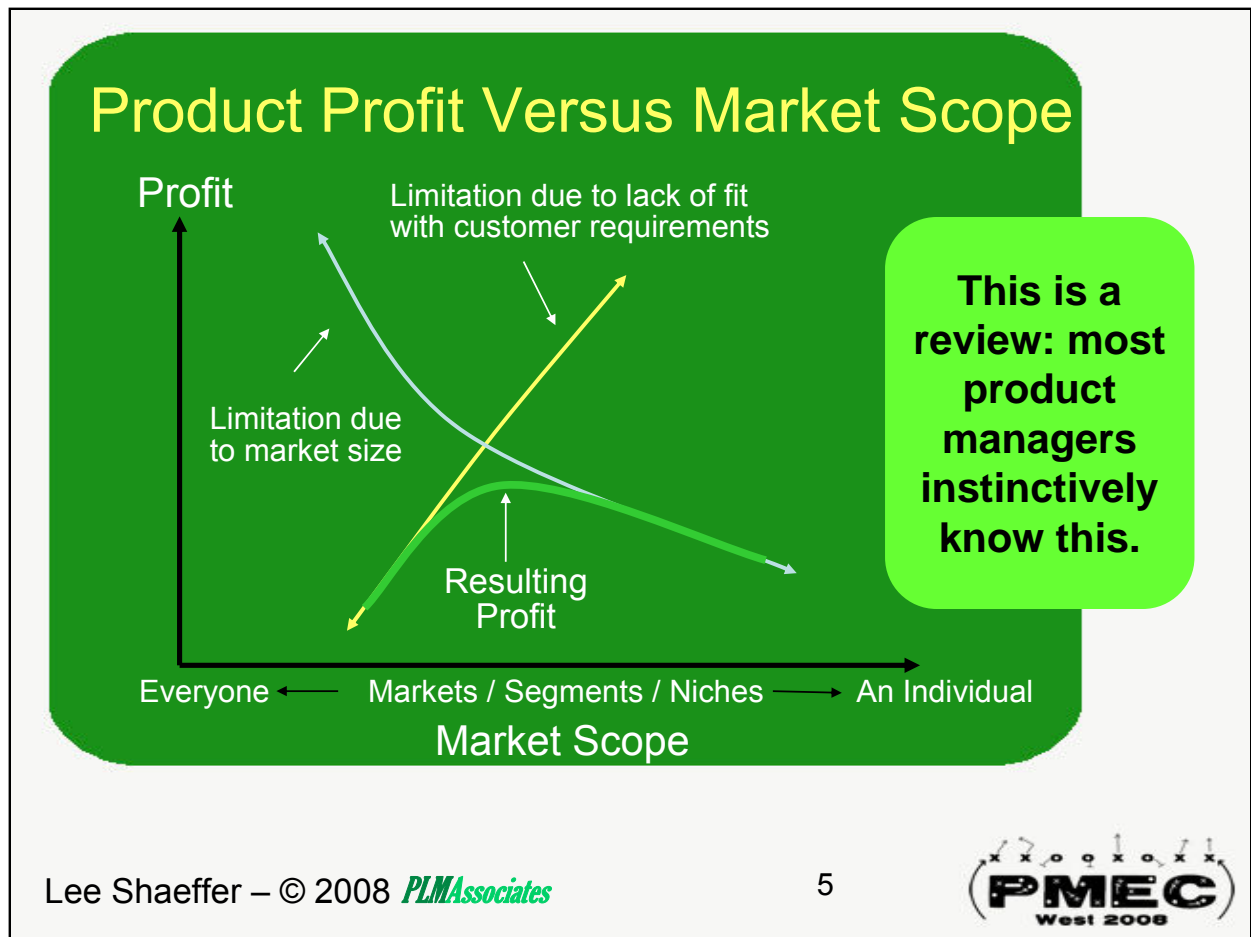
This chart shows the profit obtained from a product versus the scope of the market (i.e., how narrowly or broadly the vendor defines the target market. It is intended to be a quick review of what most people already know, and we will come back to it later.

The blue line ("limitation due to market size") indicates that the profit potential becomes smaller as the target market becomes more limited in scope, since there are fewer total prospects.

The yellow line ("limitation due to lack of fit with customer requirements") indicates that, as the product is sold into a broader population, profits will decline since the close rate on the sales will decrease. A broader market has a more diverse set of needs, and the chances that a particular product offering will fit those needs diminishes as the range of customer requirements becomes broader. In the extreme, it would mean trying to be all things to all people. Conversely, a narrowly defined market niche will have a tight set of requirements, the product designed for that niche will have a high degree of fit, and the close rate on sales will be high.

The (thick) green line indicates the resulting profit, limited either by market size or lack of fit between the product and the target market. There is an optimum point, which occurs when the scope of the market is "just right". Most companies intuitively grasp this – they want to target as large a market as feasible but recognize the need for focus, so they try to strike a balance between the two opposing factors and define their target market accordingly.

Elements of the Complete Solution

NEW

Supporting Services and Goods

Augmentations

Extensions

• Product Information

• Distribution

• Purchase Process

• Financing

• Leasing

• Bundling/ Pricing Schemes

PRESALES

Documentation

Options

Upgrades

Add-ons

Information/ Content

Core Product/ Service

Templates

Packaging

Peripherals

Accessories

• Maintenance

• Repair

• Customer Support

• Technical Support

POSTSALES

• Customization

• Professional Services

• Training

• Installation

• Integration

DEPLOYMENT

The Complete Solution is viewed from the customers' – not the vendor's – perspective

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We'll now introduce the concept of the "Complete Solution", which injects a wrinkle in the previous discussion. Many companies define the optimum point based using the wrong definition of the product - they use the "core product" rather than the "complete solution". The core product can be fairly horizontal, while the complete solution is more restrictive. Let me explain:

The "Complete Solution" is what the customer wants to receive. It consists of the "core product", plus one or more "extended" products (options, peripherals and third party products), plus supporting services (e.g., support, maintenance, training, perhaps an opportunity to lease rather than buy).

If we use the PC as an example of a "core" product, the extended product might include a printer, scanner, application software and a network connection. These extensions greatly increase the value of the PC to most customers.Most product teams understandably focus on the core product and may pay attention to the extended product to the extent that they ensure that the most important options and peripherals will be available somehow -- whether through their company or another vendor. Often, they do not pay attention to the support services, yet these are crucial for customer satisfaction and could be a major factor in the purchase decision for certain customers (e.g., a leasing plan).

The implication for market segmentation is that a core product may be fairly horizontal – it may fit reasonable well into a variety of market segments - while a "Complete Solution is more specific to each market segment.

* Of course, different market segments may require different features or optimizations within the core product as well. It is therefore important to evaluate feature requests on a segment-by-segment basis, rather than lumping all feature requests together.

Marketing Playbook: Segmentation and Positioning

(continued from previous page)

Continuing with the PC example, a "barebones" PC core product - a motherboard, case and power supply - may be well suited for graphic artists, accountants and "gamers" (those who like to play action games on their computers), but the graphic artist is likely to want a much higher resolution display and larger disk drive than the accountant. The gamer may want a faster graphics card than either the graphic artist or accountant, while the accountant may want faster on-site service than the gamers who, as a group, tend to be savvy about maintaining and upgrading their computers.

Therefore, the barebones PC that may be identical when sold into the graphic artist, accounting and gamer segments becomes much more differentiated when the extensions and supporting services (processors, disk drives, graphics cards, displays, service plan) are added to form a more complete solution. The complete offering that fits well into the graphic artist segment would not sell well at all into the accounting segment or gamer segments. If the vendor did not have an on-site service plan available as part of its offering, it may not sell well into the accounting segment while this would be of little consequence for the gamer segment.
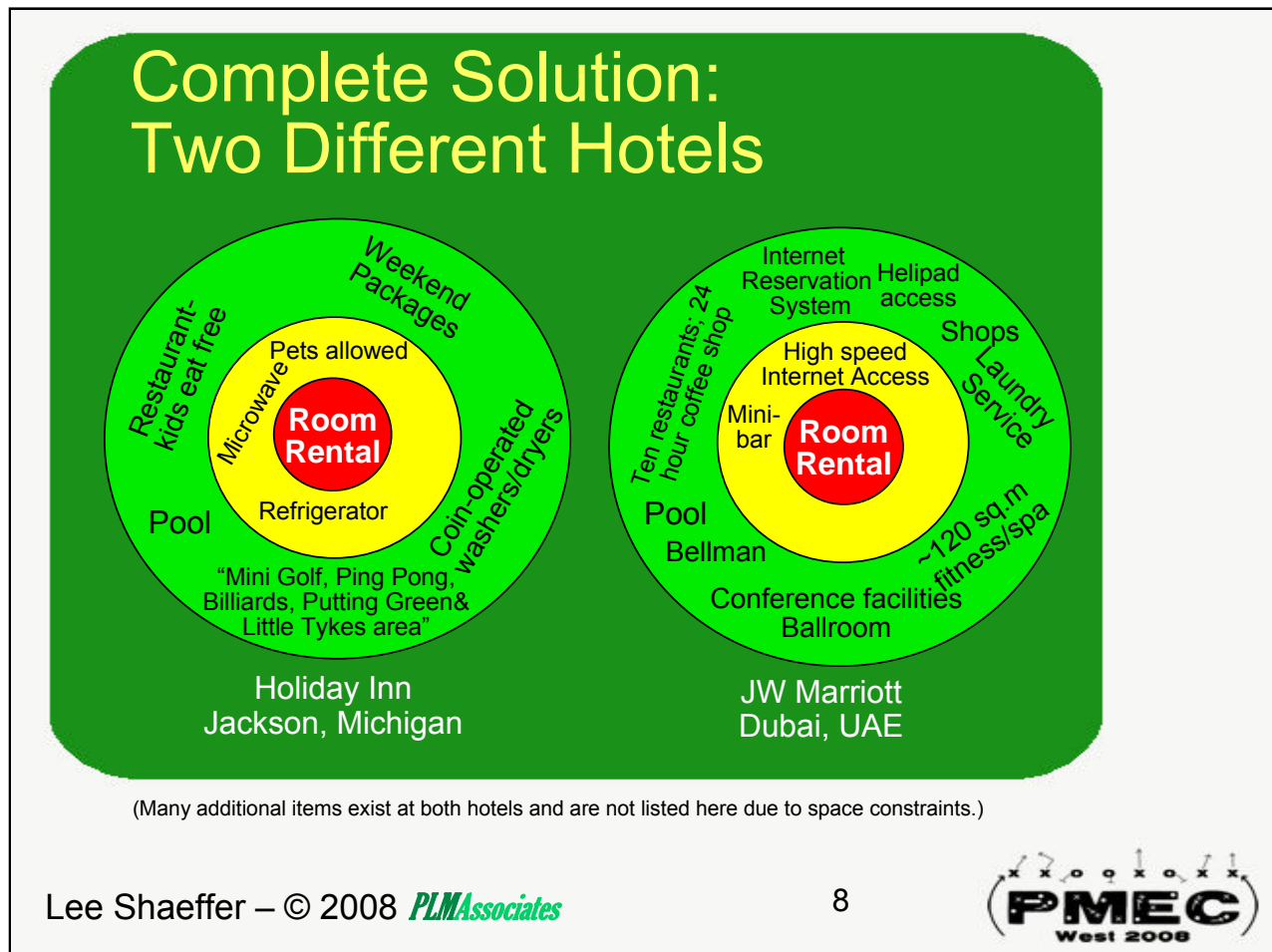
A problem arises when a vendor looks at the market from the perspective of the core product (or a limited definition of core plus extended product). It will conclude that the product offering will fit well into many different market segments, and it will base its product development, sales and marketing plan on that conclusion. What the vendor often overlooks is the other elements of the complete solution that the customer wants in order to purchase the product. There is a major mismatch between the vendor's assessment of the degree of fit between its product offering and customer requirements, versus the assessment of the prospect.

An important point: the Complete Solution is defined by the customer's perspective, not by the vendor's perspective. There may be many parts of the Complete Solution that the vendor can not or will not provide, due perhaps to lack of resources or it falls outside the vendor's scope of business. No matter: the ecosystem - your network of complementary vendors - will provide the missing pieces. At this stage, it is important to identify everything that is needed; the the sourcing of the various elements can be determined later.

> ➔ One example of the power of the Complete Solution is Amazon.com. It offers the same products that are available elsewhere. Sure, the prices are low, but that is not why many people buy from Amazon. It is the ease of purchase – the product can be located easily using a key word search, researched by reading the peer reviews, and bought with 1-Click® – all within a few minutes and without leaving one's desk. Note that the compelling competitive differentiation is delivered using supporting services, which reside in the outer (green) ring.

FYI, there is no clear and definitive boundary between "Core", "Extended" and "Supporting". The important task is to make sure all the important elements are accounted for, rather than agonizing whether a particular element is an extension or supporting service/good.   Also, there is no absolute definition – one vendor's core product is another vendor's extension. A 4-in-1 office product (scanner/copier/printer/fax) is a extension to a PC, while the PC is an extension from the perspective of the 4-in-1 office product. The frame of reference depends on the core product under consideration.

Complete Solution: Two Different Hotels

Holiday Inn — Jackson, Michigan: Room Rental, Pets allowed, Microwave, Refrigerator, Weekend Packages, Restaurant-kids eat free, Pool, Coin-operated washers/dryers, "Mini Golf, Ping Pong, Billiards, Putting Green & Little Tykes area"

JW Marriott — Dubai, UAE: Room Rental, High speed Internet Access, Mini-bar, Internet Reservation System, Helipad access, Shops, Ten restaurants; 24 hour coffee shop, Pool, Bellman, Laundry Service, ~120 sq.m fitness/spa, Conference facilities, Ballroom

(Many additional items exist at both hotels and are not listed here due to space constraints.)

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These are complete solutions for two different hotels - the Holiday Inn in Jackson, Michigan (my home town) and the JW Marriott in Dubai, UAE (where I stayed in January while delivering a five day workshop). The core service in either case is the rental of a hotel room. The extensions and supporting services/goods listed for each are those that are different between the two; there are many elements not listed here that they have in common.

A picture of each pool appears on the on the next slide. This is a major point of differentiation.

Can you tell which type of customers each is targeting? It's not that hard:

- The Holiday Inn targets families. It turns out that it is especially popular for those living within a 50 mile radius. The climate in Jackson is cold, and the area is economically depressed, so very few people have pools. The Holiday Inn is a low-budget resort where families can go for the weekend and let their children play.

- The JW Marriott targets business travelers, particularly those attending conferences within the hotel's conference facilities and ballroom. It does have a small kids' area, designed to help the spouse of the attendee to baby-sit if necessary.

Note that the core service – the hotel room – is not significantly different between the two hotels. It is the extensions and especially the supporting services and goods (e.g., pool, conference facilities) that appeal to customers in the two target market segments.

Photos of the Pool

Source: InterContinental Hotels Group

Holiday Inn / Jackson, MI

Source: hotel web site

JW Marriott / Dubai

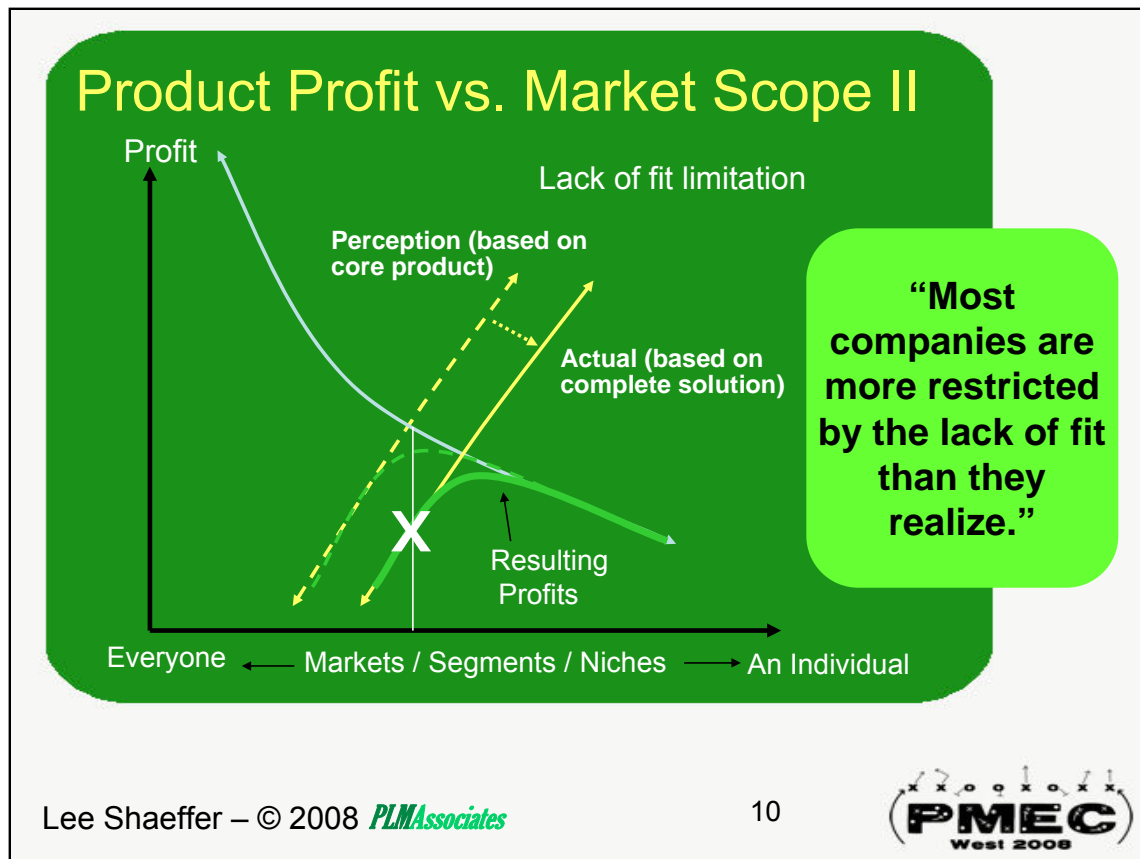Lee Shaeffer – © 2008 *PLMAssociates*

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Poolside Tables

Pool

Little Tykes' play area

Miniature golf and games

Don't expect the drinks to be waiting for you if you go!

Let's revisit the earlier slide, but examine the impact of considering the complete solution rather than the core product. Since the degree of fit imposed by the complete solution that the customer expects is more restrictive than that of the core product, the limitation imposed by lack of fit between the product offering and the customer requirements is greater than may be thought. This causes the yellow line and corresponding optimum profit point to shift to the right. The vendor defining its market based on core product is actually operating below the optimum profit point, as designated by the "X".

How can one tell if his/her company is too far to the left? One good indication is a sales close rate lower than expected. There may be considerable interest in the product, but the prospects will consistently be asking for capabilities that are not available as part of the offering. When the prospects find out that those capabilities are not available, they buy from a competitor instead – one who is able to provide more of the complete solution - or they fail to buy altogether because they are happier with the status quo. Of course, prospects often ask for capabilities that are not available, but if the product offering is "mostly" complete – at least as complete as the alternatives -- then there is a reasonable probability that the sale will be consummated anyway.

Continued →

The symptoms therefore are (1) sufficient initial interest in the product, (2) further into the sales cycle, it turns out that the product offering is consistently falling short in important areas, and (3) significant sales are lost as a result. These are indicative of significant omissions in the complete solution which, in turn, is exacerbated by an overly broad market focus.

Unfortunately, when the latter two symptoms appear, it is often the sales people who get blamed: "If only they would sell what we have", "They are letting the customers push them around."

A suggested remedy to consider:

- Map out the complete solution from the customers point of view: what are ALL of extended products and supporting services that are "required", "highly desired" and "nice to have". This must be done for each market segment. It can be useful to mine the list of all the customer requests that were not addressed in the product offering, if this data has been kept.

  This should sound familiar – it is the same process many product teams use to define the core product's "requirements", "highly desireds" and "nice-to-haves", only now it is being done at a solution level. The result is a "SRD" (Solution Requirements Document) rather than the narrower "PRD" (Product Requirements Document).

- Identify the gaps between the current offering and the complete solution (again, segment by segment).

- Develop a prioritized list of market segments to address. Note that it makes sense to address all the significant gaps for a particular segment and resist the temptation to the attack the gaps individually in descending order of size (based on volume of lost sales). The former approach produces a complete solution that fits well into a market segment, while the latter often results in a better but still incomplete solution across several market segments. In the latter case, the solution still falls short within any particular segment.

- Fill in the gaps. Depending on resources available and the magnitude of gaps to be addressed, this may require picking a sub-segment within an existing segment in order to get quicker results. One opportunity to leverage existing resources is to recruit other vendors into your "ecosystem", which we'll discuss a bit later.

Of course, this remedy assumes that the segmentation is already known, and we have not discussed how to segment just yet. As it turns out, segmentation is an iterative process, and we have just covered one step in the iteration (assessing the current situation).

Also, since this remedy addresses development of the complete solution, you should consider these activities to be an extension of the product development process.
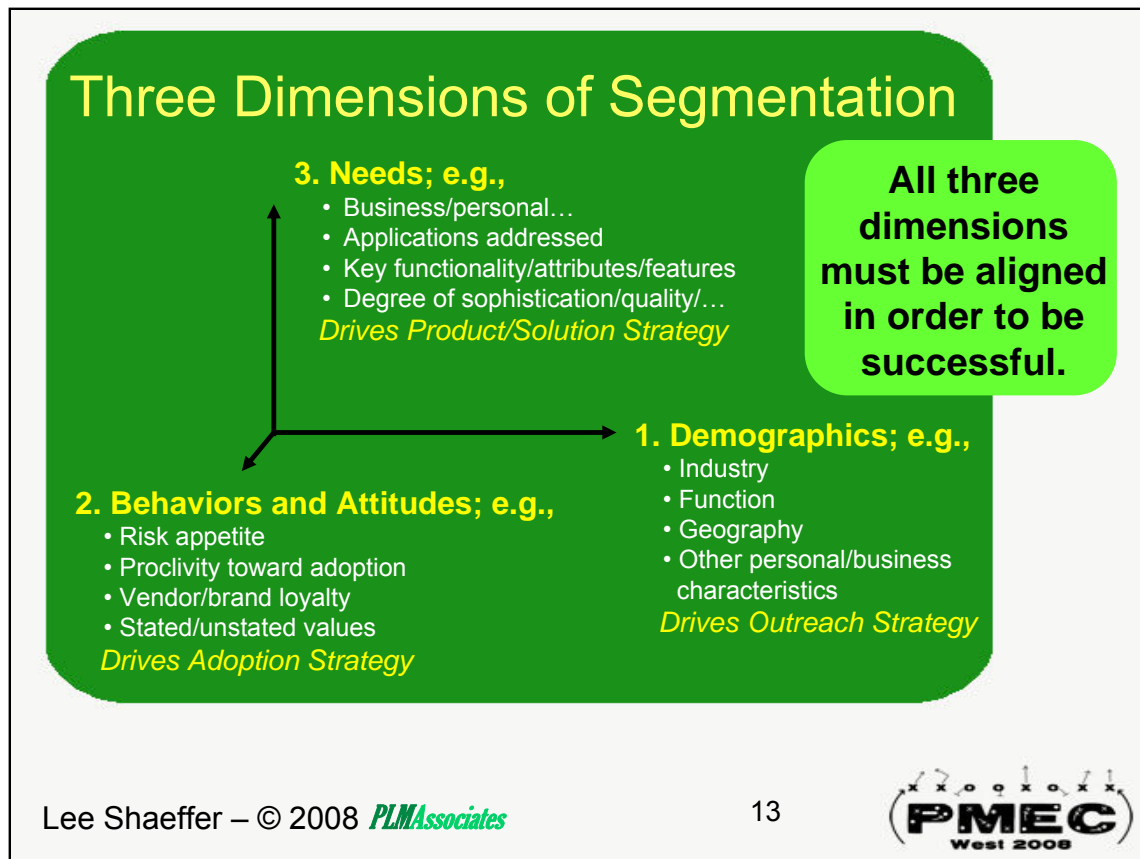
Why Segment?

- Focus existing resources and budget
- Increase ROI by targeting "best fit" prospects
- Sharpen definition of solution
- Build/maintain barriers to competition
- Improve effectiveness of market expansion planning/execution
- Ensure consistency of solution/adoption/outreach strategies

While segmentation takes work, it leads to greatly improved business performance

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Which brings us to…"Why Segment?" or "Why not do a better job at segmentation?" We just covered the first three bullet points:

- It enables a focus of resources on developing a more complete solution, in order to achieve a better fit between the product offering and the solution expected by the customer.

- By segmenting, you are in a position to focus sales and marketing resources on those prospects for whom you have the best fit, and not expend energy on those prospects unlikely to buy.

- By targeting a segment rather than a broader market, the definition of the solution will be sharper and more manageable in scope.

- A greater focus on addressing the needs of a particular market segment usually leads to higher market share within that segment and more highly satisfied customers, making it harder for a competitor to gain traction.

- A clear understanding of the segments being served, together with the segments adjacent to the ones being served, increases the success rate when expanding into new segments with the existing product or developing new products for the existing segment.

- Your target market is actually the intersection of the three dimensions of segmentation, so you need to ensure that they are consistent or recognize when they are not. Otherwise, you could be unknowingly designing a product for a highly fragmented, expensive-to reach market or trying to mass market an innovative solution that is early in its adoption cycle. We'll explore this further on the next slide.

Three Dimensions of Segmentation

3. Needs; e.g.,
- Business/personal…
- Applications addressed
- Key functionality/attributes/features
- Degree of sophistication/quality/…
- *Drives Product/Solution Strategy*

All three dimensions must be aligned in order to be successful.

1. Demographics; e.g.,
- Industry
- Function
- Geography
- Other personal/business characteristics
- *Drives Outreach Strategy*

2. Behaviors and Attitudes; e.g.,
- Risk appetite
- Proclivity toward adoption
- Vendor/brand loyalty
- Stated/unstated values
- *Drives Adoption Strategy*

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There are actually at least three types of segmentation that are useful in defining the market. It is helpful to make this distinction because often they are unknowingly lumped together -- especially "Needs" and "Demographics" -- or otherwise not addressed adequately, which is often the case for "Needs and Behaviors".

- **Demographic Segmentation**, which delineates customers based on descriptive attributes ("Who they Are"). Here I am using the term "demographics" in the broad sense, classifying the general population into different categories. The descriptive characteristics include what industry they are in, their functional area, where they are located, and other attributes such as size of company (in a business to business environment) or age, marital status, number and ages of children (more typically of interest in business-to-consumer).

  This type of segmentation drives the outreach strategy, which includes formulating the right message and getting it in front of the right people. This is typically the role of the Marketing Communications function (e.g., advertising, Public Relations, direct mail, trade show participation, web site and search engine optimization, guerilla marketing), Sales (on whom do the sales people focus their time?, how are sales leads qualified?) and Channel Development (ensuring the channels of distribution reach the target customers effectively).

  For example, previously mentioned Holiday Inn in Jackson, Michigan might focus its marketing activities on residents whose zip codes are within a 50 mile radius and who have children between four and 13.

<u>Needs Segmentation</u>, which delineates the customers based on the problems and/or opportunities they are facing. This is what drives the product/solution strategy, since a vendor's objective is to identify a problem or opportunity that is important to a significant number of people and that the vendor can address in a way that is superior to the competition (including indirect competition).

Needs segmentation is quite distinct from demographic segmentation, since potential customers having a common need are not necessarily part of the same demographic category; in fact, they may be scattered and distributed among many demographic categories. It is important to understand the mapping of needs to demographics during product planning, since the mapping will determine the cost of the outreach program. Worst case, the product is designed to address a particular need that is so widely scattered that the marketing cost more than the return on the product – a non viable business model.

<u>Behaviors and Attitudes:</u> This is influenced by the values and culture of the prospective customer.

Key behaviors include risk appetite – how willing is the individual and company to make an investment with high upside but low probability versus low return but high probability. This, in turn, drives the "proclivity toward adoption": where the customer is on the "innovator/ early adopter /early majority/late majority/ laggard" adoption curve. As was articulated and popularized in Geoffrey Moore's work,* the members of the lucrative early majority will consider buying a product ONLY when several people they trust already have tried the product and will vouch for it. A company with a innovative new product must develop a base of "Early Majority" customers before most of the Early Majority will take the plunge, so pending heavily on a massive outreach program too early in the product's (or company's) adoption cycle is inappropriate and will waste resources.

Other behavioral/attitudinal examples include companies that want to buy from socially or environmentally responsible vendors, or, not too long ago, those refusing to do business with vendors who were also doing business in South Africa.

The challenge with behaviors and attitudes segmentation is that it is hard to map to demographics; e.g., for purposes of focusing advertising dollars on specific media. That said, you should recognize where your solution is on the adoption curve and qualify prospects accordingly. Otherwise, you can break your pick trying to sell based on return on investment when the prospect is looking for safety/low risk. Part of the total "Solution" in this context may be the size/stability/financial strength of your company.
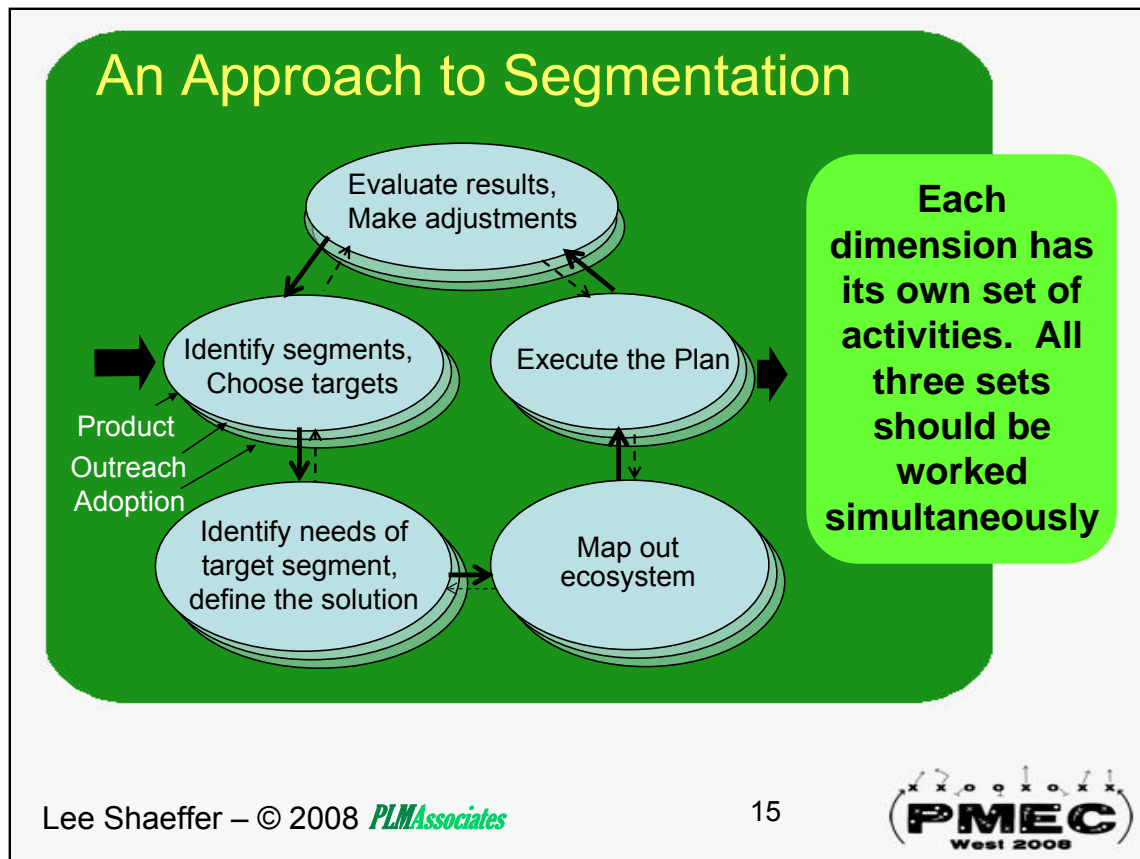
Your target market is the intersection of the three different segments. Stated another way, you are in a good position to make a sale **IF AND ONLY IF**:

- Your prospects know about your product (through your outreach program), and the message they receive is compelling enough to lead them to take action.

- Your product addresses the needs of that prospect

- The prospect is at the right stage of adoption and does not have other behaviors and attitudes that would preclude him/her from buying.

We could have a lengthy discussion on any one of these three dimensions of segmentation. The remainder of this presentation will continue focus on the "needs" dimension, since that is likely to be of most interest to an audience of Product Managers. FYI, I gave another presentation to a different audience recently – there I focused on the "Demographics" dimension. Please contact me if you are interested in the "Director's Cut" for that one as well.

* See "For Further Information" near the end

An Approach to Segmentation

Evaluate results, Make adjustments

Product Outreach Adoption

Identify segments, Choose targets

Execute the Plan

Identify needs of target segment, define the solution

Map out ecosystem

Each dimension has its own set of activities. All three sets should be worked simultaneously

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This is an approach to segmentation. Note that it is a closed loop system that makes continuous improvement based on prior results.

The entry point is to identify the segments of interest to you and then choose the target. This should be done in all three dimensions simultaneously, since the "needs", "demographics" and "behaviors and attitudes" segments are interdependent.

We are focusing here on the "needs" segment, so high-level steps would consist of:

- Identifying prospective "needs" segments. The needs segmentation may be market driven (analyze the customer base to identify unmet needs) or technology driven (identify ways in which existing problems can be solved more effectively using a new technology). Technology driven solutions require careful attention to the adoption strategy since a new technology is likely to be perceived as risky.

- For a chosen segment, identify and understand the unmet needs in greater depth, then design a complete solution that addresses those needs. The "behaviors and attitudes" dimension becomes important since a product that is early on the market adoption curve, selling initially to innovators and early adopters, will have less near-term sales potential but does not require as many elements in the complete solution.

- Map out your ecosystem, the complementary set of vendors who will provide elements of the complete solution that you, as a vendor, choose not to do because of lack or resources or a poor fit with your core competencies.

- Execute (develop and launch the product)

- Make corrections and enhancements based on market feedback.

That addresses the "Needs" dimension of segmentation. There is also the dimension of **"Demographics"** segmentation, for which the corresponding steps would include:

- Identifying the "Sales and Marketing "Channels" available for that segment. In this context, "channels" refers to the various means of getting you message to your prospects. This includes advertising, direct mail, exposure at trade shows, public relations and direct sales calls. Channels of distribution (the conventional usage of the term "channels") may be included to the extent they offer additional opportunities to get your message out to your prospects.

- Determining the alignment of the sales/marketing channels with the target market. "Alignment" describes how effective your channels are at getting your message out. While this is shown as a discrete next step, in practice identifying and choosing the mix usually occurs concurrently and iteratively with determining the alignment.

- Launch and then sell the product.

The (roughly) corresponding steps for the **"Behaviors and Attitudes"** dimension would be:

- Determine where the problem/solution set falls within the traditional market adoption curve (Innovator/Early Adopter/Early Majority/Late Majority/Laggard)

- Devise an adoption strategy based on that position (marketing a solution that is very early on the adoption requires a much different approach than marketing a solution that is already embraced by the early majority, for example)

- Test, execute, evaluate, improve

The solution's position on the adoption curve is driven by market perception, not by the vendor. (There are, however, steps that the vendor can take to influence the perceived position - ads touting the blue chip customers already using the product and customer success stories are examples.) The vendor must forecast accordingly, which means a slow revenue ramp. 25% market penetration at the end of year one for a solution that is just entering the early adopter phase is unrealistic, and a business plan that relies on achieving that in order to succeed is likely to fail.

 Several of the references at the end provide much more extensive information on adoption.

A Common Problem: Needs Segmentation Out of Sync with Demographics Segmentation

Many companies perform the needs segmentation activities and demographics segmentation activities at two separate points in time, which can lead to trouble. The separation is natural – the needs segmentation occurs early in the product development process, when the product is being defined. Much later, when the product development is well underway, the outbound marketing team is engaged to plan the launch and the demographics segmentation takes place. A common question from the marketing team at that stage is, "tell us who the product is targeted at and why they would want to buy it, and we'll develop the message and get the word out."

If the product is a derivative or represents an extension of the current business, this rarely is a problem. However, when the product is "new to the company" or "new to the market" (which is periodically necessary in order to keep the product portfolio fresh), there could be a disconnect between "needs" and "demographics" – the needs segmentation does not map well into any useful demographic segmentation, and the outbound sales/marketing activities become expensive as a result.

Worst case, the market is highly fragmented, meaning that the prospects corresponding to the needs segmentation are scattered among numerous demographic segments and hard to reach. I experienced this a few years ago when working with a vendor whose sweet spot was providing the outsourcing of design and manufacturing for ultra-high reliability (99.999% uptime) rack mounted gear for medium sized companies (the large firms already had contractual obligations certain vendors, and small firms were unlikely to be profitable customers). Further, they had to be willing to consider outsourcing, since the economy was not doing well and companies wanted to use in-house resources whenever possible to avoid layoffs. The customers may have been out there, but they were scattered among several industries and very hard to identify. The vendor eventually was forced to downsize. (In defense of the vendor, they had experienced success in the telecommunications industry, built their business competencies accordingly, and could not have reasonably anticipated the depth and length of the "nuclear winter in telecommunications" that followed the dot.bomb.)

The problem when this occurs, of course, is that the outbound sales/marketing becomes much more expensive than planned -- it requires broad-based campaigns to reach precious few prospects -- and/or sales are lower than planned due to the difficulty of reaching the prospects. Either way, the product is much less profitable than planned.

A remedy is to engage the outbound marketing team at the beginning to do a rough first cut at the launch plan, including demographic segmentation and budget estimates. The demographic information may necessitate changes to the needs segmentation – better done at the beginning than many months into development. Of course, the launch budget is part of the total cost of commercializing the product, and should be considered together with development cost while making early stage "go/no-go" decisions on development projects.

Most engineers involved with manufactured products have learned to involve Manufacturing early, since its input can influence design decisions. The same applies to involving the outbound marketing team early.

Markets, Segments and Niches

Market A
Market B

Segment 1
Segment 2
Segment 3

These definitions are relative, not absolute

Sub-segment 1
Sub-segment 3
Sub-segment 2

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Apple

Let's turn to the question "what is a market, what is a segment and what is a sub-segment (niche)?

I suggest that an absolute definition is not particularly useful, since in practice the three are relative. What might be a large and overwhelming market to a startup could be a niche to a large company. It is useful to drive a stake in the ground and define the customer set being targeted as a "segment". By doing this, one can then:
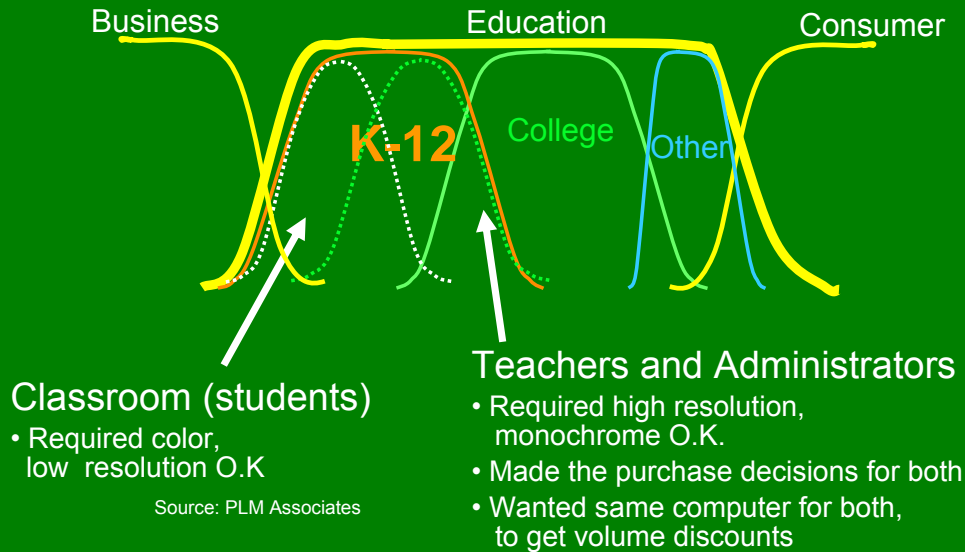
- Take a step back and look at a broader "market" that is composed of other segments as well as the one being targeted. This is useful when doing market expansion, as we discussed earlier.

- Take a step forward and "drill down" into the segment to understand its "sub-segment" components. While the intended end result of this exercise may be to roll the sub-segments back up into a segment, it is valuable to analyze sub-segments for several reasons:

  ➢ Often, two or more sub-segments may appear to be related superficially, but upon closer inspection they may have significant differences in terms of the complete solution elements or the sales/marketing channel mix. These will ultimately require two different sets of complete solution elements or two separate outreach campaigns, and they should be treated as distinct segments.

  An example, which will appear in more detail on an upcoming slide, would be the "electrical contractor" market segment. The NAICS lists 44 classifications of "electrical contractors" – and the needs of alarm installers may be much different than those of airport runway lighting installers.

Another benefit is that you might notice certain characteristics at the sub-segment level that help you address the entire segment more effectively. An example is what I experienced at Apple Computer back in the early 1980s when I was a product marketing manager in the Apple // Group:

One of the market segments Apple targeted heavily was K-12 education. The largest sub-segment was, of course, represented by the sales of computers placed in the classroom for use by the students. The state of technology back then was that you could have relatively high resolution in monochrome (e.g., green on a black background) or color but at limited resolution. Most of the computers in the classroom operated in color.
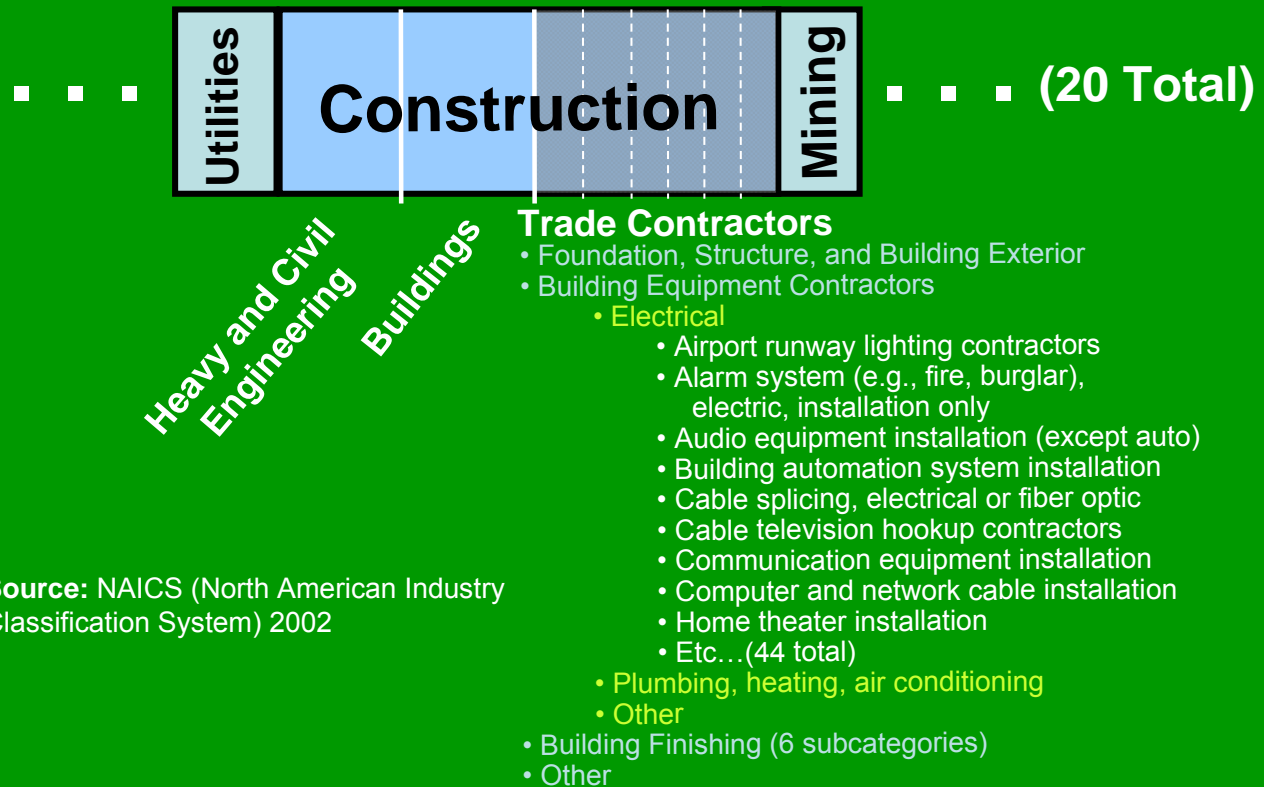
We discovered a sub-segment within K-12 education that consisted of teachers and administrators who wanted to use computers for administrative applications including word processing and spreadsheets. They wanted to use the same computers as those in the classroom, since it was less expensive per unit when purchased in quantity, or they literally used the computers in the classroom after hours. For them, monochrome was fine (most business applications didn't take advantage of color back then anyway), but high resolution was important since that enabled users to view more of the document on the screen without scrolling. Because the teachers and administrators used the same computers as the students in classroom, and they heavily influenced the purchase decision for both, the two sub-segments ultimately constituted one segment.

By understanding the different requirements of these sub-segments, we designed a special display technology that could automatically switch between color or high resolution*. The resulting solution satisfied both sub-segments. The competition was the IBM PCjr, which was priced very low price because IBM wanted to sell the bountiful inventory that had resulted from the PCjr's failure in the consumer market. Fortunately for Apple, the PCjr could display only in low resolution, so Apple was able to withstand the IBM onslaught for a few years until the Macintosh was able to gain traction.

That is an example of the value of understanding your segment at the sub-segments level – it can provide powerful insights that enable you to serve the segment better.

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* I still vividly remember sitting in a meeting with the lead display engineer – his name was Gary - and several others. The engineer made an offhand remark to the effect that, "Well, you could detect the color burst signal and use that to switch between the two modes, but why would anyone want to do that?" This was a cross-functional meeting with customer interests represented, and Gary immediately was told why. The rest, as they say, is history (literally, now that 20+ years have elapsed!)

Example: Construction

Utilities | **Construction** | **Mining** | (20 Total)

Heavy and Civil Engineering

Buildings

Trade Contractors
• Foundation, Structure, and Building Exterior
• Building Equipment Contractors
    • Electrical
        • Airport runway lighting contractors
        • Alarm system (e.g., fire, burglar), electric, installation only
        • Audio equipment installation (except auto)
        • Building automation system installation
        • Cable splicing, electrical or fiber optic
        • Cable television hookup contractors
        • Communication equipment installation
        • Computer and network cable installation
        • Home theater installation
        • Etc…(44 total)
    • Plumbing, heating, air conditioning
    • Other
• Building Finishing (6 subcategories)
• Other

Source: NAICS (North American Industry Classification System) 2002

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This is an example of dissecting the market.

At the top level there are 20 segments defined by the North American Industry Classification System, the successor to SIC codes. We'll arbitrarily pick construction.

Within construction, you have three classifications. We'll arbitrarily pick "Trade Contractors".

Within Trade Contractors, there are 4 subcategories. We'll pick "Building Equipment Contractors"

Three subcategories exist within Building Equipment Contractors. We'll pick "Electrical"

Within "Electrical", there are 44 subcategories, including "Airport runway lighting" and "home theater installers". The classification system does not go any deeper.

Notice the 5 levels of hierarchy. One company might target home theater installers, another might address the trade contractors as a whole and view the entire set of Electrical Contractors as a niche. This is an example of why the practical definition of Market/Segment/Sub-segment (niche) is relative, not absolute.

Community: a Powerful Natural Segment

Comprised of people who:

- Know (or know of) each other

- Talk among themselves and view some as "trusted sources"

- Read the same trade publications/attend the same conferences and trade shows

- Examples:
  - Vertical markets
  - Functional areas
  - Geographic clusters
  - Special interests

Communities are self referencing and internally reinforcing

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We'll now introduce the concept of "communities", since these are natural market segments that can provide powerful leverage. We'll start with the communities defined by demographics, which are of particular interest to the outbound sales/marketing people although they also have a strong bearing on the "needs" segmentation as well.

A "community" in this context is a group of people (prospects and customers) who:

- Know or know of each other (i.e., 0 or 1 degrees of separation)

- Interact with each other and get their information from common sources.

- Identify with each other and with particular descriptors (My father thought of himself as a "Ford" man and led a club of people who owned or otherwise had interest in vintage Lincoln Continentals)

Examples of communities include:

- Vertical markets (the more specialized, generally the more tight-knit the sense of community)

- Functional areas. Note the existence of societies of lawyers, accountants and other functional specialists.

- Geographic clusters, which are formally or informally defined business communities. I am told that San Diego has at least two such "clusters": Downtown and north San Diego County. .

- Special interests (the "Lincoln and Continental Owner's Club" referenced above would be an example). Some people even make their living by servicing these communities

Why the focus on communities?

- These people talk among themselves and view certain other members of the community as "trusted sources". This results in word of mouth, which greatly increases the effectiveness of the outreach activities.

- The references they get from their "trusted sources" carry much more weight than the references the vendor may provide them – which are assumed to be cherry picked in the first place.

- The members generally read the same trade publications and go to the same tradeshows. This makes it easy and straightforward to define where to advertise and exhibit.

- Last but not least, when a vendor is established in the community, it is much easier to maintain its market position against a new competitor. The latter will be viewed as an outsider, so the community provides natural barriers to competition.

While the customer/prospect community is of particular interest to sales and outbound marketing, it should be valuable to product designers as well. Performing needs segmentation within a community ensures alignment of the needs and demographics segmentation, thereby lowering the sales/marketing costs, and it facilitates definition and development of the complete solution.

How do you know if you have a community?

Indicators in business-to-business include the presence of an association, society or or other affinity group, and multiple trade publications, other media, conferences, trade shows and/or expos that target the same set of people. Note that many associations have their own publications and conferences.

It is helpful to start by looking for an association, of which there are several examples illustrated by the logos appearing on the slide. Remember the "Home Theater Installers" category within "Electrical Contactors"? Their trade association is the "Custom Electronic Design & Installation Association", lower right corner.

Note that associations can get very specific. It is unlikely that any of you are targeting companies located in Minnesota that are involved in asphalt pavement, but if you are, there is an association for you. Heck, there may even be an association for people involved with product management!

A useful activity is to identify as many associations as possible that may address the target market segment. This can be done fairly quickly and easily using a search engine and a little detective work. Chances are that you already are working with some of the associations, but there may be others not yet on the radar (especially at the state and regional level). Often an association at the state or regional level -- or local chapters of a national organization -- has closer ties to its constituents than does a national association. Once the list is fleshed out, one can make informed decisions on how to proceed with each.

The Positioning Statement

- For **[target customer]**

- Who wants/needs solution to **[problem]**

- The **[product name]** is a **[product category]**

- That provides **[compelling reason to buy]**

- Unlike **[main competitor]**

- The **[product name]** **[key differentiator]**

- As evidenced by **[key evidence/metric]**

The initial positioning statement should be done as part of product definition.

Adapted from: Jim Blakeley, "Taking Technology Products to Market" course at the Caltech Industrial Relations Center (www.irc.caltech.edu)

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This is an example of a product positioning template. If you already have your own, continue using that if it covers all of the important bases.

- The **[target customer]** is defined by the market segment you chose

- The customer **[problem]** is what you determined during the field interviews and other market research conducted in preparation for defining the product.

- The **[product category]** provides a context in which prospects can evaluate your product. If there is no apparent category, prospects are likely to perceive your product to be at the early stages of adoption, so the early majority will not buy. Also, many trade publications do category reviews -- a comparison of all products within a category -- and your product will not make these reviews if it does not belong to a category.

- The **[compelling reason to buy]** is the key value proposition. A single strong value proposition is much better than a collection of "pretty good" value propositions with none being compelling.

- The **[main competitor]** also provides a context for your product. Generally, this is the dominant vendor in the category: well known, often higher priced, slower moving and lower performing. If there is no dominant vendor, you could use the substitute solution/category of indirect competition. Of course, the lack of a direct competitor positions your product at the early stages of market adoption, and sales will be limited as a result.

- The **[key evidence/metric]** establishes credibility for your claim and will guide your prospects in evaluating your product.

The product team should fill this out during product definition, before development starts. The resulting positioning statement should be crisp and if should resonate. If it does, it means you have all of the important bases covered (the product name can change later, of course). If it seems mushy and unconvincing, it usually means there is more homework to do.

Later, the positioning statement becomes the foundation for creating the marketing message(s) in preparation for product launch. But, the first pass should it should be done right up front, as part of the product planning process.

Positioning Statement: Example

- For **[Corporate Recruiters and HR Staff]**
- Who wants/needs **[to reduce the elapsed time and staff time required to hire new employees]**
- The **[Applicant Tracking System]** is an **[on-line suite of recruiting tools that includes job posting, a resume database and workflow]**
- That provides **[end-to-end automation of key tasks in the hiring process]**
- Unlike **[Monster.com]**
- The **[Applicant Tracking System] [provides much greater levels of automation]**
- As evidenced by **[a 20% reduction in elapsed time and 30% reduction in the staff time required to hire an average employee]**

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This is an example using a suite of "software as a service" modules that helped large companies recruit employees faster and more effectively. It was popular in the growth craze of 2000-2001, just before the bubble burst.

Summary

- Segmentation has at least three critical dimensions

- All must be addressed to ensure success

- Product positioning is segment specific

Needs

Demographics

Behaviors and Attitude

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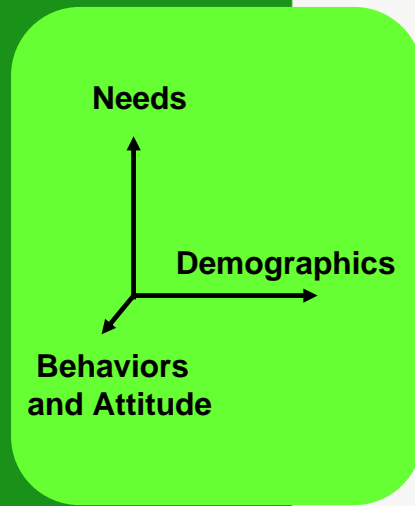
Even if product positioning does not differ significantly among segments, the nuances of how it is communicated to target customers often does.

Further Information

- <u>Marketing Management</u> (Chapter 9 in Ninth Edition), Philip Kotler

- <u>Product Management - 3rd Edition</u>, Donald R. Lehmann and Russel S. Winer

- <u>Crossing the Chasm</u> and <u>Inside the Tornado</u>, Geoffrey Moore

- Contact me with questions (gladly answered, with no strings attached):
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Information on segmentation is hard to find and mostly embedded in books/ documents focused on broader topics.

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We covered considerable ground in approximately one hour. I was not able to drill down very far in that amount of time, so I want to provide some places to turn for further information.

Market segmentation typically appears not a standalone topic but rather a subset of a broader topic.

- Philip Kotler's "Marketing Management literally is a classic textbook on marketing. It has a chapter on market segmentation that you may find to be a useful refresher (or primer, as the case may be). Because it is a textbook, you can pick up used copies at a reasonable price, and older versions are probably equally valid.

- There are many good books available on product management and nearly every one addresses market segmentation somewhere along the way; the one listed is a bit more thorough than some of the others.

- The Geoffrey Moore books are a good place to turn for a more in-depth discussion of market adoption (the third dimension of segmentation that didn't receive much coverage.)

- FYI, there is another director's cut available for a presentation that covers the "demographics" dimension of segmentation in more depth (this presentation focused on the "needs" segmentation.

- Finally, I again encourage you to contact me. I enjoy answering your questions – no charge, no strings attached. It's part of my "Voice of the Customer".

Open Discussion

- Questions

- What do <u>you</u> approach market segmentation?

- Other comments/observations

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