

**Management of New Products and Services (MNPS)**  
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**Lecture – 07**

**NPNSM Theoretical Foundations VI Understanding Customers (STP)**

Hello, I am Jayanta Chatterjee a professor at IIT Kanpur, and today we are at the last session of the first week discussing, management of new products and a services. As you know so far, we have discussed that products are multi layered bundles of goods and services, different blends some maybe more towards good, some maybe more towards services and the most important way of creating this bundle of goods and services, is to focus on customer value proposition, by way of understanding that customers are either looking for goods guard services, they are looking for need fulfillment, they are looking for resolution of some paints, meeting some ones and in the process then you can create some gains, then you have a better chance of success.

So, pain and gain need fulfillment of the customer, doing a job which the customers want to get done, are the key functions that must be offered by successful products. We have discussed, how successful products are created? Why products fail? And we have also discussed how a different strategies of organization must synchronize with different product strategic approaches? We have also discussed, how product features? Product constructs, production processes must look at the industry life cycle and the product life cycle, to make a valuable or valued offering.

Today we are going to discuss; that means, the first set of concepts you can call it as, CVP customer value proposition from there, we are coming to another very important aspect of marketing which is, STP segmentation targeting and positioning.

(Refer Slide Time: 03:03)

**MARKET SEGMENTATION**

- **Market segmentation**
  - Market segmentation is the subdividing of a market into distinct subsets of customers.
- **Segments**
  - Members are different between segments but similar within.

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Because, as we have discussed a bundle of goods and services a product often will not be everything for everybody, but we have to actually focus on sub segments of the total universe of markets, at various stages of the product management. So, sometimes we call it dam 1 and dam 2, dam 1 stands for total addressable market; that means, the whole universe.

So, if you are making soap and you are creating a herbal soap, it will appeal to all Indian customers theoretically, because it is a green product, natural product, less chemicals, not harsh on skin and so on. But to start, with you may actually start where you are located which is logistically geographically more accessible to you. So, you may start in south India where you are located your plant is located, you have better market access. So, this focus on south India is a way of segmentation and in that case, we call, that has dam 2 or total addressed market.

So, total addressed market is a sub section of the total addressable market and that is one approach, the geographical approach is one way of creating a segment. So, a market segmentation is basically subdividing a market into some distinct basket, because of maybe resource constrained, because of appeal that it may be very appealing to young customers or it may be very appealing to senior citizens. So, if you are making a walking stick, with a different features then you have to understand that this is primarily meant for senior citizens, on the other hand if you are making walking stick for people who

have broken their legs or have had some fracture. So, then you are actually addressing a different market. So, that were the segmentation will tell you, how to design the product? How to create a bundle of features? That will be appealing. So, segments are members who are different from other segments, but they are same within that segment. So, we call it that there for a segment is a part of a heterogeneous market, but within the segment, we say that it is a homogeneous entity based on the way you define that segment.

(Refer Slide Time: 06:38)



**SEGMENTATION MARKETING**

➤ **Definition**

- ***Differentiating your product and marketing efforts to meet the needs of different segments, that is, applying the marketing concept to market segmentation.***

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So, differentiating your product and concentrating your marketing efforts, to meet the needs of different segments, that is applying the marketing concept to market segmentation. Now, there are some primary characteristics of segments like there can be a base and descriptor. So, for example, it can be business market versus consumer market, in business market the base segments could be by industry.

So, therefore, you might me producing say gears and the gears depending on size and various types of other features, could be amended cement industry that could be another set of the gears meant for the steel industry, there could be another set of gears which will be meant for food processing industry. So, you see there for there can be market segmentation by way of industry, or you could actually produce products which are mainly for very large organizations or mainly for very small organizations.

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PRIMARY CHARACTERISTICS OF SEGMENTS		
➤ <b>Bases</b> —characteristics that tell us why segments differ (e.g. needs, preferences, decision processes).		
➤ <b>Descriptors</b> —characteristics that help us find and reach segments.		
➤		
	(Business markets)	(Consumer markets)
▪	Industry	Age/Income
	Size	Education
	Location	Profession
	Organizational structure	Life styles
		Media habits

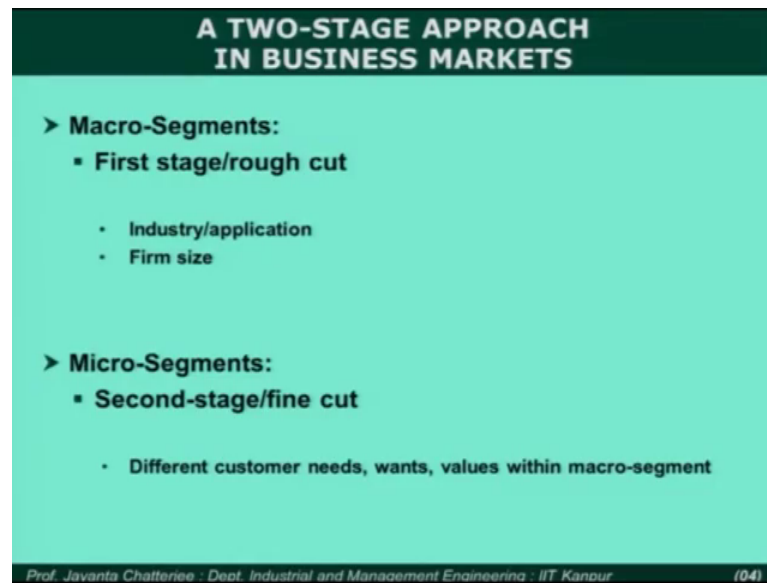
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So, that is deciding the market segmentation by way addressed customer sizes, similarly it could be location as we just now discussed, due to your starting point or resource constraint or your access to market channels and so on, or it could be by organization structure, that you actually only addressing the public-sector markets, for various reasons. Then like for example, most public-sector purchases are made through a tendering open tendering process whereas, a private sector often actually buys through negotiated agreements.

So, you may be more comfortable with negotiated agreement and you may decide to go for that, or you may be more comfortable with open tenders. So, you may go for a government organizations, public sector organizations. So, that is another way of a segmenting your market fund and on the other side consumer market, you can divide the consumers by age and income, by education, by profession, by their lifestyle, by their media habits and so on.

But, some segmentation strategies are relevant for particular product and some may be totally irrelevant. So, you can therefore, see that is segmentation strategy must also be derived of the nature of the goods or service bundle that you are offering.

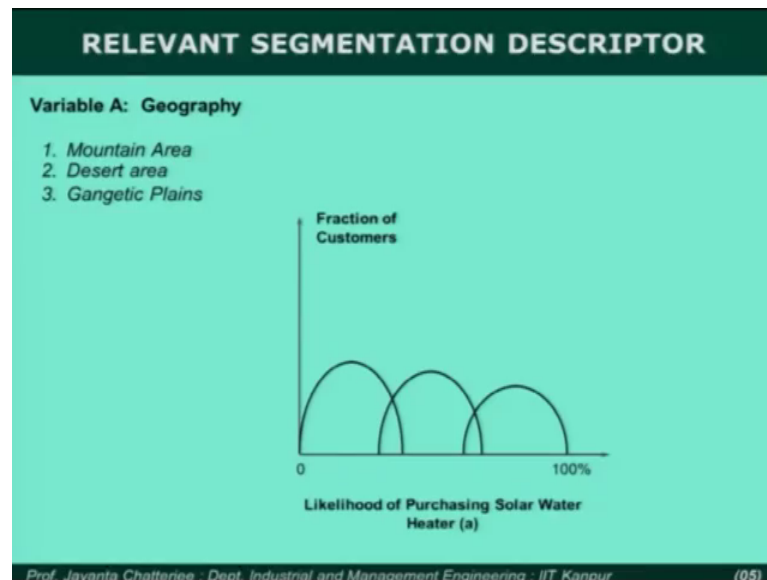
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So, if you are offering actually some, very high speed and high capable computer, your segment maybe the gaming people who are interested in various kinds of computer-based games. So, for them when you design the computer, then that computer may not be appealing for a housewife, who maybe just using it for a communication purpose and for some simple computing jobs. The macro segmentation concept, is kind of where you start it is a first cut segment. Which is like industry like as I discussed cement, steel etc, it could be by way of application that it is a gear, which is suitable for rolling type of application or it is a gear which is suitable for lifting; that means, lift and hoist and crane type of application or from size.

So, this is you can just say first cut very high-level segmentation, then you can go to the second stage which we call micro segmentation, where we go into the details and nitigrities of customers needs and wants and values and lifestyles etc. The important point is, both macro and micro are useful techniques for B to C markets; that means, business to consumer markets, as well as B to B; that means, industrial business to business markets and there can be over laps between segments, like here you see a geographical is segmented. So, we had looked at the mountain area or the desert area or the gangetic plains.

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We are looking at here the market segmentation for solar water heaters, now solar water heaters are good solutions for distant mountains, where electricity may not be available all the time and it may be bright sunshine. So, you may solar water heater. In desert area there is lot of sunshine, so now, here you see depending on the market segment.

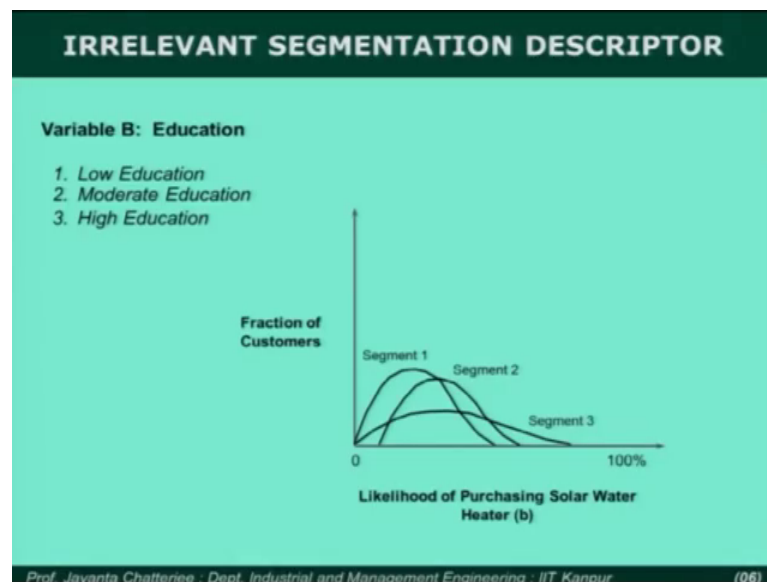
So, if you are actually going in for mountain area, then it will be more for domestic use for us for small plants. So, you will be looking at small water heaters. But in the desert, you may actually create a solar plant a bigger size, where they can actually generate electricity, which can then be transmitted. Because, you can have a large size, what we call solar power stations, which are now coming up because in the desert you have plentiful sun almost around the year.

So, one will be then more geared towards the mountain area, will be more geared towards a B to C type of segmentation and in the desert area it will be more B to B type of segmentation, or there could be gangetic plains; that means, you know as cities around the ganges, where we have many of our major cities located. Now, they are there that application it will be more rooftop urban application, another type of design will be needed another size will be needed, and the key point here also is that, there may be overlaps in these; that means, somewhere there may be a large solar plant needed in a metropolitan area, as a backup to fossil fuel based because, we are now trying to reduce our dependence on fossil fuel. So, there are a number of these power station, solar power

stations that are coming up in different areas as an alternate mode, on a preferred mode when it is sunshine is available.

So, segmentation can be geographical, where they are can be overlap just tell there can be overlap in other kinds of segmentation. The key point here is of course, that you have to look at the factor whether it is relevant, whether it gives us some rational of characterizing the type of customers, who will be attracted to our offering, our bundle of goods and services. So, for example, for the solar water heater or for solar electricity system, segmenting customers by way of the education does not make any sense. So, that will be an irrelevant segmentation.

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So, though age, education, the income level, the funds available all these are different kinds of segmentation, not all apply to all cases that is the key point. And so, you can summaries this whole thing, this variables to segment and describe the market, if you go one by one from the on the left and column. So, there can be based segmentation, then there can be segmentation based on demographic, which is age, income etc, or in case of the industrial market it will be based on industry size, location, industry class and so on.

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VARIABLES TO SEGMENT AND DESCRIBE MARKETS		
	Consumer	Industrial
Segmentation Bases	Needs, wants benefits, solutions to problems, usage situation, usage rate.	Needs, wants benefits, solutions to problems, usage situation, usage rate, size*, industrial**.
Descriptors		
Demographics	Age, income, marital status, family type & size, gender, social class, etc.	Industry, size, location, current supplier(s), technology utilization, etc.
Psychographics	Lifestyle, values, & personality characteristics.	Personality characteristics of decision makers.
Behavior	Use occasions, usage level, complementary & substitute products used, brand loyalty, etc.	Use occasions, usage level, complementary & substitute products used, brand loyalty, order size, applications, etc.
Decision Making	Individual or group (family) choice, low or high involvement purchase, attitudes and knowledge about product class, price sensitivity, etc.	Formalization of purchasing procedures, size & characteristics of decision making group, use of outside consultants, purchasing criteria, (de) centralizing buying, price sensitivity, switching costs, etc.
Media Patterns	Level of use, types of media used, times of use, etc.	Level of use, types of media used, time of use, patronage at trade shows, receptivity of sales people, etc.

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It can be based on psychographics, psychographics means it can be based on lifestyles and values and personal characteristics and this I think topic, we will also discuss a little bit more when we take up consumer behavior and customer behavior with respect to product buying process. But at this stage, let us point out that just like demographic is one way of a mix segregation, psychographic; that means, different psychological types and the psychological types can be defined by this lifestyle; that means, you can psychographic will be typical will do like young, urban, upwardly mobile mail.

So, it immediately tells us that, if you are borrowing from the age based, we are borrowing from the lifestyle and disposable income based, we are borrowing from the ideas that relate to a particular professional profile, all those put together gives us a certain kind of psychology. And there always exception, please understand that the segmentations are done for kind of an average approach, but at certain stage we may have to become luck more precise. Then at that stage, it we will be getting into what we call the focus area. So, within a segment there can be again very niche segments, that which may needed at the later stage of the product life cycle, as we discussed earlier and then of course, it could be by way of decision making unit. So, if you are in refrigerator marketing, your product is a consumer durable high value consumer durable like a large TV or a air conditioner or a refrigerator, please understand that even though it is a consumer product, the buying decision may involve the children, may involve the



husband the wife the because, you know it is a something that everybody will be looking at.

So now for example, car is much better example a car buying decision, these days will often be influenced by your children or by your spouse. So, it becomes entire family decision. So, this is what we call by segmenting by way of decision making. So, when you are actually creating your marketing promotion for this kind of product, you have to understand that your promotion must have something to say for all the different members in the decision-making unit as we call it.

The decision-making unit is a much more powerful concept, when it comes to B to B products, there actually we have to look at the finance department, the operations department, the marketing department. In fact, in case of industrial products different functionality is become more important because, they are actually the decision making happens over a longer span of time and different disciplines play different roles at different points of the purchase cycle, but if you think of the car then, you will see at that why today in advertisements on TV you often see children being highlighted and their safety being highlighted or the size of the car, where the whole family can travel together including the dog that particular feature is highlighted. Because, you are trying to appeal to a complex decision-making unit comprising of different value sets.

So, this is another way of understanding the market segmentation, that they are actually it is the same product, which has one set of appeals for the senior citizens, one set of appeals for the young couple, one set of proposition for the young children and you have to make a blend depending on, what price point your aiming at? What size your car offers? And so, on and so forth.

And then of course, there are a you know the way of your promotion strategy will depend on your media partners and so, on and that will also have an influence on your segmentation strategy, this particular slide you should, this particular set of points you should study slowly, deeply and if you have any question please post them on the forum and we will respond back to you, if any point is not very clear. Concluding point on segmentation is from Dread Levitt, whose name I mentioned in one of the earlier session a marketing guru, who was actually who have written some very, highly influential

marketing books and papers which are relevant even today, he is the person who introduced the concept of marketing myopia.

Similarly, here he says, that if you are not thinking segmentation, then you are not thinking like a marketer at all. Because, customers are different in different segments and you must refer understand to whom you are appealing, and what choices are you are offering and that will without that marketing is. Often incomplete irrelevant or insufficient and bound to fail.

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**SEGMENTATION**

➤ If you're not thinking segments, you're not thinking. To think segments means you have to think about what drives customers, customer groups, and the choices that are or might be available to them.

— Levitt, *Marketing Imagination*

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**STP AS BUSINESS STRATEGY**

- **Segmentation**
  - Identify segmentation bases and segment the market.
  - Develop profiles of resulting segments.
- **Targeting**
  - Evaluate attractiveness of each segment.
  - Select target segments.
- **Positioning**
  - Identify possible positioning concepts for each target segment.
  - Select, develop, and communicate the chosen concept.

... to create and claim value

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So, segmentation is a business strategy product segmentation, as a business strategy means there for you first define, which set which subset of customers you are going to approach and this may expand like you can start with south India, but you can next target eastern India, then you can go to west, you can cover at one from tam one that is total addressed market, you can try to cover the entire range universe of total addressable market. So, segment is an evolving concept, you start somewhere and then you add segment by segment in some products, in some products you may just remain in one particular type of segment.

So, like for example, if you are making watches wrist watches, then initially you may start with one segmentation that you are actually making watches for women, fashion watches and then you may actually add watches for men, and then you can actually create watches, as you can you can see the entire range of titan for example, a major watch manufacturer now, in India and you will see that they have one segmentation for women, one segmentation for men, they are segmentation for young trendy men, they have segmentation for a senior citizens.

And then you can actually also create another set of products to address the segment, who are people who are in (Refer Time: 23:31) go to gyms and they exercise and play games etc, that is meant more active young citizens. You can actually create something like a you know smart watch, for senior citizens to measure who wants to take keep track of the calories they are consuming, the number of steps they have walked during the day and their sleep pattern and so on.

So, again it is watch, but aimed at different segments and you can start somewhere and then you can keep on adding, you can expand therefore, segment by segment and each time there for you are targeting a different segment and that is how you are expanding your market. But sometimes you can be somebody like, say omega or Rolex and you make watches, which are maybe 15000, 20000, 50000, 100000 rupees in price. Now they are; obviously, your segmentation is narrow and therefore, there may be some segment segmentation, by way of male customers and female customers, but you are at a high value dish.

So, therefore, you remain in a smaller segment for all time to come, because that is how you have what we call positioned your product. So, positioning is a kind of a quite

related concept of customer value proposition, which we have been discussing in the earlier part of this week. So, customer value proposition, from there the positioning comes the bundle of options values etc, that you have embedded in your goods and service combination, will determine the positioning that you can validly take. So, a Rolex watch cannot be positioned for people whose disposable income per month will be say 20000 rupees, because a Rolex watch will be made for people who is disposable income maybe a 100000 rupees per month right?

So, positioning therefore, depends on your value proposition, your bundle of features, attributes in the product your solution to a particular need. So, a Rolex watch is not only for measuring time whereas, a 600 rupees worth titan is primary element for showing the time, but a Rolex watch is a time piece, it is jewelry, it is a fashion statement, it is an achievements statement, it is a lifestyle statement so many thing. And these bundle of tangible and intangible values will tell you that, what happening is valid?

And therefore, that will tell you what segmentation is valid? And will tell you how to target that segment targeting of course? Means also how to get to your segment? So, there for concepts like market channel and distribution strategies etcetera will come to 4. So, that is kind of a summary of segmentation targeting positioning, as business strategy. In the next session, we will discuss some deeper aspects about segmentation and some deeper aspect of positioning and so on, at this moment we therefore, end with the key concepts of STP segmentation targeting and positioning.