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SEGMENTATION, TARGET MARKET SELECTION AND POSITIONING (STP) PRACTICE in AUTOMOTIVE INDUSTRY | Marketing Management| | CONTENTS GENERAL INFORMATION2 OVERVIEW OF THE INDUSTRY2 PROCESS OF SEGMENTATION6 Demographic Features7 Age Factor7 Gender Factor7 Income Factor8 CHOICE OF TARGET MARKET9 Five Patterns of Target Market Selection9 Single-Segment Concentration9 Selective Specialization9 Product Specialization9 Market Specialization10 Full Market Coverage10 POSITIONING10 Perceptual Maps11 Value Map12 APPENDIX (TABLES)13 SOURCES18 SEGMENTATION, TARGET MARKET SELECTION AND POSITIONING PRACTICE IN AUTOMOTIVE INDUSTRY GENERAL INFORMATION

Companies cannot connect with all customers in large, broad, or diverse markets. But they can divide such markets into groups of consumers or segments with distinct needs and wants. A company then needs to identify which market segments it can serve effectively. This decision requires a keen understanding of consumer behaviour and careful strategic thinking. To develop the best marketing plans, managers need to understand what makes each segment unique and different [1]. Companies, instead of scattering their marketing efforts, are focusing on these consumers they have the greatest chance of satisfying.

Contrast of mass marketing, nowadays, marketers 1) Identify and profile distinct groups of buyers who differ in their needs and preferences (market segmentation), 2) Select one or more market segments to enter (market targeting), 3) For each target segment, establish and communicate the distinctive benefit(s) of the company’s market offering (market positioning) [1]. OVERVIEW OF THE INDUSTRY Motor vehicles are the products that includes a motor and are used to carry goods or passengers; they are manufactured according to some specific regulations and includes four or more wheels.

The industry that manufactures these products is called “ automotive main industry”. On the other hand, “ automotive subsidiary industry ” manufactures parts, modules and systems for the companies which produces vehicles. “ Automotive Industry” is the sum of these two industries [2]. In this paper I’ll focus on the “ automotive main industry”. The main products in this industry are automobile (personal car), bus, midibus, minibus, truck, pick-up and tractors. Table 1 shows the players of the automotive industry in Turkey.

As shown in Table 1, we can see that automotive industry is very big in Turkey and data in hand shows that it is one of the first three industries in Turkey. Turkey became one of the biggest production area of the big automotive manufacturers on the world. Custom Union Agreement (1996) was one of the milestones for Turkey’s automotive industry. After this agreement, exportation has increased. In 1967, Turkey’s “ local” automobile called “ Anadol” was manufactured. With the begining of industrialization and developments in trade in Turkey, tradesman needed pick-ups.

Then Otosan began to produce Anadol pick-ups. In 1971, because of the increasing interest in automobiles in Turkey, Renault branded automobiles began to be produced. Because of Turkey’s geographic conditions, like wide rural areas, Renault automobile, which was convenient for these conditions became very popular in Turkey [2]. Parallel to the improvements in automotive industry, the distribution channels of it also improved. At first, only “ made in Turkey ” vehicles was distributed in this network, but after 1996, imported vehicles also took place in the distribution network.

Until the 1980s, the selling and after sales services were provided in small galleries, but then the service began to be provided in auto-plazas. After the 1990s, in Turkey, including multi-national companies in this industry, modern management ideas, quality, human resources management, production process, continuous development ideas, research & development, marketing channels, customer demand analysis, lean-production, team work, production without stock, 6-sigma and just in time production ideas took place in automotive industry [2].

Table 2 shows the Automotive Vehicles Park in Turkey and Table 3 shows the Motor Vehicles by Types and Provinces for the year 2007. As shown in Table 3, the province involves the biggest number of motor vehicles is Istanbul, and an interesting data is “ the number of personal cars in Istanbul is bigger than the total amount of motor vehicles of each province”!!! Another interesting data is “ the number of trucks in S? rnak, different from other provinces, is 5 times bigger than the number of personal cars!!!

After the year 2001, the variety of products manufactured in Turkey increased. Technology, qualified human resources andglobalizationmade it necessary to produce various products. In general, it was an obligation for Turkey’s automotive industry to use modern technology, to produce according to scale economy principles, and to be competetive in price and quality in international market. As a result, product diversification has emerged. In 2001 economic crisis, the capacity usage in production decreased until 29%, but today it is almost 86% [2].

In 1993 exportation / production rate was 2%, but with the decrease in demand by the effect of exchange rates and economic crisis, manufacturers headed towards mostly exporting their products to other countries. In 2007 exportation / production rate was 73%, as a result [2] (see Table 4 in appendix). High rivalry in global automotive industry causes good improvements in technology. Every year new and advanced models are being produced. These models have high standards and customers prefer these models. Especially after 1997, importation from Germany has increased because of the exchange rate of Mark was under the inflation rate [2].

In 2001 economic crisis, exchange rates was high and then importation began to decrease. Despite the increase in manufacturing in Turkey, about 57% of the Turkey automotive industry provides its products by importation. As shown in Table 5, Renault, Tofas and Ford have bigger market-share in Turkey. Renault and Tofas has mostly personal cars-share and on the other hand Ford has mostly pickups-share in Turkey. When buses are considered, Mercedes has the biggest share. By July 2008, 55 kinds of brand are being sold in Turkey [2]. Improvements in technology made it necessary to merge for different companies in order to compete in market.

As a result of these merges, quality and competitiveness increased. The leader manufacturer of \* Personal cars is Oyak – Renault \* Pick –ups is Ford Otosan \* Trucks is Mercedes Benz Turk \* Buses is Mercedes Benz Turk \* Minibuses is Ford Otosan \* Midibuses is Karsan \* Tractors is Turk Traktor in Turkey. The leader exporters are Ford, Oyak – Renault, Tofas and Toyota in Turkey. The most profitable companies are Ford, Oyak – Renault, Mercedes and Tofas in Turkey (According to Turkey’s ISO-500 report)[3]. In Turkey’s exportation list top-10, there are 4 automotive companies that show us the impotance of automotive industry for Turkey’s economy.

Let’s look at from the global view: \* World Motor Vehicle Production : Japan is leader, Turkey is not bad, but 10% of Japan. \* World Commercial Vehicles Production : Turkey is in a competitive position but the leader is United States. \* World Light Commercial Vehicles Production : Turkey is in a good position(in Europe, one of the two leaders). \* World Personal Cars Production: Turkey’s share is only 0, 1% in the world. Leader is Japan. \* World Heavy Trucks Production: China is the leader. Turkey is not good enough. \* World Buses Production : Russia and Turkey are leaders in Europe.

China, India, Brasil and US are the leaders worldwide. PROCESS OF SEGMENTATION Almost 100 years passed after Henry Ford had said that “ all automobiles must be black” and produced Model-T. Now there is a very competitiveenvironmentin automotive industry and understanding customer needs, expectations and forecasting demands are very important factors. Market segmentation is one of the strategies to be competitive in this industry as I told before. General Market Segmentation Activities are as follows: 1) Define the market to be segmented (automotive products buyers, individual consumers or business buyers, or both). ) Decide how to segment (geographic, demographic, psychographic, behavioral segmentation) 3) Form segments 4) Finer segmentation strategies 5) Strategic analysis of segments, if needed turn to #1. Target marketing involves breaking a market into segments and then concentrating your marketing efforts on one or a few key segments. Target marketing makes the promotion, pricing, conception and distribution of ideas/goods/services easier and more cost effective. It provides a FOCUS as Porter adviced as one of the marketing strategies.

It also provides Porter’s other strategy of being the COST LEADER. According to the Kotler and Keller’s book, steps in segmentation process are: 1) Needs- Based Segmentation 2) Segment Identification (demographic, behavioral .. distinctives) 3) Segment Attractiveness (market growth, access) 4) Segment Profitability 5) Segment Positioning (Create value – proposition and product-price positioning strategy) 6) Segment “ Acid Test” (test the attractiveness of each segment’s positioning strategy) 7) Marketing –Mix Strategy( Product, Price, Promotion and Place aspects) [1].

In automotive industry, companies generally segment the market according to demographic features (age, income, gender, familysize, social class etc. )[4]. Demographic Features Age Factor In US, automobile buyers are mostly under age 25. For example Mazda has developed its MX-3 model, having shiny colours for ages around 20 and has developed its 929 model for middle aged people segment. From their advertisements, we can understand what the target segment is. A Japanese company has seen that the population’s average age is getting higher and targeted the segment of these old people.

It manufactures an automobile which can detect the loss of attention of the driver. Toyota has maintained a simple radio system to Carry model for old people. General Motors placed a display which has big bright letters/numbers in front of the fore-glass of car for old people. But sometimes targeting may not be stable after segmenting according to age. For instance, Ford firstly manufactured Mustang model for youngs prefering low priced sportive automobile; but then they saw that this model is bought by all age groups of people. Gender Factor Women take place in working life more than before.

So the target market structure changes day by day. Increasing income of a working woman and the quick time of city life the consumption behaviour changes and also total demand increases. Automobile manufacturers develop strategies according to this new market. An investigation made in US, states that woman spends lots ofmoneyfor automobiles and they have a strong effect (80%) for buying a new car and their car-ownership percentage is 49%. Toyota observed that 60% of car owners of Toyota is woman. An interesting example of Volvo is: “ A woman- team of Volvo has created a concept car designed only for women in 2004.

It has many properties especially for shopping-hungry women. It has a motor that sends message to the service-center when the maintenance time comes. It has wide doors opening up and down, which makes it easy to get on and off with shopping packages”. In Turkey, the woman-effect can be seen in automobiles easily. In the wide spread of automatic gear in automobiles, there is an obvious woman effect. The automobiles having child security systems draws interest of woman. An investigation made by IBS Marketing Research company shows that a high percentage of woman prefences for an automobile is safety properties [4].

If this is provided, then women prefer small automobiles. Income Factor The motor power, accessories, chassis of an automobile shows its class. The class of an automobile affects its price. People whose incomes are higher, prefers good quality, safety, performance and comfortable models. The most expensive cars are class E and F. For example Porche, BMW, Mercedes, Jaguar, Ferrari, Bugatti, Lamborghini are among the most expensive cars in the world. B and C class automobiles are for people having intermediate level of income. There are lots of kinds of automobile in these classes branded Toyota, Opel, Renault etc.

This segment of cars has the biggest percentage of sales. Some companies by modifying the car’s function and equipments, targets low-income market segment. Only for this reason, Opel has manufactured a low-cost model for its China market. Toyota Yaris is one of the economic models. Dacia company also targeted the low-income market segment with its cheap automobiles [4]. Other segmenting variables, may be used in automotive industry are: \* Geographic (country, climate, state, nation... ) \* Psychographic (lifestyle, activities, interests, opinions, personality, core values... \* Behavioral (occasions, benefits, loyaltystatus, buyer-readiness... ) Market segments must rate favorably on five key criteria: 1) measurable (the size, purchasing power etc. ), 2) substantial (large and profitable), 3) accessible, 4) differentiable (distinguishable segments respond differently), 5) actionable [1]. CHOICE OF TARGET MARKET How well does a potential segment score on the five criteria mentioned above? Does a potential segment have characteristics that make it generally attractive, such as size, growth, profitability, scale economies, and low risk?

Does investing in the segment make sense given the firm’s objectives, competencies, and resources? These questions should be asked before selecting the target market. The firm must look at two factors: 1) the segment’s overall attractiveness, and 2) the company’s objectives and resources [1]. Five Patterns of Target Market Selection Single-Segment Concentration Volkswagen concentrates on the small-car market and Porche on the sports car market. Through concentrated marketing, the firm gains a strong knowledge of the segment’s needs and achieves a strong market presence. However, there are risks.

A particular market segment can turn sour or a competitor may invade the segment. For these reasons, many automotive companies prefer to operate in more than one segment. A benefit of this is a company carrying fixed costs (sales force, store outlets) can add products to absorb and share some costs. Selective Specialization A firm selects a number of segments, each promises to be a moneymaker. This multisegment strategy has the advantage of diversifying the firm’s risk. For example Mercedes selects premium segment (Sedan model) and young and alone consumer segment (Smart model).

Product Specialization The firm makes a certain product that it sells to several different market segments. For example small cars are manufactured for different market segments such as young/alone consumers and small families living in crowded cities. Market Specialization The firm concentrates on serving many needs of a particular customer group. In automotive industry there is no such example that sells of all its products only to one kind of segment. For example an automotive company doesn’t produce for only old people or doesn’t produce for only high-income people.

In order to compete in the industry they also have different product lines serving other segments too. However, Turk Traktor may be an exception, because it produces tractors for people dealing with agriculture. But this must not be considered as one segment. It also includes more than one segments inside, such as high income and low income customers. Let’s remember that a segment must have five key criteria. These two segments do not have the same characteristics and responds differently to different marketing-mix elements (price, place, promotion and product).

Full Market Coverage The firm attempts to serve all customer groups with all the products they might need. Only very large firms such as General Motors can undertake a full market strategy. Large firms can cover a whole market in two ways: through undifferentiated and differentiated marketing [1]. Undifferentiated or mass marketing is the result of the decision to aim its resources at the entire market with one particular product. For example Turk Traktor has a narrow product line that keeps down the costs of production, marketing research, advertising and product management.

As a result, Turk Traktor, owned by Koc Holding, is one of the fastest growing companies in Turkey [5]. In differentiated marketing, the firm operates in several market segments and designs different products for each. In automotive industry, we can say that all automobile manufacturers aim several market segments such as high and low incomed, young and old, looking for comfort or usableness, women and men etc. POSITIONING Positioning is the act of designing the company’s offering and image to occupy a distinctive place in the minds of the target market [1].

Positioning is a managerial activity using marketing instruments, mainly promotional and communicational, to influence costumers’ perceptions and to secure a clear and distinctive place in their minds [6]. For an example of value proposition, see Table 6. The starting point for brand positioning is to determine “ category membership”-the products or sets of products with which a brand competes and which function as close substitutes. To determine the proper competitive frame of reference, marketers need to understand consumer behavior and the consideration sets consumers use in making brand choices.

Then marketers must define the appropriate points-of-difference (PODs) and points-of-parity (POPs) (necessary conditions which should be included for brand choice) associations. POD of Lexus is quality. POP of BMW is performance and luxury withrespectto performance cars and luxury cars. Because BMW positioned the brand as the only automobile that offered “ both” luxury and performance [1]. Perceptual Maps Perceptual maps provide a visual picture of the positioning activity. They help you understand what consumers think about your and competitors’ brand and help you build an effective marketing strategy [7].

One of the most important issues in producing perceptual maps is defining the proper range of competitive products. It has been found that perceptual maps of direct substitutes may better support positioning decisions. So, in an investigation made on Hungary automotive industry in 1997, they decided to include “ only direct substitutes” from the medium and lower medium-sized car market in this country instead of “ all” cars. As a result, after the surveys they made on consumers, the perceptual map was like that in the figure. The survey results in value-price relationship says that customers donot simply buy on price, they buy on value [6].

So it is very important for an automotive company to position itself correctly. Value Map The analytical framework of the value-price relationship is often called the value-map. The horizontal axis of the value map quantifies the perceived benefits that a product provides to the customers, while the vertical axis represents the perceived price. Positions on the value equivalence line represent a balance between the value and price perceptions of a product. As seen in figure, Skoda and Lada have the value disadvantage and arenot positioned well in consumers’ minds.

It is more difficult for marketers to change perceptions than the physical features of the product [6]. APPENDIX (TABLES) Table 1: Players of the industry in Turkey (Sorted according to the ISO 500 list increasing row number) [3]: 2009 row number| Company| 3| FORD OTOMOTIV SANAYI A. S. | 5| TOFAS TURK OTOMOBIL FABRIKASI A. S. | 6| OYAK-RENAULT OTOMOBIL FABRIKALARI A. S. | 13| TOYOTA OTOMOTIV SANAYI TURKIYE A. S. | 22| MERCEDES-BENZ TURK A. S. | 43| HYUNDAI ASSAN OTOMOTIV SAN. VE TIC. A. S. | 71| MAN TURKIYE A. S. | 84| TURK TRAKTOR VE ZIRAAT MAKINELERI A. S. | 8| BMC SANAYI VE TICARET A. S. | 100| HONDA TURKIYE A. S. | 123| TEMSA GLOBAL SANAYI VE TIC. A. S| 134| OTOKAR OTOBUS KAROSERI SANAYI A. S. | 162| KARSAN OTOMOTIV SANAYII VE TICARET A. S. | 293| ANADOLU ISUZU OTOMOTIV SANAYI VE TIC. A. S. | Table 2: Automotive Vehicles Park in Turkey: Years| Personal Car| Truck| Pick-Up| Minibus| Bus| Tractor| Total| 1963| 72. 034| 49. 356| 30. 739| 7. 543| 11. 726| 50. 844| 222. 242| 1996| 3. 274. 156| 453. 796| 442. 788| 182. 694| 94. 978| 988. 142| 5. 436. 554| 2007| 6. 472. 156| 729. 202| 1. 890. 459| 372. 601| 189. 128| 1. 327. 334| 10. 80. 880| Table 3: Motor Vehicles by Types and Provinces for the year 2007 Provinces| Personal Car| Minibus| Bus| Pick up| Truck| Total| Agr? | 7. 513| 1. 945| 214| 2. 779| 2. 275| 14. 726| Ankara| 820. 355| 24. 777| 14. 922| 149. 602| 58. 797| 1. 068. 453| Bal? kesir| 103. 987| 4. 584| 3. 737| 35. 208| 11. 125| 158. 641| Diyarbak? r| 28. 864| 5. 253| 821| 11. 252| 6. 235| 52. 425| Gumushane| 4. 587| 1. 028| 116| 1. 805| 1. 151| 8. 687| Istanbul| 1. 711. 773| 63. 816| 49. 640| 447. 530| 130. 790| 2. 403. 549| Izmir| 457. 791| 14. 487| 15. 357| 150. 132| 36. 511| 674. 78| Mersin| 123. 253| 5. 679| 5. 047| 49. 872| 22. 059| 205. 910| S? rnak| 3. 326| 706| 50| 2. 085| 15. 961| 22. 128| Source: Turkey Statistics Foundation Table 4: Table5: Table 5 continued: Table 6: Example of Value Proposition [1]: Company and Product| Target Customers| Benefits| Price| Value Proposition| Volvo (station vagon)| Safety-conscious “ upscale” families| Durability and safety| 20 % premium| The safest, most durable wagon in which your family can ride. | SOURCES 1. Marketing Management, P. Kotler & K. L. Keller, 13th ed. , Prentice Hall 2. Istanbul Ticaret Odas?

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