

To be viable a market segment should be:

- 1 Distinctive with significantly different needs from other segments. Without this the segment boundaries are likely to be too blurred.
- 2 Sufficiently large or willing to pay a high enough price to make the segment commercially attractive. It may be that a gap in the market exists because it is not commercially viable.
- 3 Accessible. The gap in the market might not exist in reality because the segment cannot be reached – through communication or distribution channels.
- 4 Defendable from competitors. If the segment is not defendable, for example, because you are selling a copy-cat product, prices and profits will quickly reduce as competition increases.

Calypso Rose founder Clippy Daily Telegraph 6 February 2009

Vary your markets. Think about how your product could fit into different markets. Clippykit works for retail, the promotions industry and education.

Market segments vary in size. The slimmer the market segment that the product or service is tailored to suit, the higher customer satisfaction is likely to be, but so too is cost – and therefore price. We all like personal service and the ultimate market segment comprises just one customer. However, this might not be a commercially viable segment. The trend is towards slimmer and slimmer market segments, particularly since the internet has made it easier to link customers with similar needs in different geographic areas. The danger facing firms selling to slim market segments is their overreliance on a small customer base. If tastes change, the segment might disappear.

Defining your value proposition

Your value proposition is why customers should buy from you rather than from another company. Customers buy a product or service because it provides a benefit or solves a problem for them. The features or characteristics of the product or service must combine to deliver that benefit to the customer, or they will not buy it. And different market segments might be looking for different benefits. The features of a car combine to provide the benefit of transport, but different customers are looking for more than just transport – which is why there are numerous types of cars and many producers. Products and services often have other related benefits compared to competitors such as: saving time or money, producing more of the result, undertaking the task more safely or with less risk, or in a more innovative way.

It has been argued that customers essentially purchase services rather than goods, and goods should therefore be viewed as a medium for delivering or ‘transmitting’ services (see [Academic insight 5.2](#)). If all industries are service industries, it becomes vital for them to understand the service – or benefits – that consumers are really seeking. You need to understand the core benefits a customer is looking for when they purchase goods or services, and then engineer the features to deliver those benefits. And these features can take many forms, both physical and psychological. They can then deliver additional forms of benefit such as conveying status, or being more ethical or environmentally friendly. Focusing on the benefit needs of your market segments and delivering distinctive, differentiated value propositions to each of them is at the very core of developing your marketing strategy. Unfortunately, many owner-managers like to define their products in physical terms and therefore think they are selling one thing, only to find that customers are buying something else.

ACADEMIC insight

5.2

Service-dominant marketing logic

In their award-winning paper, Vargo and Lusch (2004) seem to have changed the dominant logic of marketing academia. They argued that customers valued and purchased services rather than goods, and goods should therefore be viewed as a medium for delivering or 'transmitting' the firm's services. They defined service as 'the application of specialized competences (knowledge and skills) through deeds, processes, and performances for the benefit of another entity or the entity itself'. In this way companies manufacturing cars are not in the business of selling cars but in the business of providing 'mobility services'

through the cars that they manufacture – a concept adopted by Andrew Valentine with Streetcar (Case insight 4.2). Thus, all industries are service industries and it therefore becomes vital for firms to understand the service that consumers are seeking from them. It requires a shift in focus from the product to the consumer and an understanding of their needs and how these translate into a service they value.

Vargo, S.L. and Lusch, R.F. (2004) 'Evolving to a New Dominant Logic for Marketing', *Journal of Marketing*, 68(1).

Features can be translated into benefits by exploring their meaning, as shown in Table 5.1.

Table 5.1 Features and benefits

| Feature | | Benefit |
|---------------------------------------|-------------------|--|
| Our shop takes credit cards | <i>Meaning...</i> | You can budget to suit your pocket |
| Our shop stays open later than others | <i>Meaning...</i> | You get more choice when to shop |
| Our shop is an approved dealer | <i>Meaning...</i> | You can be guaranteed that we know and understand all technical aspects of the product |
| Our shop is a family business | <i>Meaning...</i> | You get individual, personal attention from somebody who cares |

Listing the features of a product or service can be the start of the process of understanding the benefits that the customer is seeking from them. The features form part of the 'marketing mix' you put together as part of your marketing strategy – a topic to which we return in the next chapter. However, it is more convincing to start with the benefits that customers are looking for and then construct features that provide those benefits. Which actually comes first is a little like the chicken or the egg question. Once you start looking at benefits, you start thinking like a customer. You also realize that some of the benefits customers might be looking for are intangible. As we shall see later, they could be psychological, even emotional benefits.

Your value proposition should therefore state three things:

- 1 How your product or service will solve a problem for your target customers.
- 2 The benefits they can expect – tangible and intangible (as we shall see later, you may have to offer proof of this in your marketing message).
- 3 Why they should buy from you rather than from your competitors.

It is important that you understand precisely what the value proposition(s) of your product(s) or service(s) is/are, and the target market(s) you are aiming for. The discipline of

expressing this in a few, specific words is extremely valuable and one that you will be able to refer back to again and again as you develop your marketing campaign. To help you do this you might find this template useful:

Because our product/service has (*features and other differentiating and provable attributes*) it will (*problem solution*) for (*target customer segment*) meaning that (*customer benefits*).

Often the value proposition forms the basis for the 'straplines' (short one-line sentences) you see describing what products or companies do or what they represent. For example the cosmetics firm Lush ([Case insight 6.7](#)) leaves no doubt about what it does by using the simple strapline 'Fresh handmade cosmetics'. The computer equivalent of Post-it® notes, Evernote, is equally clear: 'Remember everything' but adding 'Inspiration strikes anywhere. Evernote lets you capture, nurture, and share your ideas across any device'. Skype uses the strapline: 'Skype makes it easy to connect with your loved ones', but if you go to their website the front page states very clearly what it does (helps you share, message, and call), how it does it (on phone, tablet, and desktop), and who it does it for (the whole world.).

CASE insight 5.2



Apple MacBook Pro



Value propositions

Many products or services make effective use of value propositions in their marketing, often as 'straplines'. For example, if you went to the front webpage for the Apple MacBook Pro in 2017 you saw a slick photo of an open, thin MacBook from the top down showing its bright screen and its gleaming aluminium. This was headed up with 'MacBook Pro – A touch of genius'. The brief value proposition below claimed:

It's razor thin, feather light, and even faster and more powerful than before. It has the brightest, most

colourful Mac notebook display ever. And it features the Touch Bar – a Multi-Touch-enabled strip of glass built into the keyboard for instant access to the tools you want, just when you want them. MacBook Pro is built on ground-breaking ideas. And it's ready for yours.

Visit the website: www.apple.com/macbook-pro

Question:

Why is this an effective value proposition?

Creating value through values

Your values and vision are tools that create *identity* for your business – an identity that should be reflected in your value proposition. And if this identity is attractive to customers it can create value. At the very least, a clear identity for the business means that customers know what they are buying and, if they like it, facilitates a repeat purchase. But identity can do more than this. It is also about *reputation*. As we have seen, customers buy a product/service because it provides them with a range of benefits that they value. Reputation assures

CASE insight 5.3

Dell Corporation



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Michael Dell

Changing your value proposition

When it launched Dell offered both a low-price/low-cost and a customer focus value proposition (selling direct and allowing customers to configure their own computers). Dell became market leader in the provision of value-for-money computers in the 1990s because it integrated its supply chain with

its online retail operations. Its fully integrated value chain – a business-to-consumer-to-business (B2C2B) business model – meant that customers could configure their own computers and order online while suppliers had real-time access to orders and deliveries, so that Dell could receive stock information on a just-in-time basis, keeping the assembly line moving while minimizing its costs. It underpinned their low-cost/low-price business model.

Dell patented many of the innovations in this integrated value chain. Nevertheless, over the years competitors were

able to copy many of these technological developments and integrate their own supply chains so as to achieve similar cost savings, thus eroding the basis for the low-price/low-cost element of their value proposition. Consequently the question has arisen as to whether Dell's direct relationship with customers is now of higher value than its low-price/low-cost proposition. If it is, then Dell might also want to sell other digital consumer electronics and office automation equipment direct to customers. And why should it not subcontract more of its assembly, focusing rather on the core strength that the customer values – the direct relationship? Again, this is something it has started doing. This raises many questions about the scope of Dell's activities and the nature of its business domain.

Visit the website: www.dell.com

Questions:

- 1 What are the advantages and disadvantages of relying on the physical features of a product or a low-cost business model for your value proposition?
- 2 How easy is it to change your value proposition?

customers that this will be delivered every time they purchase the product or service. It reduces their risk and is therefore of value to them.

However, benefits can be psychological as well as physical. For example, a successful sole trader might offer a reliable, friendly service that differentiates them effectively from the competition. The personal *relationship* they establish with their customers epitomizes the reliability and friendliness of the service they deliver. And this relationship underpins

the customer loyalty that is generated. The challenge is to extend it beyond the single-person business. Just as with a sole trader, establishing a reputable brand for your product, service or business should therefore help create value by doing three things:

- 1 Establish an *identity*
- 2 Help build a *reputation*
- 3 Help develop a *relationship*

The development of a relationship with customers reflects a move away from seeing the customer as someone with whom to have an arm's-length transaction – just somebody to sell to. It is part of the development called **relationship** and **values-driven marketing** that seeks to actively engage with customers and use them to help sell existing products/services and develop new ones. This is based

You and your rival have access to virtually all the same resources. Only by constantly thinking of new ways to reorganize these factors can you differentiate yourself. It's like poker. Everyone has the same number of cards. It's how you play your hand that matters.

Zhang Ruimin
CEO Haier Group
Strategy + Business, Issue 77, Winter 2014

upon establishing a good relationship with customers – one that is underpinned by mutual self-interest, where there is something in it for both the customer and the company with each helping the other in certain ways. Relationships are built on good communication – a topic to which we shall return in the next chapter – and technology has made this easier on a mass basis. Indeed, the development of the internet and social media has made it possible and affordable on a global scale.

There are therefore four questions you need to ask:

- 1 What are the values you wish your business to embody?
- 2 Do these values differentiate you from competitors?
- 3 What values are attractive and of value to your customers (i.e. they might find attractive and be willing to pay for) and can they be reconciled with those of your business?
- 4 Can these values be incorporated into your value proposition? If so, how?

Your values should be reflected in your value proposition. But doing this is only part of the challenge. The next stage is communicating this ‘values-enhanced’ value proposition to customers and consumers. This can be complicated. One way of shortcutting the process is to develop a brand that encapsulates the value proposition and everything you and the company stand for. In this way the customer’s script is written for them and articulation is easier.

ACADEMIC insight 5.3

Piercy (2000, 2001) was one of the first academics to observe that, as customers become increasingly sophisticated, marketing will move away from just relationships to values-driven strategies that reflect customer priorities and needs:

Achieving customer loyalty with sophisticated customers is the new challenge and we are only just beginning to realize what this means. It will mean transparency. It will mean integrity and trustworthiness. It will mean innovative ways of doing business. It will mean a focus on value in customers’ terms, not ours. It will require new types of organization and technology to deliver value.

Piercy characterizes marketing strategy and the search for customer loyalty as a progression from transactional and brand approaches to relationship and values-based strategies. These are illustrated in [Figure 5.1](#).

Values-driven marketing (also called **Marketing 3.0**) has been characterized as a holistic approach to marketing based upon combinations of segmentation approaches. It places a *participative* customer at its centre – a customer that is not only king, but also market research head, R&D chief and product development manager – for example, through open

Values-driven marketing

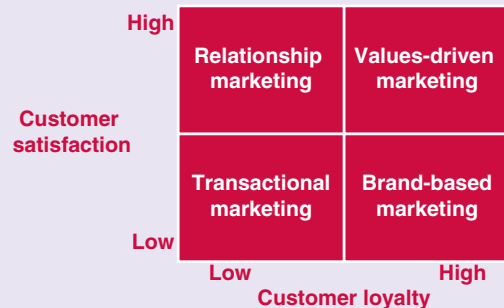


Figure 5.1 Values-driven marketing

source innovation. Customers are actively involved as advocates of the product/service, for example, through social network sites. In this way the customer’s involvement is leveraged far beyond the simple purchase of the product/service. This only happens if the organization is continually engaged in dialogue with customers through as many media as possible.

Piercy suggests that the sources for this values-driven strategy are:

- **Management vision** – clarity in direction and purpose, effectively communicated through a wide range of communication media.