



Going to market: the importance of STP: Segmentation, Targeting, Positioning

A key component of successfully entering the market is getting your “STP” right: segmentation, targeting and positioning. Assuming your product or service is not of the “one size fits all” variety, following this structured process will allow you to tailor your product offering to the customer need.

Segmentation: The first step in creating your market entry strategy is the process of dividing the market into groups that have similar needs. It is important to focus on the customer need rather than on attributes such as geography, demographics, industry, etc. For instance, the *car rental* market could be segmented into *Away from home* renters, and *Close to home* renters. *Away from home* renters rent cars a considerable distance from their home, such as business travelers. *Close to home* renters are those that rent a car when their main car is in a body shop, or when relatives come into town. A partial needs analysis of these renters could be:

	Away from home	Close to home
Preferred location of rental	Airports, train stations	Body shops
Importance of navigation system	High. Renter often unfamiliar with local roads	Low. Renter drives in own area
Focus of rental experience	Speed at the counter	Convenience
Average duration of rental	Shorter	Longer

There is no one right answer in segmentation, and there is often the ability to perform sub-segmentation. For instance, the “away from home” market could be subdivided into business travelers and vacationing families that may have different needs.

Targeting: Once segmentation is complete, a company should choose which segment(s) it is targeting. By estimating market size, growth rate, competitive intensity, and average profit for each segment, the attractiveness of entering each segment can be determined. For instance, *Enterprise Car Rental* realized that the “away from home” rental market is very crowded (Hertz, Avis, National) and that the “close to home” market offered significant growth rates. It also realized that the “close to home” market could be more profitable: local renters drive fewer miles; they know local roads so they have fewer accidents; they rent for longer periods and thus fleet utilization is higher and there are fewer times where a car needs to be prepared for a new renter.

Positioning: Once a target segment has been chosen, product positioning is the process of designing product features that deliver on the desired customer benefit. These don’t all have to be technical features, but could be combinations of price, place (how product gets into market). A promotion plan to communicate these benefits should also be in place. Consider the difference between Hertz and Enterprise in the above example. Although both rent cars, Enterprise has designed their service to cater to the needs of their preferred “close to home” rental market: Created agreements with insurance companies that provide customers with replacement cars at the body shop; created a “we’ll pick you up” service to enhance convenience; advertised locally as opposed to in business-centric publications. Indeed, Enterprise has packaged their product in a way that addresses the needs of their market segment.

Takeaways:

- 1) Invest time in a structured process of segmentation, targeting and positioning.
- 2) Focus on addressing customer needs, not just product features.