White Paper

Market Targeting and Prioritisation

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1. Introduction

This white paper:
• provides an overview of the general principles of market targeting and prioritisation;
• looks at some of the main theoretical models in use today;
• describes in some detail how Wright Associates has used enhanced variants of these models to deliver practical, actionable results for clients.

It is intended to provide both an introduction to the subject for those new to these concepts, and more detailed information for experienced marketing strategists.

While the examples and models used are drawn from experience with large multi-national companies, the principles and processes described can be applied by any size of organisation and for any market.

Section 2 explains some of the basic terminology and concepts used in the white paper. The next two sections cover some of the ideas behind ‘market attractiveness’ and ‘ability to address market’. Section 5 looks at some of the core market models and Section 6 goes on to describe in more detail how the market targeting and prioritisation process can be applied in practice.
2. Segmentation, Targeting and Prioritisation

Segmentation groups customers with similar needs and characteristics together in a way that allows them to be targeted. Figure 1 on the next page shows a basic segmentation process, moving from an undifferentiated market to a segmented market. This process is described in more detail in another Wright Associates white paper ‘Customer Segments for Marketing’.

Market targeting is simply the process of choosing which market segment(s) to address following a segmentation exercise. This usually involves looking at each segment’s attractiveness against some agreed criteria (typically size and/or growth).

However, most organisations

a. need to address more than one segment, and

b. have limited resources.

We use the term market prioritisation to describe the process of comparing segments in a methodical way that allows resources to be allocated between them.

Market segmentation, targeting and prioritisation are the foundation of marketing strategy and are critical to the development of routes to market\(^1\). The principles of prioritisation can also be used tactically, for example in the allocation of sales resource to key accounts.

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\(^1\) Routes to market are the combinations of resources, internal and external, required to deliver a product or service to a customer through the relationship cycle. Internal resources are those directly under the control of the organisation. External resources are those resources outside its direct control but over which it may have some influence, e.g. channel partners.
Market targeting and prioritisation assumes that the overall market can be segmented and that some segments will be more attractive than others.

The segmentation process will begin with research to understand how customers may be grouped together on the basis of similar needs and characteristics.

A good market segmentation will identify a number of segments (typically between three and ten is manageable). Each of these will have distinctive characteristics and needs and will have been sized. Customers in each segment should also be targetable.

This is the starting point for market targeting and prioritisation.

Figure 1: Segmentation Process
3. Market Attractiveness

Different market factors may be used to assess a segment’s attractiveness. These usually include size and growth and may also include stability, price sensitivity and competition. What makes a sector inherently attractive for an organisation is a subjective judgement - there are few, if any, absolutes.

**Size**

In the past, large segments have usually been seen as inherently more attractive than small segments because they offer the potential for greater sales volumes and economies of scale. However, large segments may be more hotly contested and offer less scope for differentiated strategies.

For an organisation seeking to enter a new market smaller, niche markets (segments), where it may be easier to achieve leadership, may be more attractive. Geoffrey Moore² has described the considerable advantages that niche domination can bring.

**Growth**

High growth segments are generally seen as more attractive than low growth segments. Again, high growth segments tend to attract competitors.

**Stability**

The rate of change in a segment may make it attractive or unattractive. Stable segments may allow greater predictability in planning, but fewer opportunities for differentiation and growth. Conversely, segments undergoing constant change may continually offer new opportunities to gain competitive advantage, but with the attendant risk that these opportunities are open to competitors as well.

**Price Sensitivity**

Conventional wisdom is that the less price sensitive a segment is the better, because margins can be maintained. However, if an organisation has a leadership position, with the attendant economies of scale that allow it to drive the market price-point, price sensitivity may be seen as a positive characteristic. The PC wars of the last decade are an example of this with Dell Computer emerging as leader having used price reductions as a strategic weapon against Compaq (now HP) and IBM.

**Competition**

Strategic competitive analysis has developed as a discipline in its own right, following on from the work of Michael Porter³ in particular. However, for the purposes of this paper, competition in a segment can be assessed in two main regards.

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The first of these is the extent and nature of the existing competition. If there are few or weak competitors in a segment then it is likely to be more attractive than one where there is strong competition.

Factors that can fuel intensity of competition include:

- The presence of several players with similar shares, struggling for leadership.
- Willingness of customers to switch products/suppliers.
- Standardisation and commoditisation of products.
- Ready availability of products through multiple channels.
- Ease of price comparison.

Secondly, consideration must be given to the likelihood of new competitors entering the market. If the barriers to market entry are low, the threat of new entrants, perhaps using new technology to gain advantage, needs to be taken into account. Barriers to entry can include a high marketing costs or investment in new production capacity, patents, or high switching costs for customers. Segments where an organisation can take advantage of such barriers are likely to be more attractive than those freely open to new entrants.

...consideration must be given to the likelihood of new competitors entering the market.
4. Ability to Address Market

These are essentially factors over which the organisation has some control. The phrases 'competitive strength' and 'ability to address market' are often treated as interchangeable. However, 'ability to address market' is sometimes preferred as it includes capabilities and advantages that may be potential rather than actual for a new segment being assessed.

Factors that affect the ability to address a market can include the following.

- Existing market share
- Relative brand strength
- Cost structure/model
- Distribution channels
- Customer loyalty
- Product/technology differentiation

It must be stressed that this is just a selection of factors. Understanding what can make a difference in a market is a critical success factor in itself.

**Existing Market Share**

Presence in a market over time brings advantages such as established awareness of the company and its products and the ability to leverage reference customers. These advantages become much more accentuated if the company is the market leader. For example:

- in industrial markets invitations to tender may only be issued as a matter of course to the top two or three suppliers in the market;
- in FMCG markets where shelf space in stores is at a premium, supermarkets will typically stock their own brand, the market brand leader and perhaps the number two brand if strong.

**Relative Brand Strength**

There are as many definitions of what a brand is as there are marketing textbooks. However, it is generally accepted that two measurable dimensions of a brand are recognition (eg the proportion of the population in a market that are aware of the brand) and perception (how positively or negatively the brand is perceived by those aware of it).

Other things being equal, strong brands will typically do better than unknown or poorly perceived brands. This may be a self-fulfilling prophecy in markets where a company is already established, but the challenge becomes more interesting when considering new markets.

If a company has built a strong brand in one market this may provide it with credibility and reputation to assist new market entry (the 'halo
effect'). The extent to which brand can be leveraged in this way requires careful judgement. Extending a strong brand also carries the risk of damaging it should problems be encountered in the new market.

**Cost Structure/Model**

Being able to deliver a comparable product or service at a consistently lower cost than the competition is clearly a major advantage in most markets.

Such a cost advantage can come from size (economies of scale), operational efficiencies (being better at doing the same things as the competition are doing) or structural differences (doing things in a different way to the competition). Examples of the latter have become common as technological change (eg the growth of call centres and the web) has allowed new competitors to disrupt long-established market hierarchies.

**Distribution Channels**

At the simplest level, channel partners can provide an organisation with market reach that would be too expensive to provide directly. If the organisation has too few channel partners potential customers may be unable to access the product or service. There is also a danger in having too many channel partners (over-distribution) as this can lead to channel conflict, internal competition and market price erosion.

Just as importantly, channel partners are usually responsible for delivering a substantial part of the brand experience to the end customer. If an organisation recruits the wrong channel partners, or manages them badly, its brand can be severely damaged.

For these reasons the ability to access and leverage distribution channels of different types, effectively, can be a major source of competitive advantage.

**Customer Loyalty**

Customer loyalty can be a significant source of advantage and a barrier to competitors. Apart from the greater likelihood of their continuing to purchase from the company, loyal customers can help by providing word of mouth recommendation, acting as reference accounts and participating in PR activities.

**Product/Technology Differentiation**

"Build a better mousetrap and the world will beat a path to your door"\(^4\) is the foundation of many product strategies. However, in most markets the time advantage which a new product innovation can provide is reducing all the time as a consequence of ever increasing globalisation and shortening development cycles.

There are exceptions to this, for example where a product or technology can be protected by patent. But for the most part an organisation should look at its ability to continue to innovate and differentiate its products over time against its competitors, rather than at the current uniqueness of a product.

\(^4\) Attributed to Ralph Waldo Emerson.
5. Market Models

When assessing the attractiveness of a segment, different models can be used to give different perspectives. A selection of some of the most useful models is shown in Figure 2.

- The **Ansoff Matrix**\(^5\) is still used to look at market segments in the context of product development strategy. Broadly speaking, moving into new products or markets offers more opportunities for growth, but also involves greater risk. It is often suggested that product strategy should balance activity across the four quadrants. However, an organisation also needs to take account of its own particular strengths and objectives (e.g., its attitude towards risk).

- The **product life cycle** and the **product diffusion curves** are also commonly used in product and brand management. The essential premise is that sales of a product follow a predictable pattern of development with recognisable stages, and that different parts of a market will begin to adopt the product at different stages. A very important enhancement to this is the **Chasm Model** developed by Geoffrey Moore (qv).

- The **Boston Consulting Group Matrix** focuses on market growth and share for portfolio management. It makes the reasonable assumption that a company benefits from high market share and high growth in its markets. It is a well-used model that generates easy to understand strategy options. For example, ‘stars’ need to be invested in heavily to develop or maintain a leadership position, so net cash flow may be balanced. As market growth slows the company should be able to reap the rewards of investment in its previous ‘stars’. The level of investment required to maintain share is much lower, but the high share is generating large amounts of cash profitably—hence the term ‘cash cow’.

- Another portfolio planning tool is the **General Electric/McKinsey Matrix**. Originally developed to assess SBU\(^6\) strength, it can be used to plot segments in terms of market attractiveness and competitive strength. This is an enhancement of the BCG Matrix and is particularly useful because it allows an organisation to take account of its own strengths and weaknesses when targeting and prioritising markets.

There is no ‘best’ model. All have their strengths and weaknesses and it must always be borne in mind that they are models. That is to say they are ways of simply representing the real world. Real markets are highly complex and involve the interplay of hundreds of factors. In consequence, models should be seen as useful aids to intelligent analysis, and not a substitute for the application of thought and insight based on experience.

Wright Associates has substantial expertise in selecting and deploying marketing models on behalf of clients, including the development of sophisticated variants to meet the needs of individual companies and situations.

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\(^6\) Strategic business unit - an SBU can range from an operating company or division to a product line or brand.
Figure 2: Market Models

- **a) Ansoff Matrix**
- **b) Product Life Cycle Curve**
- **c) Product Diffusion Curve**
- **d) Boston Consulting Group Matrix**
- **e) GE/McKinsey Matrix**
6. Targeting and Prioritisation in Practice

The market models shown in Figure 2 are two-dimensional representations of complex variables. To be applied in practice they need to be able to model more than one variable, and to obtain the best results it is usually necessary to adapt one or more of the models to meet the specific needs of the company and situation.

For the rest of this section we will use the GE/McKinsey model as a starting point to describe the targeting and prioritisation process.

The process usually involves the following steps:

- Specification of the key factors for the two axes.
- Weighting of the relative importance of the factors.
- Scoring of each segment against each of the key factors.
- Modeling of the weighting and scoring, including sensitivity analysis.
- Interpretation of the resulting output (usually in the form of a graphical plot) and use it to assist decision-making.

Specification of key factors

All of the steps are important, but this is particularly critical as it provides the foundation for the whole process. The organisation must give careful consideration to what factors make a market inherently attractive and what factors determine ability to address the market.

There are several pitfalls that need to be avoided at this stage.

- Ignoring factors that are important, but difficult to measure. With application most 'soft' factors can be quantified sufficiently to allow comparison.
- Lack of precision in defining and articulating precisely what is meant by each factor.
- Duplicating very similar factors (although this can be addressed through weighting).
- Focusing only on the strengths/weaknesses of one part of the organisation (sometimes, for example, sales and marketing factors may be over-represented, with factors related to product development or manufacturing given little consideration).
- Concentrating only on the organisation's own ability to address the market, i.e. ignoring competitors.
A simple version of a list of factors is shown in Table 1

<table>
<thead>
<tr>
<th>Key Factors</th>
<th>Market Attractiveness</th>
<th>Ability to Address Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>Market share</td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td>Brand strength</td>
<td></td>
</tr>
<tr>
<td>Intensity of competition</td>
<td>Product differentiation</td>
<td></td>
</tr>
<tr>
<td>Price sensitivity</td>
<td>Distribution channels</td>
<td></td>
</tr>
<tr>
<td>Financial strength</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1: Key Factors

**Weighting**

Having decided on the key factors, the organisation must now decide on their relative importance. One of the simplest ways of doing this is to allocate percentages. Table 2 shows an example.

<table>
<thead>
<tr>
<th>Market Attractiveness</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>35%</td>
</tr>
<tr>
<td>Growth</td>
<td>25%</td>
</tr>
<tr>
<td>Intensity of competition</td>
<td>20%</td>
</tr>
<tr>
<td>Price sensitivity</td>
<td>20%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ability to Address Market</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market share</td>
<td>10%</td>
</tr>
<tr>
<td>Brand strength</td>
<td>25%</td>
</tr>
<tr>
<td>Product differentiation</td>
<td>35%</td>
</tr>
<tr>
<td>Distribution channels</td>
<td>15%</td>
</tr>
<tr>
<td>Financial strength</td>
<td>15%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 2: Sample Factor Weightings
Scoring

A rational scheme has to be found for scoring each factor. Taking one factor from Table 2 as an example, let us say a company has decided that markets between €100m and €250m in size are ideal. Table 3 shows how scoring criteria might look for this factor.

### Market Attractiveness Factor: Market Size

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Score</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;€50m</td>
<td>0</td>
<td>Market too small.</td>
</tr>
<tr>
<td>€50m - €100m</td>
<td>2</td>
<td>Market may not provide substantial revenue, but it may be possible to achieve dominance, quickly.</td>
</tr>
<tr>
<td>€101m - €250m</td>
<td>5</td>
<td>This is the ‘sweet spot’ in terms of size for this organisation. It is large enough to generate significant revenue and allow economies of scale, but small enough for them to aim realistically for a leadership position (in terms of share).</td>
</tr>
<tr>
<td>€251 - €500m</td>
<td>3</td>
<td>The market is large enough to provide substantial revenue opportunity, but is getting too large for share leadership to be achieved in a reasonable timescale. It needs to be segmented further to identify smaller, more attractive segments.</td>
</tr>
<tr>
<td>€501m - €1,000m</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>&gt;€1,000m</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

**Table 3: Sample Scoring Criteria**

Scoring needs to reflect the importance of each criterion and does not have to be linear, as can be seen in Table 3.

Using different scoring ranges for different factors (eg 0 to 5 for one, 0 to 10 for another) effectively introduces a second level of weighting. This might be acceptable in some instances, but as a general rule the scoring ranges should be similar for each factor.
Modeling

Basic modeling can be as simple as multiplying the segment score by the weighting for each factor, summing the scores and plotting the results. To simplify the visual presentation of the results it may be helpful to index the score, e.g., so the results read off as a score out of, say, 100. Table 4 below shows an example of basic modeling for a segment while Table 5 shows the output can be used to plot segments for comparison.

<table>
<thead>
<tr>
<th>Market Attractiveness</th>
<th>Weighting</th>
<th>Score (0-5)</th>
<th>Weighted Score</th>
<th>Indexed Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>35%</td>
<td>5</td>
<td>1.75</td>
<td>35</td>
</tr>
<tr>
<td>Growth</td>
<td>25%</td>
<td>3</td>
<td>0.75</td>
<td>15</td>
</tr>
<tr>
<td>Intensity of competition</td>
<td>20%</td>
<td>2</td>
<td>0.40</td>
<td>8</td>
</tr>
<tr>
<td>Price sensitivity</td>
<td>20%</td>
<td>3</td>
<td>0.60</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>13</td>
<td>3.50</td>
<td>70</td>
</tr>
</tbody>
</table>

Table 4: Example of Basic Modeling

More sophisticated models can be built to deal with more complex criteria. For example, it might be necessary to build interdependencies between criteria, or threshold levels for criteria.

<table>
<thead>
<tr>
<th>Ability to Address Market</th>
<th>Weighting</th>
<th>Score (0-5)</th>
<th>Weighted Score</th>
<th>Indexed Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market share</td>
<td>10%</td>
<td>1</td>
<td>0.10</td>
<td>2</td>
</tr>
<tr>
<td>Brand strength</td>
<td>25%</td>
<td>2</td>
<td>0.50</td>
<td>10</td>
</tr>
<tr>
<td>Product differentiation</td>
<td>35%</td>
<td>2</td>
<td>0.70</td>
<td>14</td>
</tr>
<tr>
<td>Distribution channels</td>
<td>15%</td>
<td>3</td>
<td>0.45</td>
<td>9</td>
</tr>
<tr>
<td>Financial strength</td>
<td>15%</td>
<td>4</td>
<td>0.60</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>11</td>
<td>2.25</td>
<td>47</td>
</tr>
</tbody>
</table>

Table 5: Plotting Segments for Comparison

Testing

The factors, weighting, scoring, and indexing should be constantly checked as the model is developed. In particular, the sensitivity of the model to changes in any of these needs to be monitored. It is easy for apparently small adjustments in weighting and scoring schemes to lead to a factor becoming over-important in determining the attractiveness of a segment, or the organization’s ability to address the market.
Once the first version is developed it needs to be tested more formally. One of the most straightforward ways of doing this is to use current or historical data for markets the organisation knows well. If the model generates a picture that does not reflect the known reality then it probably needs to be revisited.

This is an iterative process that needs to continue until the model is sensitive enough to differentiate segments, but stable enough not to fluctuate disproportionately with small changes in the factors.

**Interpreting and Using Output**

The position of the three segments shown in Figure 3 is based on the data shown in Table 5. It is common for the size of circles used for each to reflect a characteristic of each segment, usually size. This can be taken further, with the circles becoming pie charts showing share of the segment. Sometimes an arrow is added showing the expected change in position of the segment over time.

Interpretation of this simple modeling of three segments might be as follows.

**Segment 1**

This is a large attractive segment, but the company’s ability to address it is lower than desirable. To succeed here the company needs to invest in capability to address the segment.

**Segment 2**

This is a segment where the company is strongly competitive, but it is relatively unattractive. Appropriate strategies here could be to withdraw completely and reallocate the resources to more attractive segments, or to harvest revenue and margin with the minimum of investment.
Segment 3

This segment is moderately attractive, but the company's ability to address it is very low. It may be that the investment required to improve capability is too great for the likely returns.

This is a basic model. A more sophisticated example used by a multinational company is shown in Figure 4. This looks at comparing whole industries as segments, but it is important to note that the same techniques can be used down to compare micro-segments, and even individual customers (eg in determining the level of investment to be made in developing key accounts).

As stated earlier, market prioritisation goes further than traditional market targeting. It assumes that:

a) there is a quantifiable cost (investment or saving) associated with changing the factors comprising the ability to address the market;

b) changing the ability to address the market will affect market share;

c) it is possible to model this relationship and so make comparisons of return on investment for different markets.

In general, the most favourable markets will be those providing the greatest return on investment over time. Figure 5 shows how the model can be used to assist planning changes to address a particular target market. For the situation shown, the cost of moving position in the target market would be compared with the expected revenue and profit. In this way the model can be used to compare the financial implications of strategic marketing decisions. This can be extended still further through the use of optimisation techniques to assist senior management with operational decision-making.

The same principles can be used to compare positioning in a segment against key competitors as shown in Figure 6. This can be a very useful tool for competitive analysis as it requires consideration of what makes a market attractive to a competitor, as well as an analysis of their strengths and weaknesses. By modeling this over time, eg taking account of market maturity and predicted product life cycles, a picture can be built up of the evolution of the competitive environment with likely entry and exit points for key competitors.

1 Here the size of the bubbles may represent market share.
Figure 4: Example of a Market Targeting Model
Figure 5: Use of Model to Plan Changes in a Target Market
Figure 6: Use of Model in Competitive Analysis of Target Market
7. Summary

Market segmentation, targeting and prioritisation provide the foundations for effective marketing strategy.

Segmentation groups customers with similar needs and characteristics together in a way that allows them to be targeted. Market targeting is the process of selecting which segments to address based primarily on their attractiveness and the company’s ability to address the segment. This is taken further in market prioritisation with greater quantification of the resources needed to achieve success in a target segment, so allowing segments to be compared on the basis of (for example) return on investment.

No single model should be relied upon to give a definitive picture of the market, and it is usually necessary to use several approaches, often with customisation, to give the most effective results for any particular company and situation.

These techniques have been used by Wright Associates successfully with clients ranging from multi-national companies to start-ups and SMEs. Tangible benefits result from this methodical approach, for example

- maximised return on sales and marketing investment;
- efficient use of resources to address the right market opportunities;
- reduced risk through rigorous planning, including the assessment of ‘what if’ scenarios;
- a consistent market view allowing segment comparisons and competitive analysis within segments.

8. About Wright Associates

Founded in 1994 Wright Associates is a management consultancy firm offering support to senior executives lacking the time or resource to deal with critical issues as fast as they would like. Our clients range from corporates to SMEs and start-ups. We work across business sectors with a particularly strong track record in technology, media and services. Our services are grouped into focus areas:

- Go to market
- Decision support and planning
- Sales performance
- Africa solutions
- Organisational support

9. Further Information

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