Developing and Testing a new Framework for Targeting Strategies: An Exploratory Research

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Abstract

Targeting has long been the neglected element of marketing strategy. Segmentation has attracted most of the attention, while recently positioning has been gaining some momentum. Targeting, although of equal importance to Segmentation and Positioning in the formation of a marketing strategy, has been benefited by only normative models. The aim of this study is to investigate the actual targeting alternatives of a firm and offer empirical evidence of their use and their consequent effects on firms' performance. For the purposes of the study, the normative model of Kotler was enriched by a third variable (that if time) and an e-mail survey was utilized in a single European country. As a result, 265 usable questionnaires were collected, and a PLS-SEM modeling approach was applied. Results reaffirm that firm pick and choose among such strategic options, using much of the proposed in the literature variables in order to come to final decision. Nonlinear relationship among the constructs was assessed while it was concluded that the number of the products a firm offers plus the number of the segments the firm targets, are both associated with the company's marketing mix capabilities. The newly introduced construct of time (speed) of entry to the selected segments, was found not to affect directly the firm's capability, but to moderate the relationship between those capabilities and the resulting firm's performance.

Keywords: *targeting, strategy, nonlinear*

Track: *Marketing Strategy & Theory*

1. Introduction – Theoretical background

The aim of this paper is to investigate the targeting alternatives of a firm. The theoretical basis of this study is built on the lack of a well-documented, commonly accepted, typology of targeting strategies. A critical literature review of marketing management and strategic marketing textbooks revealed that there is not a common description of the individual steps of Segmentation – Targeting – Positioning process. Especially, all authors argue that these three stages compose the marketing strategy process, but they don't present the same steps within these stages. Dibb & Simkin (1991, 2012) argue that the stage of targeting includes (1) the decision of the targeting strategy and (2) the decision about which and how many segments should be targeted.

Decisions of the targeting strategy must refer to a well-defined set of alternatives. Taking into consideration the only strategic alternatives' typology, which is presented by Kotler (1994 – adopted by Abell, 1980), we identified two dimension of targeting alternatives; i.e. (a) the number of the products which a firm offers and (b) the number of segments which the firm targets. Moreover, a review of international marketing literature offers one more dimension of expansion in new segments (countries); the time (or the speed) of expansion (Hilmersson, Johanson, Lundberg & Papaioannou, 2017; Hollensen, 2011; Kalish, Mahajan & Muller, 1995; Johanson & Vahlne, 1977). The combination of these three dimensions offers us a potential matrix of the proposed market targeting alternative strategies.

Based on these dimensions and combining the marketing strategy literature (Slater, Olson & Finnegan, 2011; Varadarajan, 2011; Slater, Hult & Olson, 2010) and the international marketing literature (Katsikeas & Leonidou, 1996; Kalish, Mahajan & Muller, 1995) we proposed the study's conceptual framework. Especially, firstly, targeting strategies' dimension (number of product, number of segments and time of expansion to segments) are affected from product characteristics and environment characteristics.

The exploratory nature of the study and lack of previous research on the focal variables lead us to the formation of tentative hypotheses, mainly marking possible relationships between variables and directionality of causality rather than establishing robustly the nature of the relationships, i.e. negative or positive effects. Further to that, non-linear relationships have hypothesized, based mainly on recent literature on outcomes of strategic decisions (Taskin, 2011; Skarmeas, Lisboa & Saridakis, 2016) and the very nature of

marketing capabilities which exhibits strong limitations within a given time and industry frame.

The first part of the relationships is comprised of previously researched themes (Slater, Olson & Finnegan, 2011; Varadarajan, 2011; Slater, Hult & Olson, 2010; Katsikeas & Leonidou, 1996; Kalish, Mahajan & Muller, 1995) but clearly combined in one model for the very first time. The second part of the model, i.e. the primary outcomes of the selected targeting strategies, involves as the literature suggests the development of a set of marketing capabilities diffused among the particular elements of the marketing mix of the company. The paper adopts the notion that STP strategy comprises of interrelated but distinct steps and decisions which both independently and in conjunction lead to the formation of the appropriate marketing mix and thus to the development of relevant capabilities. In that respect, neither Targeting is the result of the Segmentation strategy, although follows its execution, nor Positioning strategy is the result of Targeting, even if the profile of the selected segments needs to be accounted for during its development.

Finally, following Morgan, Vorhies, and Mason (2009) findings, we conceptualized firm's performance (Customer satisfaction, Market effectiveness, Current profitability) as a result of firm's capabilities (Product capabilities, Pricing capabilities, Distribution capabilities, Marketing communication capabilities, Selling capabilities).

2. Research Methodology

Scope of Research

The main aim of this study is to investigate whether firms examine their targeting options as a function of three major variables: (a) the number of products to offer, (b) the total number of segments to be penetrated and (c) the number of segments selected for simultaneous entry. In order to achieve this main objective, targeting decision is modeled as a consequence of a mix of previously researched antecedents (Slater, Olson & Finnegan, 2011; Varadarajan, 2011; Slater, Hult & Olson, 2010; Katsikeas & Leonidou, 1996; Kalish, Mahajan & Muller, 1995), which are brought to bear for the first time as a combination, in order to predict decisions of market scope and timing concurrently.

Sampling Frame and Sample Description

In order to investigate the perceived deployment of the targeting strategies, an e-mail survey took place among marketing oriented FMCGs companies in a single southern European country. The sample, which was provided by a Gallup subsidiary, consisted of 2500 companies, from various sectors, including food, drink, pharmaceuticals and cosmetics, electronics, plastic materials, chemicals, timber furniture and tissue paper, etc providing thus a cross-sectional sample of high and low technology sectors of varying dynamism (mature vs emerging markets).

After a second reminder, the collection yielded a final usable sample of 265 completed questionnaires. The firms in the sample are representative to a good extent to the majority of marketing oriented companies in the area. More specifically, 38.2% of the firms employ more than 100 employees, whereas only 7.5% employ less than 10. In addition, more than half of the responding firms (57.1%), report total sales for 2018 more than 10 million €. Moreover, 35.8% of managers who answered the questionnaire reported greater than 11 years' experience at a marketing department, indicating of a sample, which is comprised by relatively experienced managers – respondents, employed by relatively marketing oriented firms.

Research Instrument

For the purposes of the research a structured questionnaire has been developed, being comprised of four parts. The first part of the questionnaire consisted of questions about the company's products characteristics and environment characteristics, the variables reflected the antecedents of the adopted strategies. These items were reflecting all relevant factors as suggested in the literature, i.e. product quality, price advantage, product innovativeness, product complexity, competitive environment, competitive intensity, market turbulence and technological turbulence. These items were derived from Slater, S. F., Hult, G. T. M., & Olson, E. M. (2010), Slater, S. F., Olson, E. M., & Finnegan, C. (2011) regarding the product characteristics and Slater, S. F., Hult, G. T. M., & Olson, E. M. (2010), Chandler and Hanks (1994) and Jaworski and Kohli's (1993) regarding the characteristics of the environment and measured by 7-point Likert scales.

In the second part, respondents were asked to position the followed targeting strategy along three distinct dimensions. Firstly, they had to indicate, their adopted strategy regarding the number of products they are offering, the number of segments they were serving and then the speed of entrance to these markets, using in all cases a 20-point scale.

In the third part of the questionnaire the variables reflected the outcomes of the adopted strategies were included. These items include firm's capabilities and performance as suggested in the literature (Morgan, Vorhies, and Mason, 2009) and measured by Seven-point scale running –3 ("much worse than competitors") to +3 ("much better than competitors").

The final part of the questionnaire consisted of questions about the company's size and the managers' profile and experience.

Data Analysis

The structural equation modeling (SEM) using the WarpPLS 6.0 software was used for data analysis. The WarpPLS 6.0 applies the partial least squares (PLS) based SEM technique (PLS-SEM). The PLS-SEM was favorably selected in this study because it is better suited for complex models with large number of constructs and links (Pavlou and Fygenson 2006; Ahuja et al. 2007; Au et al. 2008) and equally important PLS-SEM is more suitable than other statistical tools for testing the effects of moderators (Pavlou and Sawy 2006; Limayem et al. 2007), as in the case of the current study. Further, WarpPLS 6.0 is equipped with measures related to the quality of the model, such as the ten powerful goodness-of-fit indices, p-values and multi collinearity estimates (Kock 2017).

3. Findings

The amalgamation of the alternative targeting strategies into one continuum of options has been tested in the proposed model, which includes 33 items describing eight latent constructs (product quality, price advantage, product innovativeness, product complexity, competitive environment, competitive intensity, market turbulence and technological turbulence), added to the model as two second-order variables. The structural equation modeling (SEM) using the WarpPLS 6.0 software was used to provide the necessary analysis to serve the objectives of this study. The measurement model test resulted in statistically accepted goodness of fit between the data and the proposed measurement model. The various goodness-of-fit statistics are shown in Table 1. Consequently, in accordance to Kock (2017), the model has a good fit to the data.

Table 1.Model evaluation overall fit measurement		
Measure	Value	P-values
Average path coefficient (APC) (<0.05)	0.242	P<0.001
Average R-squared (ARS) (<0.05)	0.196	P< 0.001
Average adjusted R-squared (AARS)	0.189	P< 0.001
Average block VIF (AVIF)	1.028	Good if <= 5, ideally <= 3.3
Average full collinearity VIF (AFVIF)	2.087	Acceptable if <= 5, ideally <= 3.3
Tenenhaus GoF (GoF)	0.389	Small >= 0.1, medium >= 0.25, large >= 0.36
Sympson's paradox ratio (SPR)	1.000	Acceptable if >= 0.7, ideally = 1
R-squared contribution ratio (RSCR)	1.000	Acceptable if >= 0.9, ideally = 1
Statistical suppression ratio (SSR)	1.000	Acceptable if >= 0.7
Nonlinear bivariate causality direction ratio (NLBCDR)	0.969	Acceptable if >= 0.7

Table 2 presents the significant structural relationships among the research variables and the standardized path coefficients with their respective significance levels. The three paths composing H1 and the three composing H2 have been found significant. Moreover, two out of the three paths composing H3 have been found significant. The remaining construct (time of expansion), is acting only as moderator and more precisely as boosters of the relationship between firm's marketing mix capabilities and (a) customer satisfaction, (b) market effectiveness and (c) profitability. The model explains substantial variance of the adopted strategy, which acts as a significant determinant of company's performance.

Table 2: Path coefficients and P values

Variable	**Main effects**		**Interaction**	
	β	*p*	β	*p*
Main effects				
Product factors → products' number	0,15	P<0,01		
Product factors → segments' number	-0,15	P<0,01		
Product factors → time	0,11	P=0,04		
Environmental factors → products' number	0,17	P<0,01		
Environmental factors → segments' number	0,31	P<0,01		
Environmental factors → segments' number	0,18	P<0,01		
Products' number →Firms' capabilities	0,24	P<0,01		
Segments' number → Firms' capabilities	0,18	P<0,01		

Firms' capabilities → Customer satisfaction	0,51	P<0,01		
Firms' capabilities → Market effectiveness	0,53	P<0,01		
Firms' capabilities → Profitability	0,40	P<0,01		
Moderating effects				
Time X Customer satisfaction			0,08	P=0,11
Time X Market effectiveness			0,11	P=0,03
Time X Profitability			0,10	P=0,04

4. Discussion

From the results it is clear that managers take into consideration these three dimensions (number of products a firm offers, number of segments a firm targets and time of expansion to segments) when deciding the adopted targeting strategy. Moreover, the factors that determine their final decision could be grouped to product and environmental ones. The analysis also reveals that the number of products and the number of segments affect the company's product, price, promotion, selling and distribution capabilities. However, the construct of time (speed of entry) does not affect directly the firm's capabilities but moderates the relationship between capabilities and firm's performance. In that respect, the proposed and tested model of Targeting Strategies underlines the sequential nature of strategy development starting with environmental and product-market constrains and enablers, to the enaction of specific marketing capabilities and finally to the formation of specific marketing results. In this tested model, the relationships among these constructs are curvilinear.

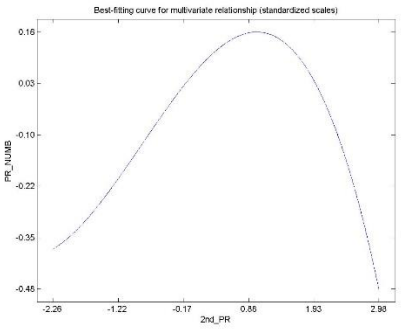
In total, the curvilinear nature of the relationships depicts not only the complexity of these relationships but also the uniqueness of strategic decisions. More specifically, the number of products or product variations a firm chooses to offer to its market (segments) is described by a parabola, both in the case of environmental turbulence and fierce competition as in the case of product-markets' complexity, technological advancement and quality. In low levels of environmental turbulence and product complexities, increases in both lead to the adoption of the offering of an increased number of products, probably to cater for an increasing diversity of customer preferences. Above a certain threshold for both, further

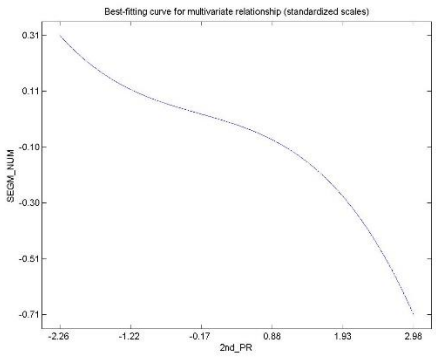
increases lead to the reduction of the number of offered products, revealing either a more innovative product at the start of its product life cycle, or a more defensive approach of firms facing a chaotic market competition.

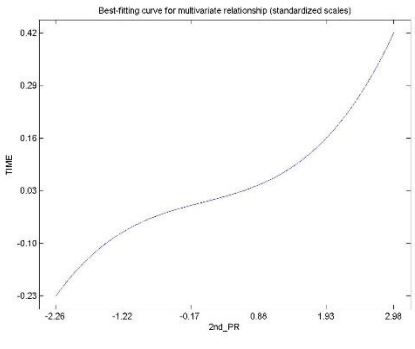
On the other hand, the number of segments a firm chooses to pursue is determined by an almost linear curve to the complexities of the product-markets and the turbulence of the competitive environment, but in opposite directions. Increases in product complexities and innovation, lead to the adoption of a more concentrated targeting strategy, while increases in environmental turbulence forces for a more dispersed targeting strategy. The former reveals a more homogeneous market in the face of more innovative and complex products, while the latter is explained by the need to disperse risks in turbulent times and markets.

Finally, the relationships of product complexities and market turbulence to the speed or timing of entry into new segments, is depicted by an inverted S shaped curve and is overall positive, since both factors as they increase, demand for faster expansion and faster reactions. Simply, after a given amount of complexity and turbulence, the speed reaches an exponential increase, in an obvious effort to cater for an objective and/or perceived chaotic business environment.

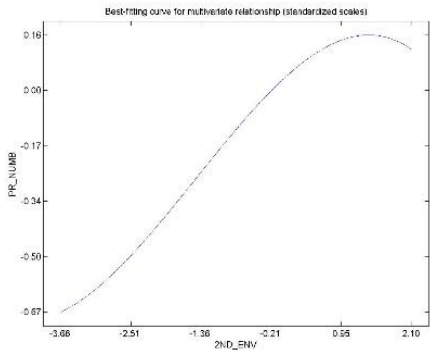
Relationships between products' characteristics and targeting dimensions

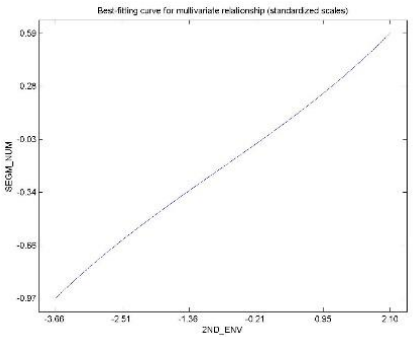


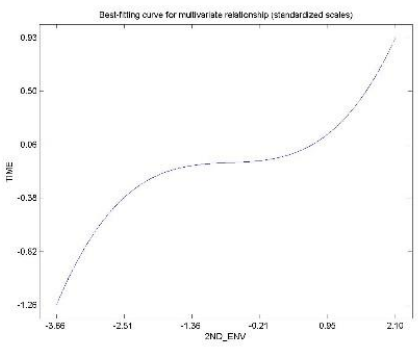




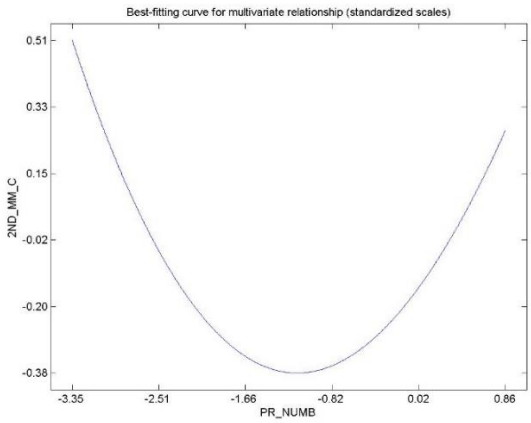
Relationships between environment's characteristics and targeting dimensions

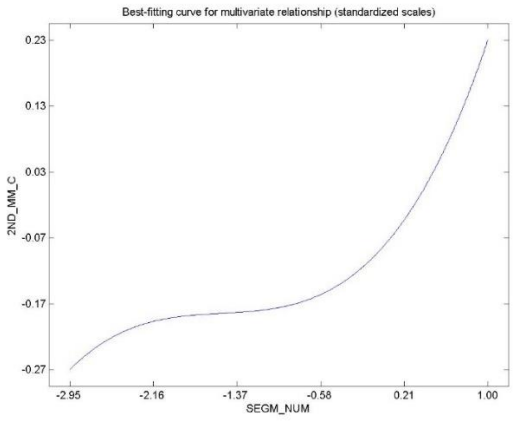






Relationships between targeting dimensions and firm's capabilities





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