

To Target or Not to Target? Initial Strategic and Operational Insights from an Empirical Examination of the STP Process

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To Target or Not to Target?

Initial Strategic and Operational Insights from an Empirical Examination of the STP Process

Abstract

The strategic process in Marketing as depicted in the STP process, although heavily researched, presents a difficult task for managers and this difficulty has yet to be fully addressed in academia. In that respect, several authors have called for additional research on the practices and actual decision making of practitioners in the STP process. This study acknowledges the sequential nature of the STP process, but given that empirical evidence is scarce, employs a perceptions-based approach to the classification of responding firms. The first operationalization of Kotler's targeting strategies framework is coupled with firm's marketing capabilities to develop guidelines for their effect on firm's performance. The paper follows the views of managers from their understanding of the market and customer segmentation, to targeting alternatives and finally to the deployment of the appropriate marketing tactics and marketing operational tools. This is perhaps the first paper which tries to unveil and understand the complex and widely unstructured strategic and operational marketing decisions along the STP track.

Keywords: *targeting, strategy, marketing capabilities, performance*

1. Introduction – Theoretical background

Over the last years, researchers have increasingly placed emphasis upon issues related to marketing strategy and strategic marketing (Morgan, Whitler, Feng & Chari, 2019; Varadarajan, 2019; Hunt, 2018), which now represents a critical concept in marketing literature. According to Morgan, Whitler, Feng & Chari (2019), the twenty years between two major reviews of strategic marketing literature revealed a significant paucity of research on the core domain of marketing strategy. The majority of the 257 papers identified by the authors focus on either marketing tactics or marketing related inputs.

This study aims to address this gap by re-focusing research on targeting, one of the core stages of marketing strategy initiation and formulation. Since both our comprehension of marketing strategy is currently definitely not complete and significant changes have occurred during these last twenty years (Hunt, 2018) this research is posed to contribute by enriching our understanding of the targeting facet of the marketing strategy.

Although the concept of targeting strategy is increasingly mentioned in the literature, the existing literature doesn't offer but a set of alternatives companies could follow in order to target the selected segments. Moreover, no empirical study has researched the targeting strategy process and the decisions that managers are required to make during the selection, design and implementation of the most appropriate strategy. A critical literature review of marketing management and strategic marketing textbooks revealed that there is not even a common description of the individual steps of Segmentation – Targeting – Positioning process (see table 1). Although all authors argue that these three stages compose the marketing strategy process, they don't present the same steps within these stages.

According to Dibb & Simkin (2012), 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.

An extensive review of the relevant literature revealed that the only formal typology of targeting strategies has been introduced by Kotler (1994 – adopted from Abell, 1980) and identifies two dimensions along which all targeting alternatives can be developed, i.e. (a) the number of the products which a firm offers and (b) the number of segments which the firm targets (see Table 2).

Noyle, Stern (2006)	Dibb & Simkin (1991, 2012)	Wilson & Gilligan (2005)	Kotler & Keller (adopted by Best)	Kotler & Keller (2012)
		Situation analysis 1) Identify the organization's current position, capabilities, objectives and constraints		
Market segmentation	Segmentation	Market segmentation	1) Needs-based segmentation Group customers into segments based on similar needs and benefits sought by customer in solving a particular consumption problem	1) Identify and profile distinct groups of buyers who differ in their needs and wants (market segmentation).
Identify customer needs and segment the market	Consider variables for segmenting market.	2) Identify the segmentations variables and segment the market	2) Segment identification For each needs-based segment, determine which demographics, lifestyles, and usage behaviors make the segment distinct and identifiable (actionable).	
Develop profiles of resulting segments	Look at profile of emerging segments.	3) Develop profiles of each segment	3) Segment Attractiveness	
Target marketing	Targeting	Market targeting	Using predetermined segment attractiveness criteria: (such as market growth, competitive intensity, and market access), determine the overall attractiveness of each segment.	
Evaluate attractiveness of each segment	Validate segments emerging.	4) Evaluate the potential and attractiveness of each segment	4) Segment Profitability Determine segment profitability	
Select target segments	Decide on targeting strategy. Decide which and how many segments. Decide which and how many segments should be targeted.	5) Select the target segment(s)		2) Select one or more market segments to enter (market targeting).
Marketing positioning	Positioning	Product position	5) Segment Positioning For each segment, create a "value proposition" and product-price positioning strategy based on that segment's unique customer needs and characteristic	
Identify differential advantage for each segment			6) Segment «acid test» Create "segment storyboard" to test the attractiveness of each segment's positioning strategy.	
Formulate marketing mix	Understand consumer perceptions.	6) Identify the positioning concept within each target segment		
	Position products in the mind of the consumer by communicating the desired positioning.	7) Select and develop the appropriate positioning concepts		
Marketing planning	The marketing mix	The marketing mix	7) Marketing-Mix Strategy	3) For each target segment, establish, communicate and deliver the right benefit(s) for the company's market offering (market positioning)
Develop marketing plan for each segment	Design appropriate marketing mix.	8) Develop the marketing mix strategy	Expand segment positioning strategy to include all aspects of the marketing mix: product, price, promotion and place.	
Develop marketing organization				

Table 1 Comparative representation of S-T-P Process

This purely conceptual framework, although has been extensively referenced (e.g. Hooley, Saunders, Piercy & Nicoulaud, 2008; Doyle & Stern, 2006; Dibb, Simkin, Pride & Ferrell, 2012; Ferrell & Hartline, 2010; Gilligan & Wilson, 2009; Kotler & Keller, 2012), has never been empirically validated. The current study offers the first measured evidence of the applicability of Kotler's targeting model and its usefulness for delimiting organizational market success. For the latter, following Slater, Olson & Finnegan's (2011) rationale, the distinct use of the set of marketing capabilities (which acts as antecedents to firm's performance) has been juxtaposed against the prevailing targeting strategy. In addition, following Morgan, Vorhies, & Mason (2009) findings, we conceptualized firm's performance (comprised of Customer satisfaction, Market effectiveness and Current profitability) as the result of firm's marketing capabilities (Product capabilities, Pricing capabilities, Distribution capabilities, Marketing communication capabilities and Selling capabilities).

The exploratory nature of the study and lack of previous research on the focal variables hampered the formation of formal hypotheses, whereas retained indications of possible relationships between variables and directionality of causality rather than establishing robustly the nature of the relationships, i.e. negative or positive effects.

Given that, empirical research on the actual targeting strategies of firms is rare, if not completely missing, this study has the aim to shed ample light to the holistic concept of targeting strategies within the boundaries of the overall marketing strategy and to investigate the actual targeting alternatives pursued by firms. In addition, the neglected impact of the followed targeting strategy on firm's performance is investigated.

It is also a legitimate goal to try to provide managers with an empirically developed and verified framework for targeting strategies. Managers can use this framework to form and implement the appropriate targeting strategy, taking into account not only the objective characteristics of markets and competition but also the appropriate application of the relevant marketing capabilities.

2. Research Methodology

Sample and data collection

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 of more than 10 million €. Moreover, 35.8% of managers who answered the questionnaire reported greater than 11 years' experience at a marketing department, indicative of a sample, which is comprised by relatively experienced managers – respondents, employed by relatively large, marketing oriented firms.

Measures and measurement

For the purposes of the research a structured questionnaire has been developed. The questionnaire contained items measuring the adopted targeting strategy, firm's marketing capabilities and firm's performance. The questionnaire also included questions about the company's size and the managers' profile and experience.

For the measurement of the adopted targeting strategies the typology of alternatives presented by Kotler (1994 – adopted from Abell, 1980) was used. Targeting Strategy Type is assessed using a short paragraph description, an approach that has been previously used in both strategic management research (e.g., James and Hatten, 1995) and marketing strategy research (McDaniel and Kolari, 1987; McKee et al., 1989). Several studies (Conant et al., 1990; James and Hatten, 1995; Shortell and Zajac, 1990) have demonstrated this to be a valid measurement approach.

Table 2	Targeting Typology
Single-segment Concentration	The firm markets to only one particular segment
Undifferentiated or mass marketing	The firm ignores segment differences and goes after the whole market with one offer
Product Specialization	The firm sells a certain product to several different market segments.
Market Specialization	The firm concentrates on serving many needs of a particular customer group
Differentiated Marketing	The firm sells different products to different segments of the market
Full market coverage	The firm attempts to serve all customer groups with all the products they might need

For the measurement of firm's capabilities and performance, the present study follows suggestions by Morgan, Vorhies, & Mason, 2009 and all items were measured by 7-point scales.

3. Analysis and results

Lack of previous research on the targeting strategies adopted by firms rents these results the first ever to be reported and thus halts any meaningful comparisons. The strategies least pursued are at the opposite ends of the spectrum, with the Single-segment Concentration strategy adopted by 2,3% of the respondents and the Undifferentiated or Mass marketing strategy adopted by a mere 5%. While the latter is debatable whether is a targeting or even a marketing strategy (Kotler & Keller, 2015; p.286), the former constitutes the pinnacle of targeting, namely the pursuit of a single niche market.

The vast majority of the remaining respondents follow the Full market coverage strategy (44%), indicating that the firms in the sample have at least the resources to try to conquer the totality of their markets with a plethora of marketing offers. The Product and Market specialization strategies are attracting almost an identical number of respondents (15,1% and 15,4% respectively), leaving perhaps the most demanding and complex targeting strategy, the Differentiated one, to be selected by the remaining 18,2% of the firms.

To further our understanding of the business implications of targeting, OLS regression analyses were carried out within subgroups of firms pursuing the same targeting strategy. As independent or predictor variables, Marketing capabilities were chosen and as the dependent variable, each category of Performance outcome. Results are summarized in Table 3. Two-tailed tests were used to test the hypotheses because directional predictions could not be established.

Analysis of the Product Specialization strategy

In the analysis of the firms which adopt a Product Specialization Strategy, we found a positive effect of Distribution Capabilities ($\beta=0.444$, $p\leq 0.01$) on Financial Performance. The effects of the product capabilities, price capabilities, sales and marketing communications capabilities were not significant. As far as, the Customer Performance is concerned, we found a positive effect of sales capabilities ($\beta=0.502$, $p\leq 0.01$). The remaining effects were not significant. We also found one only positive effect on Marketing Performance, that of distribution capabilities ($\beta=0.507$, $p\leq 0.01$).

	Single-segment Concentration (N=6)	Undifferentiated (N=13)	Product specialization (N=39)	Market specialization (N=40)	Differentiated (N=47)	Full market coverage (N=114)
Predictor variables						
Financial Performance						
Product Capabilities	N/S	N/S	N/S	N/S	0,468**	N/S
Price Capabilities	N/S	N/S	N/S	N/S	N/S	N/S
Distribution Capabilities	N/S	N/S	0,444**	N/S	-0,335*	N/S
Sales Capabilities	N/S	N/S	N/S	N/S	N/S	N/S
Marketing Communication Capabilities	N/S	N/S	N/S	N/S	N/S	0,299**
R ²			0,17		0,2	0,89
Customer Performance						
Product Capabilities	N/S	N/S	N/S	0,359*	N/S	0,247*
Price Capabilities	N/S	N/S	N/S	N/S	0,359*	0,348**
Distribution Capabilities	N/S	N/S	N/S	N/S	N/S	N/S
Sales Capabilities	N/S	N/S	0,502**	N/S	N/S	N/S
Marketing Communication Capabilities	N/S	N/S	N/S	N/S	0,431**	N/S
R ²			0,25	0,13	0,48	0,285
Marketing Performance						
Product Capabilities	N/S	N/S	N/S	N/S	N/S	N/S
Price Capabilities	N/S	N/S	N/S	N/S	0,553***	0,349**
Distribution Capabilities	N/S	N/S	0,507**	N/S	N/S	N/S
Sales Capabilities	N/S	N/S	N/S	0,388*	N/S	N/S
Marketing Communication Capabilities	N/S	0,698*	N/S	N/S	N/S	0,212*
R ²		0,49	0,26	0,15	0,31	0,257
* p≤0.05; **p≤0.01; ***p≤0.001						

Analysis of the Undifferentiated Marketing strategy

In the analysis of the firms which adopt an Undifferentiated Marketing strategy, positive effects for marketing communication capabilities ($\beta=0.698$, $p\leq 0.05$) on Marketing Performance were the only ones discovered.

Analysis of the Market Specialization strategy

In the analysis of the firms which adopt an Undifferentiated Marketing strategy, the effect of marketing capabilities on Financial Performance was not significant. We found positive effects for product capabilities ($\beta=0.359$, $p\leq 0.05$) on Customer Performance and sales capabilities ($\beta=0.388$, $p\leq 0.05$) on Marketing Performance. The remaining effects either on Customer Performance or on Marketing Performance were not significant.

Analysis of the Differentiated Marketing strategy

In the analysis of the firms which adopt a Differentiated Marketing strategy, we found a positive effect of product capabilities ($\beta=0.468$, $p\leq 0.01$) and a surprisingly negative effect of distribution capabilities ($\beta=-0.335$, $p\leq 0.05$) on Financial Performance. Customer Performance was found to be influenced positively by price capabilities ($\beta=0.359$, $p\leq 0.05$) and marketing communication capabilities ($\beta=0.431$, $p\leq 0.01$). The last significant effect was that of price capabilities ($\beta=0.553$, $p\leq 0.001$) on Marketing Performance.

Analysis of the Full market coverage strategy

In the analysis of the firms which adopt a Full market coverage strategy, we found a positive effect of marketing communications capabilities ($\beta=0.299$, $p\leq 0.01$) on Financial Performance and a positive effect of product capabilities ($\beta=0.247$, $p\leq 0.05$) and price capabilities ($\beta=0.348$, $p\leq 0.01$) on Customer Performance. As far as the Marketing Performance is concerned, positive effects of price ($\beta=0.349$, $p\leq 0.01$) and marketing communication capabilities ($\beta=0.212$, $p\leq 0.05$) were established.

4. Discussion

The first attempt to measure targeting strategies yielded interesting results, which deserve a more analytical comment. We urge the reader, while reading our comments, to keep in mind 62% of the respondents found the descriptions of the targeting strategies to match their own more than adequately, while 78% felt that the reported, pursued strategy was successful enough and led to positive results.

Analysis of the Product Specialization strategy

Firms that follow the Product Specialization strategy need to develop Distribution skills. It is apparent that in the pursuit of such strategy, Product capabilities are a prerequisite which does not guarantee success. The ability to serve a disperse set of customer segments is akin to Distribution capabilities and secures Financial and Marketing Performance. For Customer satisfaction and loyalty (Customer Performance) selling skills are assuming pivotal role, reflecting Sales unique ability to customize to different segments the presentation of product attributes and characteristics. Moreover, since our sample is comprised of mainly B2C companies, selling refers also to merchandising at the retail level, the only point of contact with the customers.

Analysis of the Undifferentiated Marketing strategy

For firms that follow an Undifferentiated Marketing strategy, it is indeed a question whether they apply Marketing at all! Apparently, the only marketing skill that leads to better Marketing performance is Communication capabilities, which reveals their reliance on forms of advertising and promotion in order to reach their wide audience. Given the small number of firms reporting such strategic orientation (which comes as a relief for the level of marketing orientation of the sampled firms), the emphasis on volume and market share forces these firms to narrow their marketing arsenal to the communication part of the mix.

Analysis of the Market Specialization strategy

The difficulty of firms that pursue the Market Specialization strategy to achieve profits is apparent at the results reported in Table 3. Serving the needs of a single market segment through a varying marketing mix, may be adequate for reaching better levels of Customer and Marketing Performance but not for the attainment of Financial goals. Two main skills these companies need to develop: Product capabilities, in order to achieve customer satisfaction and loyalty by producing tailor-made product variations and Sales capabilities for their selling and market share objectives. The latter is of paramount importance since customers need to find the firm's offering on the shelves and need to be assisted with POP material or personnel in order to reach a favorable decision.

Analysis of the Differentiated Marketing strategy

The successful implementation of the Differentiated Marketing strategy necessitates the development of all marketing skills! The results indicate that this is the most demanding strategy in terms of marketing capabilities. Since firms which go after such a strategy need to reach a widely dispersed market of different segments with an equally diverse marketing mix, to achieve adequate financial performance, product capabilities are of no surprise to play a significant role. But Distribution capabilities seem to harm profitability! This is so because these capabilities are measured as an indicator of good and stable relationships with the distribution partners, whereas for successfully implementing Differentiated Marketing, distribution networks need either to be owned or administered and monitored at close length. In such market strategies, firms that relinquish part of their profit margins to distributors, end up producing poor financial results.

At the same time, Price capabilities play an important role in establishing Marketing and Customer Performance, since customers in such diverse segments are more company and

less product loyal, demonstrating thus a higher price sensitivity to competitor offerings. Communication capabilities are also needed in order to transfer knowledge and understanding to these customers and achieve the much-wanted satisfaction.

Analysis of the Full market coverage strategy

Full market coverage seems to be the most popular strategy. Price capabilities assume again an important place in determining Marketing and Customer success, reflecting once again the diverse price elasticities of different customer segments. Appropriate pricing policies coupled with the equivalent product offerings, secure Customer Performance success. Pricing policies and appropriate communication approaches are intertwined to achieve superior Marketing Performance. It is also the firm's Communication capabilities which help achieve Financial Performance, since in such strategies, success lies in the achievement of volume.

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