

Sharpen the Focus: Target Marketing Strategies and Customer Relationship Management

Real People Profiles



Jim Multari

Profile

▼ A Decision Maker at PBS Kids Sprout

Jim Multari is the director of research for PBS Kids Sprout, the first 24-hour preschool destination available on TV, on demand, and online for kids ages 2–5 and their parents and caregivers. Sprout's programming features trusted favorites like *The Wiggles* and *Sesame Street*, plus innovative originals such as *The Sunny Side Up Show* and *The Good Night Show*.

Jim manages marketing, programming, and ad sales research for Sprout. He collaborates with all internal business units and has been a contributor to numerous initiatives related to custom

studies and new methodologies. Sprout's recent research on kids' usage of video on demand (VOD), alternative media viewership metrics, and creative concept testing has been a key driver of network strategy and has won multiple industry awards, including a silver David Ogilvy Award (the Advertising Research Foundation's award for excellence in advertising research) and the Cable & Telecommunications Association for Marketing (CTAM) Research Case Study Award. He received a BA in communications and psychology from Marymount University in Arlington, VA, and an MBA from Saint Joseph's University.

Info

Jim's Info

What do I do when I'm not working?

A) Running.

First job out of school?

A) Research analyst for a customer satisfaction research company. In those days, surveys were still paper and pencil!

Career high?

A) Winning a David Ogilvy Award.

Business book I'm reading now?

A) *7 Habits of Highly Effective People* by Stephen Covey.

My motto to live by?

A) Your answer to the question "What are you reading?" should never be "Nothing."

What drives me?

A) My family.

My management style?

A) Collaborate, communicate, and think strategically.

Don't do this when interviewing with me?

A) Not ask questions.



Here's my **problem.** . .

Real People, Real Choices

The Sprout marketing team faced three significant challenges when they launched the channel in 2005. First, Sprout was (and still is today) considered an “emerging network,” relatively small compared to the more established kids’ networks (Disney Channel, Nickelodeon, etc.). As a result, the marketing team had to develop creative ways to reach viewers of the network, nonviewers of the network, as well as cable and satellite TV operators, to communicate Sprout’s unique content and format.

Things to remember

Sprout is a relatively small presence in the children’s TV programming market. Jim needs to weigh the value of providing more value to the current viewership versus attracting new viewers.

There are really two segments of viewers—young kids and their parents. Both groups play different roles in deciding what shows the kids will watch.

Sprout’s position in the market is a bit ambiguous. It is affiliated with PBS (Public Broadcasting) but it also offers other programming.

The second marketing challenge was that Sprout is essentially a “library channel”; its programming mainly consists of previously aired kids’ shows, repackaged and represented around short original content and brand identity links. Although the presentation makes the entire package feel new and fresh, there was a risk that parents wouldn’t see a reason to tune in, and cable and satellite providers wouldn’t see a reason to launch the channel. Sprout needed to find a way to break through and be heard by both audiences in order to support its unique claim that it fosters parent-child interaction.

The third and most significant challenge was that Sprout is not a brand that is fully distributed (available in all U.S. television households). Early on, Sprout was available in just 30 million households. Thus, the channel’s target audiences consisted of both preschool families that were aware of watching Sprout and families that were unaware of Sprout and/or had never interacted with the brand.

In early 2007, Sprout began work on its first-ever consumer-targeted brand awareness advertising campaign. The critical marketing decision was to decide which audience to target: Should the upstart channel target viewers of Sprout, nonviewers of Sprout, or should it somehow find a way of reaching both audiences with the same campaign?

Current viewers understand and enjoy the Sprout brand, are seamlessly navigating across all of Sprout’s platforms, and are likely submitting content. Reaching them with the campaign would likely mean television spots on Sprout, print ads in parenting and other relevant magazines, as well as a highly targeted digital media approach (banner ads, promotions via social media outlets, etc.).

Nonviewers have little understanding at all of Sprout, though they may have immediate positive associations due to Sprout’s relationship with PBS

Kids (Sprout is a partnership in which PBS has an interest) Because moms are the key media decision makers in preschool households, the campaign would need to resonate with them (both functionally and emotionally) while also indirectly being of some interest to preschoolers. Reaching this audience would require a broader mix of media and markets to maximize the campaign’s reach.

As director of research, Jim’s role was to ensure that all strategic decisions were supported by actionable consumer insights.

Jim and the Sprout marketing team considered their Options 1·2·3

1 Option **Target Sprout viewers with the marketing campaign.** This option would enable the channel to develop a tightly focused campaign that its core audience could rally behind. Hopefully this identification would be a catalyst to motivate them to tell their friends and family about Sprout, invite them to further participate in the Sprout experience, and so on. But Sprout’s viewer base at the time was relatively small. Also, there was no guarantee that busy Sprout families would be motivated to help “spread the word” about the programming.

2 Option **Produce a campaign that was specifically designed for nonviewers of Sprout.** This approach would require a more functionally descriptive campaign that introduced consumers to the network, its unique programming format, the different usage platforms, and so forth. A campaign that targeted nonviewers would attract a much larger audience. If it was executed properly, families in general (regardless of whether they already viewed Sprout) would be interested in the message. Of course, the marketing team would need to do a lot of heavy lifting to educate unaware audiences about Sprout, how the brand works, and how they could participate. This approach would not engage Sprout enthusiasts, so there would not be an opportunity to reinforce them for their loyalty.

3 Option **Target both Sprout viewers/awares as well as nonviewers, all within the same creative campaign.** An all-inclusive campaign would maximize Sprout’s exposure and attract families in general. However, speaking to two audience segments with the same campaign would be complicated. The campaign would need to communicate both the functional benefits of the brand to attract nonviewers and also reinforce the emotional rewards that Sprout viewers receive when they watch the channel’s programs with their preschoolers.

You Choose

Which **Option** would you choose, and **why?**

1. YES NO 2. YES NO 3. YES NO

See what **option** Jim chose on **page 209**

Objective Outline

1. Identify the steps in the target marketing process. (pp. 184–185)
TARGET MARKETING STRATEGY:
SELECT AND ENTER A MARKET (p. 184)
2. Understand the need for market segmentation and the approaches available to do it. (pp. 185–198)
STEP 1: SEGMENTATION (p. 185)
3. Explain how marketers evaluate segments and choose a targeting strategy. (pp. 198–201)
STEP 2: TARGETING (p. 201)
4. Understand how marketers develop and implement a positioning strategy. (pp. 201–204)
STEP 3: POSITIONING (p. 201)
5. Explain how marketers increase long-term success and profits by practicing customer relationship management. (pp. 204–208)
CUSTOMER RELATIONSHIP MANAGEMENT (CRM):
TOWARD A SEGMENT OF ONE (p. 204)

market fragmentation

The creation of many consumer groups due to a diversity of distinct needs and wants in modern society.

target marketing strategy

Dividing the total market into different segments on the basis of customer characteristics, selecting one or more segments, and developing products to meet the needs of those specific segments.

1

OBJECTIVE

Identify the steps in the target marketing process.

(pp. 184–185)

Target Marketing Strategy: Select and Enter a Market

By now, you've read over and over that the goal of the marketer is to create value, build customer relationships, and satisfy needs. But in our modern, complex society, it's naive to assume that everyone's needs are the same.

Understanding people's needs is an even more complex task today because technological and cultural advances in modern society create a condition of **market fragmentation**. This means that people's diverse interests and backgrounds divide them into numerous groups with distinct needs and wants. Because of this diversity, the same good or service will not appeal to everyone.

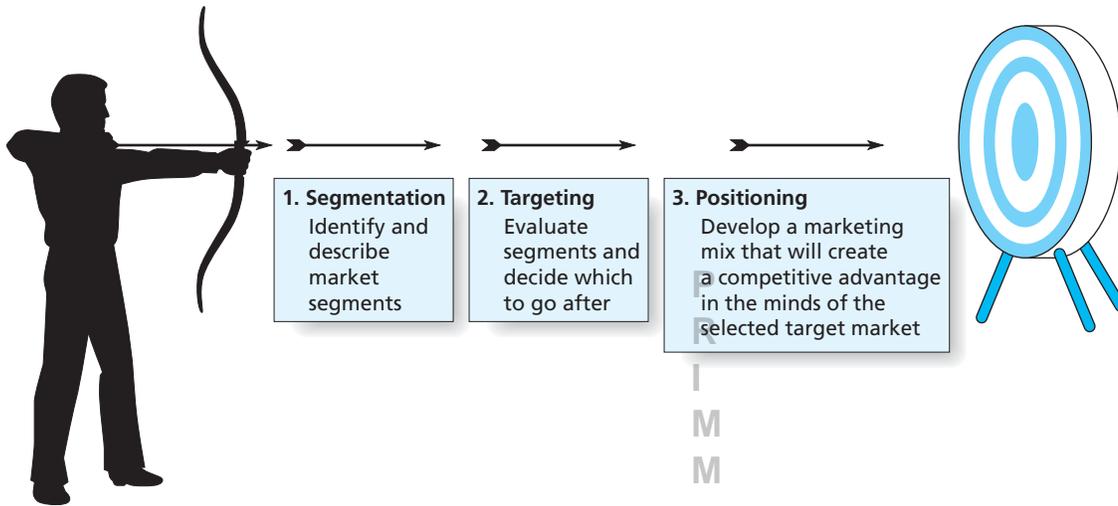
Consider, for example, the effects of fragmentation in the health-and-fitness industry—one that has gained increasing attention due to recent data about skyrocketing rates of obesity among adults and children. Back in the 1960s, dieting was simple. Pritikin was a best-selling weight loss system that emphasized very low fat and high fiber, and health-conscious consumers thought that this combination would surely yield a lean body and good health. Today's consumers, however, have a cornucopia of diets from which to choose including such brands as NutriSystem, Weight Watchers, Jenny Craig, Optifast, FitAmerica, the Atkins diet, and many more. Calories, fat, carbs, or all of the above—which to cut?

Marketers must balance the efficiency of mass marketing where they serve the same items to everyone, with effectiveness that comes when they offer each individual exactly what he or she wants. Mass marketing certainly costs much less; when we offer one product to everyone we eliminate the need for separate advertising campaigns and distinctive packages for each item. However, consumers see things differently; from their perspective the best strategy would be to offer the perfect product just for them. Unfortunately, that's often not realistic. To this day, Burger King touts its longtime motto "Have It Your Way," but BK can only deliver this promise to a point: "Your way" is fine as long as you stay within the confines of familiar condiments such as mustard or ketchup. Don't dream of topping your burger with blue cheese, mango sauce, or some other "exotic" ingredient.

Instead of trying to sell something to everyone, marketers select a **target marketing strategy** in which they divide the total market into different segments based on customer characteristics, select one or more segments, and develop products to meet the needs of those specific segments.  Figure 7.1 illustrates the three-step process of segmentation, targeting, and positioning, and it's what we're going to check out in this chapter. Let's start with the first step—segmentation.

Figure 7.1  Process | Steps in the Target Marketing Process

Target marketing strategy consists of three separate steps. Marketers first divide the market into segments based on customer characteristics, then select one or more segments, and finally develop products to meet the needs of those specific segments.



2 Step 1: Segmentation

OBJECTIVE

Understand the need for market segmentation and the approaches available to do it.

(pp. 185–198)

Segmentation is the process of dividing a larger market into smaller pieces based on one or more meaningfully shared characteristics. This process is a way of life for almost all marketers in both consumer and business-to-business markets. The truth is that you can't please all the people all the time, so you need to take your best shot. Just how do marketers segment a population? How do they divide the whole pie into smaller slices they can "digest"? The marketer must decide on one or more useful **segmentation variables**—that is, dimensions that divide the total market into fairly homogeneous groups, each with different needs and preferences. In this section, we'll take a look at this process, beginning with the types of segmentation variables that marketers use to divide up end-user consumers. Then we'll move on to business-to-business segmentation.

segmentation

The process of dividing a larger market into smaller pieces based on one or more meaningfully shared characteristics.

segmentation variables

Dimensions that divide the total market into fairly homogeneous groups, each with different needs and preferences.

Segment Consumer Markets

At one time, it was sufficient to divide the sports shoe market into athletes and nonathletes. But take a walk through any sporting goods store today: You'll quickly see that the athlete market has fragmented in many directions. Shoes designed for jogging, basketball, tennis, cycling, cross training, and even skateboarding beckon us from the aisles.

During the late 1990s Converse began falling well behind its competitors such as Reebok and Nike, which successfully targeted the younger demographic as they tied their shoes (pun intended!) to popular athletes who acted as marketing machines for the brands. Converse needed to find a way to appeal to the younger generation as well. More specifically, the marketers at Converse (which Nike acquired in 2003) wanted to target **Generation Y**—people born between 1979 and 1994.¹ They found their stride when they reminded these consumers that cultural icons they admired like Kurt Cobain and Jackson Pollock once wore Converse shoes. These messages appealed to Gen Y "optimistic rebels" who were looking for a "blank canvas for self-expression."²

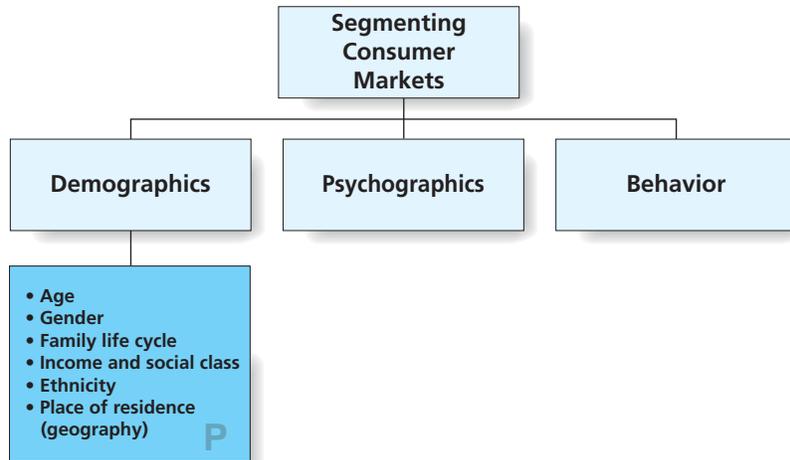
Generation Y

The group of consumers born between 1979 and 1994.

We need several segmentation variables if we want to slice up the market for all the shoe variations available today. First, not everyone is willing or able to drop \$150 on the latest sneakers, so marketers consider income. Second, men may be more interested in

Figure 7.2  **Snapshot** |
Segmenting Consumer Markets

Consumer markets can be segmented by demographic, psychographic, or behavioral criteria.



demographics

Statistics that measure observable aspects of a population, including size, age, gender, ethnic group, income, education, occupation, and family structure.

generational marketing

Marketing to members of a generation, who tend to share the same outlook and priorities.

basketball shoes while women snap up the latest Pilates styles, so marketers also consider gender. Because not all age groups are equally interested in buying specialized athletic shoes, we can slice the larger consumer “pie” into smaller pieces in a number of ways, including demographic, psychographic, and behavioral differences. In the case of demographic segmentation there are several key subcategories of demographics: age (including generational differences), gender, family life cycle, income and social class, ethnicity, and place of residence, sometimes referred to separately as geographic segmentation.  Figure 7.2 summarizes the various approaches to segmenting consumer markets.

In the sections that follow we’ll consider each of these segmentation approaches in turn, but first a note of caution. When it comes to marketing to some groups—in particular, lower income individuals, the poorly educated, non-native language speakers, and children—it is incumbent on marketers to exercise the utmost care not to take undue advantage of their circumstances. Ethical marketers are sensitive to the different conditions in which people find themselves and proactively work to uphold a high level of honesty and trust with all segments of the public. Doing so is nothing short of marketing’s social responsibility.

Segment by Demographics: Age

As we stated in Chapter 3, **demographics** are statistics that measure observable aspects of a population, including size, age, gender, ethnic group, income, education, occupation, and family structure. These descriptors are vital to identify the best potential customers for a good or service. Because they represent objective characteristics, they usually are easy to identify, and then it’s just a matter of tailoring messages and products to relevant groups. Let’s take a quick look at how marketers use each of these dimensions to slice up the consumer pie.

Consumers of different age groups have different needs and wants. Members of a generation tend to share the same outlook and priorities. We call such a focus **generational marketing**.

As Jim Multari’s experience with Sprout TV programming shows, *children* are an attractive age segment for many marketers. Although kids obviously have a lot to say about purchases of toys and games, they influence other family purchases as well (just watch them at work in the grocery store!). By one estimate, American children aged 4 to 12 have a say in family-related purchases of more than \$130 billion a year.³ The ongoing popularity of shows such as Disney’s *Hannah Montana* propelled Miley Cyrus into a wildly successful singing career and has also successfully translated into a booming toy business including blond wigs, replicas of Hannah’s tour van, and even toy musical instruments. The music on the show has spawned several new musical acts—including the Jonas Brothers—and sold millions of CDs and tens of millions of



AFP/Getty Images

Apple is a masterful marketer to teens, yet its product line appeals to other age groups as well. The iPod in its various forms enables teens to be content creators and empowers them to be masters of their own music world. This satisfies a strong need among this age group for individuality. The iPhone is coveted by youth as the smartphone *du jour*—any other brand is viewed as subpar. Teens don’t particularly like to be marketed to, which is a great fit for Apple’s approach of letting fans and the media do their marketing for them. The iPod and iPhone are iconic symbols of modern youth—stylish, nonconforming, and an expression of a clear difference from the past.

downloads. The younger girl market segment loves the idea of being a pop star, and the girls live their dream vicariously through Hannah as well as *American Idol* and the *High School Musical* movie series, which lives on, immortal even though its stars are now all twenty-somethings.⁴

Teens are also an attractive market segment. The 12- to 17-year-old age group is growing nearly twice as fast as the general population—and teens and tweens (kids between the ages of 8 and 14) spend an average of \$3,000 per year.⁵ Much of this money goes toward “feel-good” products: cosmetics, posters, and fast food—with the occasional tattoo thrown in as well. Because they are so interested in many different products and have the resources to obtain them, many marketers avidly court the teen market.⁶

As we said, Generation Y consists of people born between the years 1979 and 1994. Sometimes labeled the “baby boomlet,” Generation Y is made up of the 71 million children of the baby boomers.⁷ They are the first generation to grow up online and are more ethnically diverse than earlier generations. Generation Y is an attractive market for a host of consumer products because of its size (approximately 26 percent of the population) and free-spending nature—as a group they spend about \$200 billion annually.

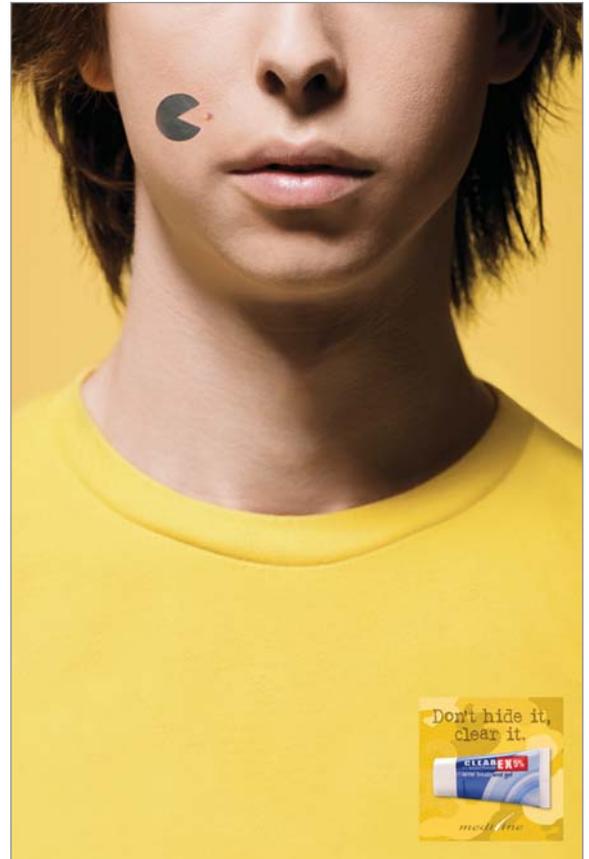
But Generation Y consumers are also hard to reach because they resist reading and increasingly turn off the TV. When they do watch TV, they tend toward alternative fare such as the late-night lineup on Adult Swim, which is consistently the number-one show on basic cable for this age group—outperforming even the *Late Show with David Letterman* with young men.⁸ As a result, many marketers have had to develop other ways to reach this generation “where they live,” including through social networking, online chat rooms, e-mail promotions, and a variety of other new-age marketing communications techniques we’ll talk about later in this book.

As a snapshot on Gen Y values, a recent Pew Research Center study asked Gen Y respondents whether a variety of elements are one of the most important things in their lives. Results revealed “Being a good parent” (52 percent), “Having a successful marriage” (30 percent), “Helping others in need” (21 percent), “Owning a home” (20 percent), “Living a very religious life” (15 percent), “Having a high-paying career” (15 percent), “Having lots of free time” (9 percent), and “Becoming famous” (1 percent). Among other Gen Y tidbits: 38 percent have a tattoo, and half of those have two to five, but 72 percent say their tats are hidden by clothing; 41 percent use only a cell phone and have no landline; and 66 percent voted for Barack Obama for president in 2008, compared with 50 percent of those 30 and older—the largest disparity between younger and older voters in four decades of exit polling. They also vote at a rate higher than did other generations at their age.⁹

The Cutting Edge

Ford Fiesta Looks for Gen Y “Where They Live”

Ford’s Fiesta launched in the United States in 2010, but a year earlier the company gave away 100 of the cars to influential Gen Y’s in the hope of building some buzz from the ground up. The “recruitment call” went out for 100 “agents” to receive the car in April 2009, complete Ford-assigned “missions,” and chronicle their experiences through their social networks such as Facebook, Flickr, and YouTube. The company has dubbed this effort its “Fiesta Movement,” and it’s the anchor of a plan to build excitement and spread the word about the arrival of the new Ford Fiesta to the next generation of customers—clearly strong targets for this economy-priced vehicle. Sam De La Garza, small car marketing manager for Ford, says, “Socially vibrant campaigns are so important be-



This Israeli skincare product targets adolescents.

Courtesy of Shalmar Avnon-Amichay/Young & Rubicam

cause of their power in delivering authentic and genuine messages across a broad spectrum of media, which will only help us deliver a more positive consumer experience when the car launches in the U.S. next year.”

The company set up a Web site where people could upload a two- to five-minute video to explain why they want to become one of the agents. By 2010, Gen Y will account for 28 percent of the country’s driving population (a total of 70 million new drivers). The movement gives the company an opportunity to connect with the group before they have established brand loyalty, while Ford also appeals to their affinity for social networking and technology. Using social networking as a way to reach Gen Y is a sound strategy, provided that the company is upfront about its relationship with the agents and is willing to let them craft the message as they see fit.¹⁰

Courtesy of DeveloperPlus, Inc.

Boomers are willing to invest a ton of money, time, and energy to maintain their youthful image

Generation X

The group of consumers born between 1965 and 1978.

baby boomers

The segment of people born between 1946 and 1964.

metrosexual

A straight, urban male who is keenly interested in fashion, home design, gourmet cooking, and personal care.

The group of consumers born between 1965 and 1978 consists of 46 million Americans known as **Generation X**, who unfortunately and undeservedly came to be called slackers, or busters (for the “baby bust” that followed the “baby boom”). Many of these people have a cynical attitude toward marketing—a chapter in a famous book called *Generation X* is entitled “I am not a target market!”¹¹ As one 20-year-old Japanese Xer commented, “I don’t like to be told what’s trendy. I can make up my own mind.”¹²

Despite this tough reputation, members of Generation X, the oldest of whom are now in their late 40s, have mellowed with age. In retrospect, they also have developed an identity for being an entrepreneurial group. One study revealed that Xers are already responsible for 70 percent of new start-up businesses in the United States—they led much of the modern technology revolution and are now highly sought after by firms for their entrepreneurial talents. An industry expert observed, “Today’s Gen Xer is both values-oriented and value-oriented. This generation is really about settling down.”¹³ Many people in this segment seem to be determined to have stable families after being latchkey children themselves. Seven out of ten regularly save some portion of their income, a rate comparable to that of their parents. Xers tend to view the home as an expression of individuality rather than material success. More than half are involved in home improvement and repair projects.¹⁴ So much for Gen Xers as slackers!

Baby boomers, consumers born between 1946 and 1964 and who are now in their 40s, 50s, and 60s, are an important segment to many marketers—if for no other reason than that there are so many of them who make a lot of money. The baby boom occurred when soldiers came flooding home after World War II and there was a rush to get married and start families. Back in the 1950s and 1960s, couples started having children younger and had more of them than the previous generation. The resulting glut of kids really changed the infrastructure of the country: more single-family houses, more schools, migration to the suburbs, and so on.

One aspect of boomer marketers should always remember—they never age. At least, that’s the way they look at it. Boomers are willing to invest a ton of money, time, and energy to maintain their youthful image. For the past several years the show *Nip/Tuck* on FX has chronicled the experiences of two cosmetic surgeons in Los Angeles, baby boomers themselves, who crassly market their surgical fountain of youth to a seemingly endless stream of 50-somethings with whom they begin the patient consult by asking, “Tell us what you don’t like about yourself.” Other boomer-appealing TV fare includes *Cougar Town*, in which Courtney Cox, who has aged a bit since her starring role on *Friends*, now trolls for younger men, and *Lost*’s cosmic-philosophical commentary on life, age, and other ultimate questions of the universe, which ended in 2010 with a five-hour reveal-all finale that proved to be a ratings blockbuster with Boomers. Time Warner even formed a separate unit to publish magazines, including *Health*, *Parenting*, and *Cooking Light*, that specifically address baby boomers’ interests in staying young, healthy, and (relatively) sane.

Currently, there are nearly 40 million Americans aged 65 or older—a 22 percent increase in this age segment since 1990.¹⁵ Many *mature consumers* enjoy leisure time and continued good health. Indeed, a key question today is: Just what is a senior citizen when people live longer and “80 is the new 60”? As we will see later in the chapter, perhaps it isn’t age but rather lifestyle factors, including mobility, that best define this group. More and more marketers offer products that have strong appeal to active-lifestyle seniors. And they often combine the product appeal with a nostalgia theme that includes music popular during the seniors’ era of youth. People tend to prefer music that was released when they were teenagers or young adults, with interest peaking between ages 24–25. Sandals Resorts uses the song “(I’ve Had) The Time of My Life” in commercials for its romantic vacation destinations in the Caribbean. The song, recorded by Bill Medley and Jennifer Warnes, was

made famous in the 1987 movie *Dirty Dancing*. As nostalgia, it does double duty because the movie itself was set in 1963, so it conjures up memories of both the 1980s and the 1960s. People who were in their 20s in 1963 are now in their 60s and 70s. Those in their 20s in 1987 are now in their 40s and 50s. Both age groups are key demographics for Sandals.¹⁶

Segment by Demographics: Gender

Many products, from fragrances to footwear, specifically appeal to men or women. Segmenting by gender starts at a very early age—even diapers come in pink for girls and blue for boys. As proof that consumers take these differences seriously, market researchers report that most parents refuse to put male infants in pink diapers.¹⁷

In some cases, manufacturers develop parallel products to appeal to each sex. For example, male grooming products have traditionally been Gillette’s priority since the company’s founder King Gillette (yes, his first name was actually King) introduced the safety razor in 1903.

Metrosexual is a marketing buzzword that gained popularity in recent years. The term describes a straight, urban man who is keenly interested in fashion, home design, gourmet cooking, and personal care. Metrosexuals are usually well-educated urban dwellers who are in touch with their feminine side.¹⁸ While many men are reluctant to overtly identify with the metrosexual, there’s no denying that a renewed interest in personal care products, fashion accessories, and other “formerly feminine” product categories creates many marketing opportunities. Mainstream newspapers such as the *New York Times* offer regular segments dedicated to male fashion and grooming. This Web posting from *The Urban Dictionary* sums up the metrosexual stereotype.¹⁹

You might be “metrosexual” if:

1. You just can’t walk past a Banana Republic store without making a purchase.
2. You own 20 pairs of shoes, half a dozen pairs of sunglasses, just as many watches, and you carry a man-purse.
3. You see a stylist instead of a barber, because barbers don’t do highlights.
4. You can make her lamb shanks and risotto for dinner and eggs Benedict for breakfast . . . all from scratch.
5. You only wear Calvin Klein boxer-briefs.
6. You shave more than just your face. You also exfoliate and moisturize.
7. You would never, ever own a pickup truck.
8. You can’t imagine a day without hair styling products.
9. You’d rather drink wine than beer . . . but you’ll find out what estate and vintage first.
10. Despite being flattered (even proud) that gay guys hit on you, you still find the thought of actually getting intimate with another man truly repulsive.

An interesting trend related to gender segmentation has been fueled by the recent recession. Men now are increasingly likely to marry wives with more education and income than they have, and the reverse is true for women. In recent decades, with the rise of well-paid working wives, the economic gains of marriage have been a greater benefit for men. The education

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Personal care products typically appeal to one gender exclusively.

and income gap has grown even more in the latest recession, when men held about three in four of the jobs that were lost. In 1970, 28 percent of wives had husbands who were better educated, and 20 percent were married to men with less education. By 2007, the comparable figures were 19 percent and 28 percent. In 1970, 4 percent of husbands had wives who made more money; in 2007, 22 percent did.²⁰

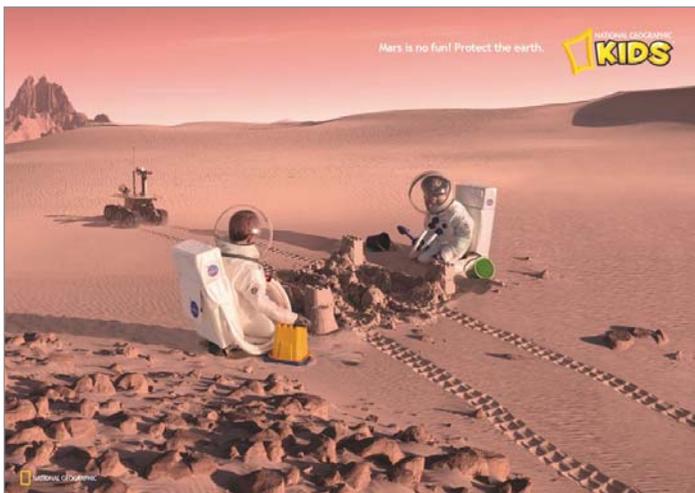
Segment by Demographics: Family Life Cycle

Because family needs and expenditures change over time, one way to segment consumers is to consider the stage of the family life cycle they occupy. (You learned about the family life cycle in Chapter 5.) Not surprisingly, consumers in different life-cycle segments are unlikely to need the same products, or at least they may not need these things in the same quantities. Folger's Classic Roast Coffee Singles are designed for people who live alone and don't need to brew a full pot of coffee at a time, while Marriott and other hoteliers actively market vacation ownership (timeshare) opportunities to young couples—because these consumers can easily tailor these getaways to their changing lifestyles and preferences since they tend to not want to do the same trip year after year as many of their parents did.

But not all attempts at marketing to the family life cycle succeed. Gerber once tried to market single-serving food jars to singles; a quick meal for one person who lives alone. The manufacturer called these containers "Singles." However, Gerber's strong identification with baby food worked against it: The product flopped because people misperceived that Gerber was trying to sell baby food to adults.²¹

As families age and move into new life stages, different product categories ascend and descend in importance. Young bachelors and newlyweds are the most likely to exercise, go to bars and movies, and consume alcohol (in other words, party while you can). Older couples and bachelors are more likely to use maintenance services. Seniors are a prime market for resort condominiums and golf products. Marketers need to identify the family life-cycle segment of their target consumers by examining purchase data by family life-cycle group.

Cultural changes continually create new opportunities as people's roles change. For example, Boomer women in their 50s are a hot new market for what the auto industry calls "reward cars": sexy and extravagant vehicles. These buyers say that for years they had let the roles of wife and mother restrict them to minivans or stodgy family sedans. As their kids grow up and leave home, it's reward time. As one woman who bought a snazzy Mercedes convertible for herself stated, "I don't have the disease to please anymore . . . I'm pleasing me." She's not alone. Vehicle registration records show that the number of women over age 45 who purchased cars in the niche known as "mid-sized sporty," which includes two-door models like the Mazda RX-8 and the Chrysler Crossfire, is up 277 percent since 2000. Among women 45 and over earning at least \$100,000, smaller luxury cars like the BMW 3 Series and the Audi A4 are up 93 percent.²²



A South African ad for a TV show speaks to kids.

Segment by Demographics: Income and Social Class

The distribution of wealth is of great interest to marketers because it determines which groups have the greatest *buying power*. It should come as no surprise that many marketers yearn to capture the hearts and wallets of high-income consumers. Perhaps that explains a recent proliferation of ultra-high-end bottled waters such as Voss—which bills itself as extracted from a real Norwegian glacier. To taste this delicacy in gourmet restaurants and mini-bars of top hotels, expect to pay well over \$10 a bottle. Tap water, anybody?²³ At the same time, other marketers target lower-income consumers (defined as households with annual incomes of \$25,000 or less), who make up about

40 percent of the U.S. market. Stores such as Sam's Club and Costco sell generic bottled water in flats of 24 bottles for less than 50 cents per bottle! Baby Boomers in particular lost a big chunk of their retirement savings in just a few months during the financial "meltdown" of 2008–2009. Although the stock market came back to a degree, Boomers are increasingly cautious about spending their present income at prerecession levels. Much evidence exists that they are down-shopping—that is, Walmart can look much more palatable to upscale Boomers when 40 percent of their retirement nest egg has gone up in smoke.

After a 50-year run during which the truly wealthy just kept getting richer, the Great Recession has taken some of the wind out of their sails due to heavy investment losses. Just how much poorer the rich will ultimately end up is unclear. Any major shift in the financial status of the rich could have big implications for some marketers. For example, a drop in their income and wealth would complicate life for elite universities, museums, and other institutions that received lavish donations in recent decades. Governments—federal and state—could struggle, too, because they rely heavily on the taxes paid by the affluent.²⁴ Households making \$100,000 or more certainly do not in most cases come close to being part of that "truly wealthy" crowd, but if a recovery is to come, particularly in consumer spending, it will have to come from households making \$100,000 or more. They represent only 20 percent of U.S. households, but they control more than half of all income and are far less likely than everyone else to be restrained by tight credit markets. On average, the affluent are 2.6 times more likely to buy everything, and when they do, they spend 3.7 times more.²⁵

In the past, it was popular for marketers to consider *social class segments*, such as upper class, middle class, and lower class. However, many consumers do not buy according to where they actually fall in that framework, but rather according to the image they wish to portray. For example, over the years readily available credit has facilitated many a sale of a BMW to a consumer whose income doesn't easily support the steep price tag. The recent financial crisis also nipped a good portion of this free-flowing credit in the bud. It remains to be seen over the long run how much the new austere era of credit permanently changes consumer buying behavior.

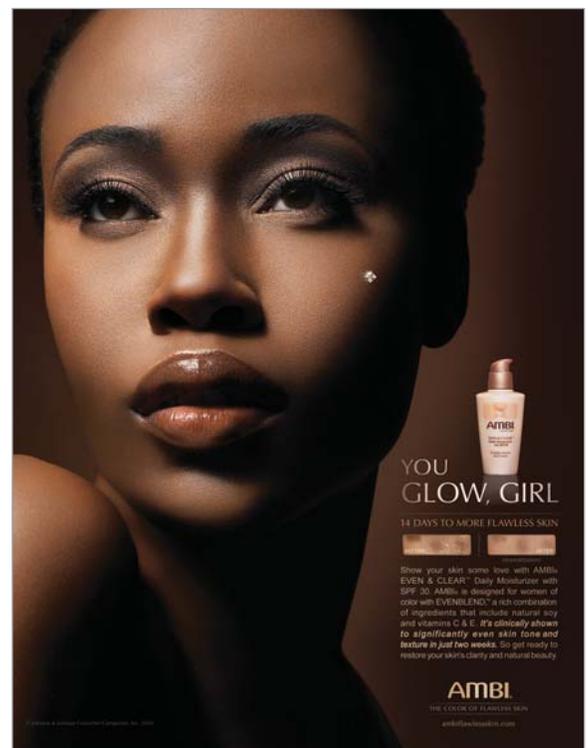
Segment by Demographics: Ethnicity

A consumer's national origin is often a strong indicator of his or her preferences for specific magazines or TV shows, foods, apparel, and leisure activities. Marketers need to be aware of these differences and sensitivities—especially when they invoke outmoded stereotypes to appeal to consumers of diverse races and ethnic groups.

African Americans, Asian Americans, and Hispanic Americans are the largest ethnic groups in the United States. The Census Bureau projects that by the year 2050, non-Hispanic whites will make up just less than 50 percent of the population (compared to 74 percent in 1995) as these other groups grow. Let's take a closer look at each of these important ethnic segments.

African Americans account for about 12 percent of the U.S. population. This percentage has held steady for 20 years. Reflecting the growing consumer power fueled by the hip-hop and urban scene, magazines such as *The Source* and *Vibe* target this market.²⁶ Television shows that feature African American heroes and heroines, unheard of until the late 1960s, are commonplace today, and BET is an advertising force to be reckoned with. In many cities, urban-sound radio stations are among the elite few in audience ratings.

These media examples demonstrate the opportunities that await those who develop specialized products to connect with segments of consumers who share an ethnic or racial identity. And what had been the original rap culture has migrated from the inner-city streets to mainstream hip-hop clubs, creating substantial opportunities for marketers to parlay what started out as an urban street trend among the African American community to a broader cultural phenomenon that appeals to young people of many ethnicities.



Products targeted to African Americans often appear in specialized media like *Ebony* magazine.

Though their numbers are still relatively small, *Asian Americans* are the fastest-growing minority group in the United States. The Asian American population is projected to grow from 11.3 million in 2000 to 19.6 million in 2020.²⁷ The American advertising industry spends between \$200 million and \$300 million to court these consumers.²⁸ Ford set up a toll-free consumer hotline that it staffs with operators fluent in three Asian languages, and JCPenney holds one-day sales in stores in Asian communities during certain holidays such as the Chinese Moon Festival.²⁹ Wonder Bra even launched a special line it sized for the slimmer Asian body.³⁰

The *Hispanic American* population is the real sleeping giant, a segment that mainstream marketers today actively cultivate. Hispanics have overtaken African Americans as the nation's largest minority group. In the United States, Hispanics command well over \$400 billion in purchasing power. In addition to its rapid growth, five other factors make the Hispanic segment attractive to marketers:³¹

- Hispanics tend to be brand loyal, especially to products made in their country of origin.
- They tend to be highly concentrated by national origin, which makes it easy to fine-tune the marketing mix to appeal to those who come from the same country.
- This segment is young (the median age of Hispanic Americans is 23.6, compared with the U.S. average of 32), which is attractive to marketers because it is a great potential market for youth-oriented products such as cosmetics and music.
- The average Hispanic household contains 3.5 people, compared to only 2.7 people for the rest of the United States. For this reason, Hispanic households spend 15 to 20 percent more of their disposable income than the national average on groceries and other household products.
- In general, Hispanic consumers are very receptive to relationship-building approaches to marketing and selling. For this reason there are many opportunities to build loyalty to brands and companies by emphasizing relationship aspects of the customer encounter.³²

As with any ethnic group, appeals to Hispanic consumers need to take into account cultural differences. For example, Hispanics didn't appreciate the successful "Got Milk?" campaign because biting, sarcastic humor is not part of their culture. In addition, the notion of milk deprivation is not funny to a Hispanic mother—if she runs out of milk, this means she has failed her family. To make matters worse, "Got Milk?" translates as "Are You Lactating?" in Spanish. Thus, new Spanish-language versions were changed to "And you, have you given them enough milk today?" with tender scenes centered on cooking *flan* (a popular pudding) in the family kitchen.

Latino youth are changing mainstream culture. Many of these consumers are "young biculturals" who bounce back and forth between hip-hop and rock en Español, blend Mexican rice with spaghetti sauce, and spread peanut butter and jelly on tortillas. By the year 2020, the Census Bureau estimates, the number of Hispanic teens will grow by 62 percent, compared with 10 percent growth in teens overall. They seek spirituality, stronger family ties, and more color in their lives—three hallmarks of Latino culture. Music crossovers from the Latin charts to mainstream lead the trend, including pop idols Shakira and Enrique Iglesias, and Reggaeton sensation Daddy Yankee.

One caution about the Hispanic market is that the term *Hispanic* itself is a misnomer. For example, Cuban Americans, Mexican Americans, and Puerto Ricans may share a common language, but their history, politics, and culture have many differences. Marketing to them as though they are a homogeneous segment can be a big mistake. However, the term is still widely used as a demographic descriptive.

An important outcome of the increase in multiethnicity in the United States is the opportunity for increased cultural diversity in the workplace and elsewhere. **Cultural diversity**, a management practice that actively seeks to include people of different sexes, races, ethnic groups, and religions in an organization's employees, customers, suppliers, and distribu-

cultural diversity

A management practice that actively seeks to include people of different sexes, races, ethnic groups, and religions in an organization's employees, customers, suppliers, and distribution channel partners.

tion channel partners, is today business as usual rather than an exception. Marketing organizations benefit from employing people of all kinds because they bring different backgrounds, experiences, and points of view that help the firm develop strategies for its brands that will appeal to diverse customer groups.

Segment by Demographics: Place of Residence

Recognizing that people's preferences often vary depending on where they live, many marketers tailor their offerings to geographic regions. Pabst Brewing Company pushes different brands of beer in different parts of the country, so drinkers in Texas buy the company's Lone Star and Pearl brands, while those in other states buy Old Milwaukee, Olympia, and Stroh's.

When marketers want to segment regional markets even more precisely, they sometimes combine geography with demographics using the technique of **geodemography**. A basic assumption of geodemography is that "birds of a feather flock together"—people who live near one another share similar characteristics. Sophisticated statistical techniques identify geographic areas that share the same preferences for household items, magazines, and other products. This lets marketers construct segments of households with a common pattern of preferences. This way they can hone in on those customers most likely to be interested in its specific offerings, in some cases so precisely that families living on one block will belong to a segment while those on the next block will not.

Companies can even customize Web advertising by **geocoding** so that people who log on in different places will see ad banners for local businesses. For example, the Weather Channel links localized ads to 1,300 U.S. weather-reporting stations. A surfer can get both the local weather forecast and information about businesses in an area by simply typing a city and state, or an airport code, into the forecast request box.

One widely used geodemographic system is PRIZM, which is a large database developed by Nielsen Claritas. This system classifies the U.S. population into 66 segments based on various socioeconomic data, such as income, age, race, occupation, education and household composition, as well as lifestyle attributes that are critical to marketing strategies, shopping patterns such as where they vacation, what they drive and their favorite brands, and media preferences.

The 66 segments range from the highly affluent "Upper Crust" and "Blue Blood Estates" to the lower income "Big City Blues" or "Low-Rise Living" neighborhoods. To learn about how the system classifies your ZIP code, visit www.mybestsegments.com.

Here are a few thumbnail sketches of different segments of relatively younger consumers a marketer might want to reach depending on the specific product or service he or she sells:

- Young Digerati are tech-savvy and live in fashionable neighborhoods on the urban fringe. Affluent, highly educated, and ethnically mixed, Young Digerati communities are typically filled with trendy apartments and condos, fitness clubs and clothing boutiques, casual restaurants and all types of bars—from juice to coffee to microbrew. The Young Digerati are much more likely than the average American consumer to shop at Banana Republic, order from J. Crew, read *Elle Decor* magazine, watch the Independent Film Channel, and drive a Range Rover SUV.
- Kids & Cul-de-Sacs are upper-middle class, suburban, married couples with children. With a high rate of Hispanic and Asian Americans, this segment is a refuge for college-educated, white-collar professionals with administrative jobs and upper-middle-class incomes. Their nexus of education, affluence, and children translates into large outlays for child-centered products and services. They are much more likely than the average American consumer to shop at The Disney Store, eat at Chuck E. Cheese, read parenting magazines, watch Nickelodeon, and drive a Nissan Armada SUV.
- Shotguns & Pickups scores near the top of all lifestyles for owning hunting rifles and pickup trucks. These Americans tend to be young, working-class couples with large

geodemography

A segmentation technique that combines geography with demographics.

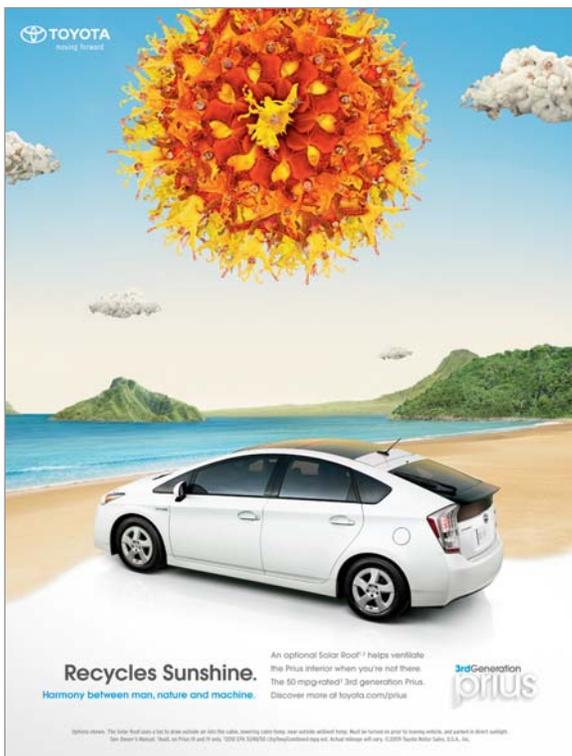
geocoding

Customizing Web advertising so that people who log on in different places will see ad banners for local businesses.

Digital enhancement portrait of mature bike couple



Over the years, Harley-Davidson has done a great job of understanding buyers on the basis of psychographics. A Harley user's profile includes both thrill-seeking and affinity for a countercultural image (at least on weekends). In fact, your doctor, banker, lawyer, or even marketing professor may be a member of HOG (the Harley Owners Group). However, demographics also come into play. Over the past decade, the age of the typical Harley buyer has risen to about 46, older than the motorcycle industry average of 38. But because the company knows the psychographics of its target buyers, it isn't lulled into age stereotypes of safety and conservatism. Harley-Davidson knows that in spite of the older age demographic, its buyers are still a thrill-seeking bunch (they may just need a little more time and some aspirin to recover after a long ride).



Courtesy of Chiquita Mares, Advertising and Planning

Toyota targets consumers who prioritize environmental issues (as well as gas savings) with the Prius hybrid vehicle.

families—more than half have two or more kids—living in small homes and manufactured housing. Nearly a third of residents live in mobile homes, more than anywhere else in the nation. They are much more likely than the average American consumer to own a tent, go to auto races, read *North American Hunter* magazine, watch Country Music TV, and drive a Dodge Ram.

Other examples of PRIZM clusters are fully described in the Segment Lookup feature at www.mybestsegments.com.

Segment by Psychographics

Demographic information is useful, but it does not always provide enough information to divide consumers into meaningful segments. Although we can use demographic variables to discover, for example, that the female college student segment uses perfume, we won't be able to tell whether certain college women prefer perfumes that express an image of, say, sexiness rather than athleticism.

As we said in Chapter 5, **psychographics** segments consumers in terms of psychological and behavioral similarities such as shared activities, interests, and opinions, or AIOs.³³ Marketers often

develop profiles of the typical customers they desire to paint a more vivid picture of them. For example, in 2010 Buick's marketers named their target consumers Greg and Laurie Rob-

bins. They say they're in their early 40s with two kids and together, they make \$130,000 a year and live in a \$363,000 house. They are Facebook fans of Target, Starbucks, Apple, J. Crew, Whole Foods, and the Westin. This (fictional) couple is younger than Buick's current user and their interests extend beyond the golf course, which is where many older Buick drivers spend their time. To woo them, the company is cutting back on ads in golf magazines and instead promoting Buick in culinary- and travel-related venues and on *The Wall Street Journal's* iPad application. The goal of this psychographic exercise: Put a Buick in the Robbins's garage where a Lexus is probably parked now.³⁴

Although some advertising agencies and manufacturers develop their own psychographic techniques to classify consumers, other agencies subscribe to services that divide the entire U.S. population into segments and then sell pieces of this information to clients for specific strategic applications. The best known of these systems is **VALS™ (Values and Lifestyles)**. The original VALS™ system was based on social values and lifestyles. Today, VALS™ is based on psychological traits that correlate with consumer behavior. If you go to www.strategicbusinessinsights.com and click on "VALS™ Survey" you can complete a brief, free questionnaire to find out your own VALS™ type (you might be surprised). VALS™ divides U.S. adults into eight groups according to what drives them psychologically as well as by their economic resources.

As  Figure 7.3 shows, three primary consumer motivations are key to the system: ideals, achievement, and self-expression. Consumers who are motivated primarily by ideals are guided by knowledge and principles. Consumers who are motivated primarily by achievement look for goods and services that

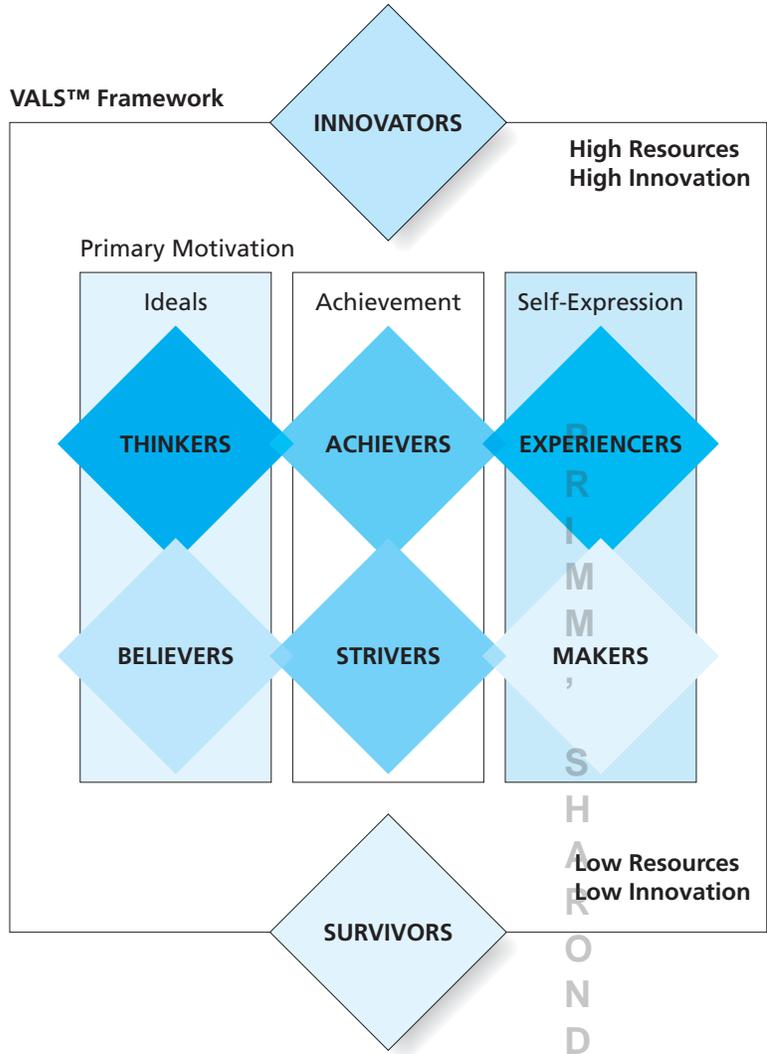


Figure 7.3 Snapshot | VALS™ Framework

VALS™ uses psychological characteristics to segment the U.S. market into eight unique consumer groups.

Source: Strategic Business Insights (SBI); www.strategicbusinessinsights.com/VALS

demonstrate success to their peers. And consumers who are motivated primarily by self-expression desire social or physical activity, variety, and risk.

VALS™ helps match products to particular types of people. For example, VALS™ survey data show that 12 percent of American adults (many of whom are on the younger side) are Experiencers who tend to be thrill seekers. VALS™ helped Isuzu market its Rodeo sport-utility vehicle by targeting Experiencers who believe it's fun to break rules. The company and its advertising agency promoted the car as a vehicle that lets a driver break the rules by going off-road. One ad showed a kid jumping in mud puddles after his mother went to great lengths to keep him clean. Another ad showed a schoolchild scribbling outside the lines after the teacher made a big deal about coloring carefully within the lines. Isuzu sales increased significantly after this campaign, and the company recently introduced a worthy next-generation SUV called the Ascender.³⁵

As another example of a psychographic segmentation system developed for the luxury car market, German research firm Sigma categorized consumers in a way that inspired BMW's highly publicized product line reinvention and expansion. This system included "upper liberals" (socially conscious, open-minded professionals who prefer the roominess and flexibility of SUVs), "postmoderns" (high-earning innovators like architects, entrepreneurs, and artists who like the individualistic statements made by driving convertibles and roadsters), "upper conservatives" (made up of wealthy, traditional thinkers who like upper-crust, traditional sedans), and "modern mainstream" (family-oriented up-and-comers who want a luxury brand but likely can't afford more than the lowest-end model). Using this segmentation scheme as an anchor, BMW created vehicles for each category and added

psychographics

The use of psychological, sociological, and anthropological factors to construct market segments.

VALS™ (Values and Lifestyles)

A psychographic system that divides the entire U.S. population into eight segments.

to its success with multiple segments by acquiring Rolls-Royce and the Mini to serve the extreme ends.³⁶

Finally, the recent economic recession sparked the identification of four distinct consumer psychographic segments as consumers emerge from the bad economy. Marketing strategy and research firm Decitica labels these segments as follows: (1) Steadfast Frugalists, (2) Involuntary Penny-Pinchers, (3) Pragmatic Spenders, and (4) Apathetic Materialists. These categories were derived by analyzing the frequency, satisfaction, and self-efficacy associated with a variety of spending, purchase, and consumption behaviors. Steadfast Frugalists are committed to self-restraint, engaging in prudence with unequivocal enthusiasm. They make up about one-fifth of the American consumers, representing all income and age groups. This group could be quite challenging, as they are the least brand loyal and most likely to discount marketing messages. Consider how these psychographic segments differ:

- Eighty percent of Steadfast Frugalists say the new behaviors they have adopted will likely stay with them for a long time. This is in contrast to 24 percent of Apathetic Materialists who feel this way.
- Involuntary Penny-Pinchers, about 29 percent of the population, have been severely affected by the recession. They are mainly made up of households with less than \$50,000 in income, with more women than men. This segment has been forced to embrace thrift like never before. Presently, their actual behaviors do not differ widely from those of Steadfast Frugalists. Where they drastically diverge is in their aversion to expending effort in money-saving strategies. Only 17 percent find buying store or generic labels to be satisfying, compared to 59 percent of Steadfast Frugalists. Also, the recession has had a heavy emotional impact on Involuntary Penny-Pinchers; they admit to being more scared (77 percent), stressed (81 percent), and worried (87 percent) about the future than other groups.
- Pragmatic Spenders are the most attractive group for marketers because of their higher spending power. Although it is true that they have also curbed their spending, they are the most capable, both psychologically and financially, to willfully resurrect their past spending patterns. This group comprises 29 percent of consumers. Income has blunted the effects of the recession on this segment. Only 28 percent of Pragmatic Spenders feel the recession has changed what and how they will buy in the future, compared to 55 percent of Steadfast Frugalists.
- Apathetic Materialists seem least changed by the recession. They have not embraced the new frugality to the same extent as others and get minimal satisfaction from such behaviors. Only about 6 percent in this group find price comparison to be satisfying, in contrast to 85 percent in the Steadfast Frugalists camp. The Apathetic Materialists segment has more men (55 percent) and younger consumers (72 percent are below the age of 40). They are the least driven by price: Only 8 percent admit to being very focused on value compared to 30 percent of Pragmatic Spenders and 52 percent of Involuntary Penny-Pinchers.³⁷

Segment by Behavior

People may use the same product for different reasons, on different occasions, and in different amounts. So, in addition to demographics and psychographics, it is useful to study what consumers actually do with a product. **Behavioral segmentation** slices consumer segments on the basis of how they act toward, feel about, or use a product. One way to segment based on behavior is to divide the market into users and nonusers of a product. Then marketers may attempt to reward current users or try to win over new ones. In addition to distinguishing between users and nonusers, marketers can describe current customers as heavy, mod-

behavioral segmentation

A technique that divides consumers into segments on the basis of how they act toward, feel about, or use a good or service.

erate, and light users. They often do this according to a rule of thumb we call the **80/20 rule**: 20 percent of purchasers account for 80 percent of the product's sales (the ratio is an approximation, not gospel). This rule means that it often makes more sense to focus on the smaller number of people who are really into a product rather than on the larger number who are just casual users. Kraft Foods began a \$30 million campaign to remind its core users not to “skip the zip” after its research showed that indeed 20 percent of U.S. households account for 80 percent of the usage of Miracle Whip. Are you surprised to learn that in this product category “heavy” users consume 17 pounds of Miracle Whip a year?³⁸

While the 80/20 rule still holds in the majority of situations, the Internet's ability to offer an unlimited choice of goods to billions of people has changed how marketers think about segmentation. An approach called the **long tail** turns traditional thinking about the virtues of selling in high volume on its head. The basic idea is that we need no longer rely solely on big hits (like blockbuster movies or best-selling books) to find profits. Companies can also make money when they sell small amounts of items that only a few people want—if they sell enough different items. For example, Amazon.com maintains an inventory of 3.7 million books compared to the 100,000 or so you'll find in a Barnes & Noble retail store. Most of these will sell only a few thousand copies (if that), but the 3.6 million books that Barnes & Noble doesn't carry make up a quarter of Amazon's revenues! Similarly, about a fifth of the videos Netflix delivers to its customers are older or obscure titles rather than the blockbusters you'd find at, well, Blockbuster (if there's still a store in your neighborhood!). Blizzard's World of Warcraft's massively multiplayer online game is another long tail. Instead of having to constantly release new sequels, Blizzard only has to release a few updates here and there. The sheer volume of users and the game's open world/do anything environment allows its users to constantly keep it interesting at no additional development costs to Blizzard. Other examples of the long tail include successful microbreweries and TV networks that make money on reruns of old shows on channels like Nick at Night.³⁹

Another way to segment a market based on behavior is to look at **usage occasions**, or when consumers use the product most. We associate many products with specific occasions, whether time of day, holidays, business functions, or casual get-togethers. Businesses often divide up their markets according to when and how their offerings are in demand.

In a similar vein, Google enables its advertising clients to target certain ads to certain segments of search engine users based on data such as Google domain, query entered, IP address, and language preference. This way, companies can have Google automatically sort and send the intended ad to certain market segments. Thus, it is possible for advertisers on Google to tailor their automatically targeted ads based on seasonality—you will see more TurboTax ads on Google pages during tax season, even if people aren't querying tax software.⁴⁰

Segment Business-to-Business Markets

We've reviewed the segmentation variables marketers use to divide up the consumer pie, but how about all those business-to-business marketers out there? Adding to what we learned about business markets in Chapter 6, it's important to know that

80/20 rule

A marketing rule of thumb that 20 percent of purchasers account for 80 percent of a product's sales.

long tail

A new approach to segmentation based on the idea that companies can make money by selling small amounts of items that only a few people want, provided they sell enough different items.

usage occasions

An indicator used in behavioral market segmentation based on when consumers use a product most.



The Biltmore Estate in Asheville, North Carolina, increased attendance during its annual Christmas celebration as part of a strategy to segment by usage occasion. Set on 8,000 acres and featuring four acres of lavishly decorated floor space under one roof, the Biltmore is the largest private home in America. Although more than 750,000 people typically visit the house annually, several years ago attendance was starting to stagnate. Then the estate's marketers mixed things up; they developed four separate strategies to target different types of visitors—heavy users such as those who have made a Christmas pilgrimage an annual family tradition versus light users who have visited only once. Each segment received a different invitation that included a customized package calculated to appeal to that segment. As a result, visits increased by 300 percent in one season, resulting in a merry Christmas for the Biltmore.

segmentation also helps them better understand their customers. Though the specific variables may differ, the underlying logic of classifying the larger market into manageable pieces that share relevant characteristics is the same whether the product you sell is pesto or pesticides.

Organizational demographics also help a business-to-business marketer to understand the needs and characteristics of its potential customers. These classification dimensions include the size of the firms, either in total sales or number of employees; the number of facilities, whether they are a domestic or a multinational company, purchasing policies, and the type of business they are in. Business-to-business markets may also be segmented on the basis of the production technology they use and whether the customer is a user or a nonuser of the product.

Many industries use the North American Industry Classification System (NAICS) we discussed in Chapter 6 to obtain information about the size and number of companies operating in a particular industry. Business-to-business marketers often consult information sources on the Web. For example, Hoovers Online (www.hoovers.com) provides subscribers with up-to-date information on private and public companies worldwide.

3

Step 2: Targeting

OBJECTIVE

Explain how marketers evaluate segments and choose a targeting strategy. (pp. 198–201)

We've seen that the first step in a target marketing strategy is segmentation, in which the firm divides the market into smaller groups that share certain characteristics. The next step is **targeting**, in which marketers evaluate the attractiveness of each potential segment and decide in which of these groups they will invest resources to try to turn them into customers. The customer group or groups they select are the firm's **target market**.

targeting

A strategy in which marketers evaluate the attractiveness of each potential segment and decide in which of these groups they will invest resources to try to turn them into customers.

target market

The market segments on which an organization focuses its marketing plan and toward which it directs its marketing efforts.

Targeting in Three Steps

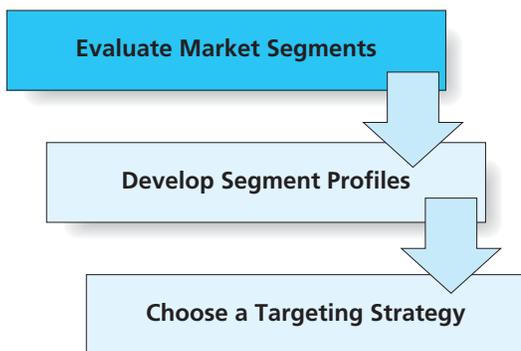
In this section, we'll review the three phases of targeting: evaluate market segments, develop segment profiles, and choose a targeting strategy. Figure 7.4 illustrates these three phases.

Evaluate Market Segments

Just because a marketer identifies a segment does not necessarily mean that it's a useful target. A viable target segment should satisfy the following requirements:

- *Are members of the segment similar to each other in their product needs and wants and, at the same time, different from consumers in other segments?* Without real differences in consumer needs, firms might as well use a mass-marketing strategy. For example, it's a waste of time to develop two separate lines of skin care products for working women and nonworking women if both segments have the same complaints about dry skin.
- *Can marketers measure the segment?* Marketers must know something about the size and purchasing power of a potential segment before they decide if it's worth their efforts.
- *Is the segment large enough to be profitable now and in the future?* For example, a graphic designer who hopes to design Web pages for Barbie-doll collectors must decide whether there are enough hard-core aficionados to make this business worthwhile and whether the trend will continue.
- *Can marketing communications reach the segment?* It is easy to select television programs or magazines that will efficiently reach older consumers, consumers with certain levels of education, or residents of major cities because

Figure 7.4  **Process** | Phases of Targeting
Targeting involves three distinct phases of activities.



the media they prefer are easy to identify. It is unlikely, however, that marketing communications can reach only left-handed blondes with tattoos who listen to Lady Gaga overdubbed in Mandarin Chinese.

- *Can the marketer adequately serve the needs of the segment?* Does the firm have the expertise and resources to satisfy the segment better than the competition? Some years ago, consumer-products manufacturer Warner-Lambert (now a part of Pfizer) made the mistake of trying to enter the pastry business by purchasing Entenmann's Bakery. Entenmann's sells high-end boxed cakes, cookies, pastries, and pies in supermarkets. Unfortunately, Warner-Lambert's expertise at selling Listerine mouthwash and Trident gum did not transfer to baked goods and it soon lost a lot of dough on the deal.

Develop Segment Profiles

Once a marketer identifies a set of usable segments, it is helpful to generate a profile of each to really understand segment members' needs and to look for business opportunities. This segment profile is a description of the "typical" customer in that segment. A **segment profile** might, for example, include customer demographics, location, lifestyle information, and a description of how frequently the customer buys the product.

Years ago, when the R.J. Reynolds Company made plans to introduce a new brand of cigarettes called Dakota that it would target to women, it created a segment profile of a possible customer group: the "Virile Female." The profile included these characteristics: Her favorite pastimes are cruising, partying, going to hot-rod shows and tractor pulls with her boyfriend, and watching evening soap operas. Her chief aspiration is to get married in her early 20s.⁴¹ Anyone you know?

Choose a Targeting Strategy

A basic targeting decision revolves around how finely tuned the target should be: Should the company go after one large segment or focus on meeting the needs of one or more smaller segments? Let's look at four targeting strategies, which  Figure 7.5 summarizes.

A company like Walmart that selects an **undifferentiated targeting strategy** appeals to a broad spectrum of people. If successful, this type of operation can be very efficient because production, research, and promotion costs benefit from economies of scale—it's cheaper to develop one product or one advertising campaign than to choose several targets and create separate products or messages for each. But the company must be willing to bet that people have similar needs so the same product and message will appeal to many customers.

A company that chooses a **differentiated targeting strategy** develops one or more products for each of several customer groups with different product needs. A differentiated strategy is called for when consumers choose among well-known brands that have distinctive images, and the company can identify one or more segments that have distinct needs for different types of products.

Despite its highly publicized product safety issues in 2010, Toyota historically has been a leader in differentiated strategy with distinct product lines that cater to multiple customer groups. Its Lexus product line caters to consumers who want luxury, performance, and the newest technology. The Prius hybrid provides value to drivers who want to save gas money and the environment. And finally, the Scion product line caters to younger drivers who look for a relatively inexpensive car that is highly customizable and stylish.⁴²

Differentiated marketing can also involve connecting one product with different segments by communicating differently to appeal to those segments. Again using the "Got Milk?" campaign as an example, one of their most classic ads featured Aerosmith's Steven Tyler to appeal to both aging boomers who got into the band in the 1970s and Gen Yers who discovered the band in the 1990s due to Run-DMC's remake of "Walk This Way."

When a firm offers one or more products to a single segment, it uses a **concentrated targeting strategy**. Smaller firms that do not have the resources or the desire to be all things to

segment profile

A description of the "typical" customer in a segment.

undifferentiated targeting strategy

Appealing to a broad spectrum of people.

differentiated targeting strategy

Developing one or more products for each of several distinct customer groups and making sure these offerings are kept separate in the marketplace.

concentrated targeting strategy

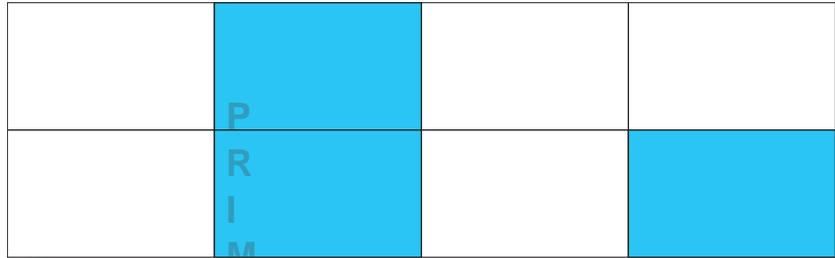
Focusing a firm's efforts on offering one or more products to a single segment.

Figure 7.5  *Snapshot* | Choose a Targeting Strategy

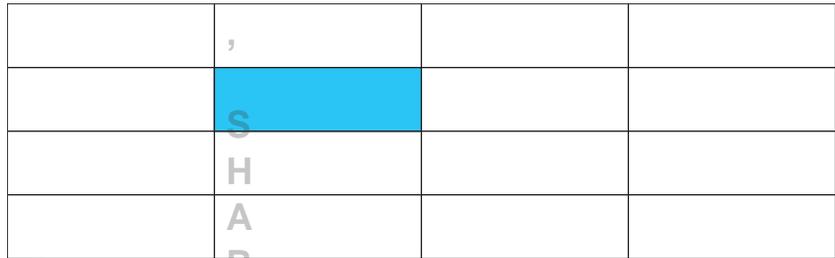
Marketers must decide on a targeting strategy. Should the company go after one total market, one or several market segments, or even target customers individually?



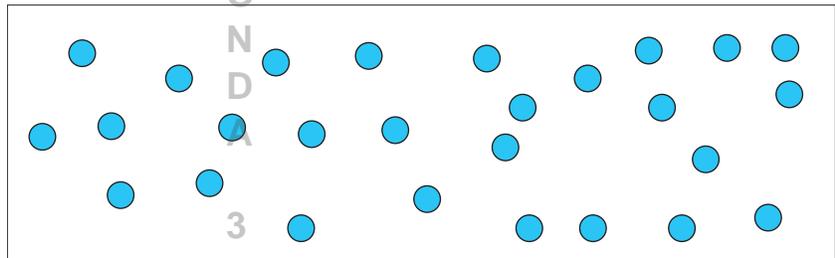
Undifferentiated Marketing



Differentiated Marketing



Concentrated Marketing



Customized Marketing

custom marketing strategy

An approach that tailors specific products and the messages about them to individual customers.

mass customization

An approach that modifies a basic good or service to meet the needs of an individual.

positioning

Develop a marketing strategy to influence how a particular market segment perceives a good or service in comparison to the competition.

all people often do this. Blacksocks.com is a mail-order sock company that only makes black dress socks; it targets businessmen who are too busy to go to the store and buy new socks when their old ones wear out. Blacksocks ship 3-packs of black socks once a month to its “sockscribers.” The company argues that every guy who wears a business suit wears socks, and most wear black socks. For these busy men, going to the store just to buy socks is boring, time-consuming, and simply unnecessary. Periodically the company wrestles with the dilemma of whether or not to also sell white socks because this expansion will dilute the brand (and force the company to change its name!).⁴³

Ideally, marketers should be able to define segments so precisely that they can offer products that exactly meet the unique needs of each individual or firm. This level of concentration does occur (we hope) in the case of personal or professional services we get from doctors, lawyers, and hairstylists. A **custom marketing strategy** also is common in industrial contexts where a manufacturer often works with one or a few large clients and develops products that only these clients will use.

Ripped from the Headlines

Ethical/Sustainable Decisions in the Real World

Most major brands are gearing up to more deeply target consumers in emerging markets. China has 1.3 billion people. India has 1.1 billion. Other nations such as Brazil and Russia offer the dazzling prospect of massive revenue for savvy brands. Coca-Cola is particularly known for successful targeting for many reasons, including the firm’s ability to identify untapped target markets and win over consumers not only by aggressively pursuing them, but also by wanting to know them.

Currently 30 million people, one in three of India’s population, constitute the BOP “bottom-of-pyramid” marketplace. The BOP refers to the masses in developing countries that account for over 65 percent of the world’s population. Buyers at the BOP not only behave differently from their counterparts in developed countries but also from the upper and middle income consumers in their own societies.

Now, Coke is reaching out to this group in India with Vitingo, a new drink aimed at low-income consumers. Coke isn’t alone as it pursues this target market, and for good reason. Statistics show that 40 million Indian families are mov-

ing from outright poverty to the BOP demographic every year. Remember, that’s not 40 million people, that is 40 million *families*. Each year. Like Coke, Glaxo Smith Kline, the pharmaceutical firm, knows there is no greater brand advocate than a family member. In fact, GSK is launching its own milk-based drink, Asha, in India that is designed to appeal to the BOP demographic. Also like Coke, GSK is doing more than offering a product. It is selling the product to a specific group of consumers that the brand values and actively targets. Says Zubair Ahmed, managing director at GSK India: “We are building a robust go-to-market model to ensure the products reach the right consumers because it’s not enough just to have the right products.”

Other familiar brands investing in India’s BOP market are Nestlé, Pepsi, and Hindustan Unilever with the idea that the successful brands of tomorrow are already courting these up-and-coming BOP consumers and demographics that will provide important revenue streams in the years to come.

ETHICS CHECK: Find out what other students taking this course would do and why on www.mypearsonmarketinglab.com

Is it appropriate for firms such as Coke and GSK to target the BOP market in countries like India?

Yes No

Of course, in most cases this level of segmentation is neither practical nor possible when mass-produced products such as computers or cars enter the picture. However, advances in computer technology, coupled with the new emphasis on building solid relationships with customers, have focused managers’ attention on devising new ways to tailor specific products and the messages about them to individual customers. Thus, some forward-looking, consumer-oriented companies are moving toward **mass customization** in which they modify a basic good or service to meet the needs of an individual.⁴⁴ Dell does this when it offers customized computer products over the Internet at Dell.com where users configure their own computers—everything from personal computers to networking systems. We’ll return to the issue of customization later in this chapter when we introduce the idea of customer relationship management.

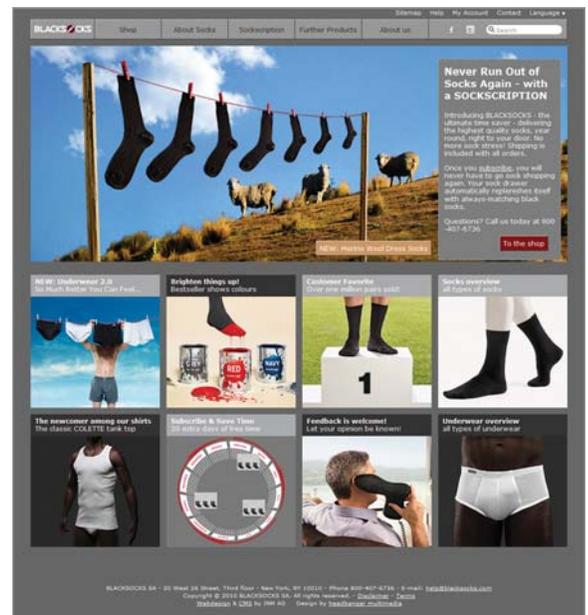
4

Step 3: Positioning

OBJECTIVE
Understand how marketers develop and implement a positioning strategy. (pp. 201–204)

The final stage of developing a target marketing strategy is to provide consumers who belong to a targeted market segment with a good or service that meets their unique needs and expectations. **Positioning** means developing a marketing strategy to influence how a particular market segment perceives a good or service in comparison to the competition. To position a brand, marketers have to clearly understand the criteria target consumers use to evaluate competing products and then convince them that their product, service, or organization will meet those needs. In addition, the organization has to come up with way to communicate this “position” to its target market.

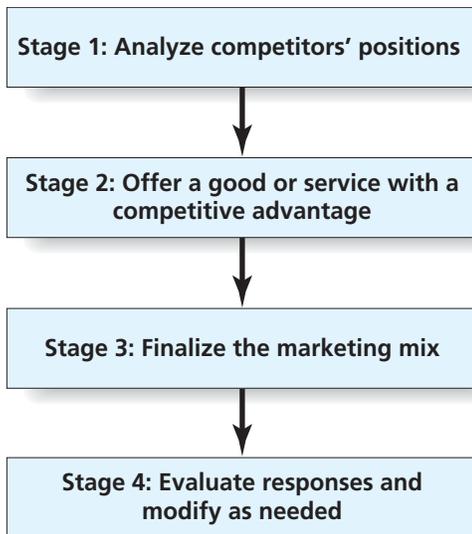
Positioning happens in many ways. Sometimes it’s just a matter of making sure that cool people use your product—and that others observe them doing this. After finding out that a close friend was flying to Los Angeles to audition for the film *Any Given Sunday*, the president of the high-performance sportswear company Under Armour sent along with him a bunch of free samples of its athletic wear to give to the film’s casting director as a gift. The



Blacksocks practices a highly concentrated targeting strategy.

Figure 7.6  **Process** | Stages in a Positioning Decision

Four key elements comprise the decision-making process in positioning.



director liked the quality of the clothes so much he gave them to the wardrobe company the filmmakers hired and they also really liked the clothes. The next thing you know, the movie (starring Al Pacino and Jamie Foxx) featured both the actors wearing Under Armour clothes on screen—and there was even a scene in the film when Jamie Foxx undressed in the locker room with a clear shot of the Under Armour logo on his jock strap. After the movie's release, hits on Under Armour's Web site spiked, and, as they say, the rest is history.⁴⁵

Steps in Positioning

 Figure 7.6 shows the stages marketers use to decide just how to position their product or service: analyze competitors' positions, offer a good or service with a competitive advantage, finalize the marketing mix, and evaluate responses and modify as needed. Let's take a closer look at each of the positioning stages.

Analyze Competitors' Positions

The first stage is to analyze competitors' positions in the marketplace. To develop an effective positioning strategy, marketers must understand the current lay of the land. What competitors are out there, and how does the target market perceive them? Aside from direct competitors in the product category, are there other goods or services that provide similar benefits?

Sometimes the indirect competition can be more important than the direct, especially if it represents an emerging consumer trend. For years, McDonald's developed positioning strategies based only on its direct competition, which it defined as other large fast-food hamburger chains (translation: Burger King and Wendy's). McDonald's failed to realize that in fact many indirect competitors fulfilled consumers' needs for a quick, tasty, convenient meal—from supermarket delis to frozen microwavable single-serving meals to call-ahead takeout from full-service restaurants like T.G.I. Friday's, Outback, and Chili's. Only recently, McDonald's has begun to understand that it must react to this indirect competition by serving up a wider variety of adult-friendly food and shoring up lagging service. Their latest home run is the McCafe concept, with coffee products aimed squarely at taking business away from morning mainstays Starbucks and Dunkin' Donuts.

Define Your Competitive Advantage

The second stage is to offer a good or service with a competitive advantage to provide a reason why consumers will perceive the product as better than the competition. If the company offers only a "me-too product," it can induce people to buy for a lower price. Other forms of competitive advantage include offering a superior image (Giorgio Armani), a unique product feature (Levi's 501 button-fly jeans), better service (Cadillac's roadside assistance program), or even better-qualified people (the legendary salespeople at Nordstrom's department stores).

Finalize the Marketing Mix

Once they settle on a positioning strategy, the third stage for marketers is to finalize the marketing mix by putting all the pieces into place. The elements of the marketing mix must match the selected segment. This means that the good or service must deliver benefits that the segment values, such as convenience or status. Put another way, it must add value and satisfy consumer needs. Furthermore, marketers must price this offering at a level these consumers will pay, make the offering available at places consumers are likely to go, and correctly communicate the offering's benefits in locations where consumers are likely to take notice.

Evaluate Responses and Modify as Needed

In the fourth and final stage, marketers evaluate the target market's responses so they can modify strategies as needed. Over time, the firm may find that it needs to change which segments it targets or even alter a product's position to respond to marketplace changes. Con-

Jim Multari



APPLYING Competitive Advantage

Sprout offers a different viewing experience than its larger competitors as it tries to encourage a lot of parent/child interaction. It is also essentially a "library channel"; its programming mainly consists of previously aired kids' shows, repackaged and represented around short original content and brand identity links. 

sider this classic example: Macho Marlboro cigarettes originally were a smoke for women—complete with a red tip to hide lipstick stains!

A change strategy is **repositioning**, and it's fairly common to see a company try to modify its brand image to keep up with changing times. Take as an example Charles Schwab, which used to be pegged primarily as a self-service stock brokerage. Competition in the budget broker business, especially from online brokers, prompted Schwab's repositioning to a full-line, full-service financial services firm that still pays attention to frugal prices for its services. Think of it this way: There's not much value Schwab can add as one of a dozen or more online providers of stock trades. In that environment, customers simply will view the firm as a commodity (i.e., just a way to buy stocks) with no real differentiation. Schwab still has its no-frills products, but the real growth in sales and profits comes from its expanded product lines and provision of more information—both online and through personal selling—that warrant higher fees and build deeper customer relationships. Repositioning also occurs when a marketer revises a brand thought to be dead or at least near death. Sometimes these products arise from their deathbeds to ride a wave of nostalgia and return to the marketplace as **retro brands**—venerable brands like Oxydol laundry detergent, Breck Shampoo, Ovaltine cereal, and Tab cola have gotten a new lease on life in recent years.⁴⁶

Bring a Product to Life: The Brand Personality

In a way, brands are like people: We often describe them in terms of personality traits. We may use adjectives such as *cheap*, *elegant*, *sexy*, or *cool* when we talk about a store, a perfume, or a car. That's why a positioning strategy often tries to create a **brand personality** for a good or service—a distinctive image that captures its character and benefits. An advertisement for *Elle*, which bills itself as the number-one fashion magazine for women, proclaimed, "She is not a reply card. She is not a category. She is not shrink-wrapped. *Elle* is not a magazine. She is a woman."

Products as people? It seems funny to say, yet marketing researchers find that most consumers have no trouble describing what a product would be like "if it came to life." People often give clear, detailed descriptions, including what color hair the product would have, the type of house it would live in, and even whether it would be thin, overweight, or somewhere in between.⁴⁷ If you don't believe us, try doing this yourself.

Part of creating a brand personality is developing an identity for the product that the target market will prefer over competing brands. How do marketers determine where their product actually stands in the minds of consumers? One solution is to ask consumers what characteristics are important and how competing alternatives would rate on these attributes, too. Marketers use this information to construct a **perceptual map**, a vivid way to construct a picture of where products or brands are "located" in consumers' minds.

For example, suppose you wanted to construct a perceptual map of how American women in their 20s perceive magazines to help you develop an idea for a new publication that these readers would like. After you interview a sample of female readers, you might identify two key questions women ask when they select a magazine: (1) Is it "traditional," that is, oriented toward family, home, or personal issues, or is it "fashion-forward," oriented toward personal appearance and fashion? (2) Is it for "upscale" women who are older and established in their careers or for relatively "downscale" women who are younger and just starting out in their careers?

repositioning

Redoing a product's position to respond to marketplace changes.

retro brand

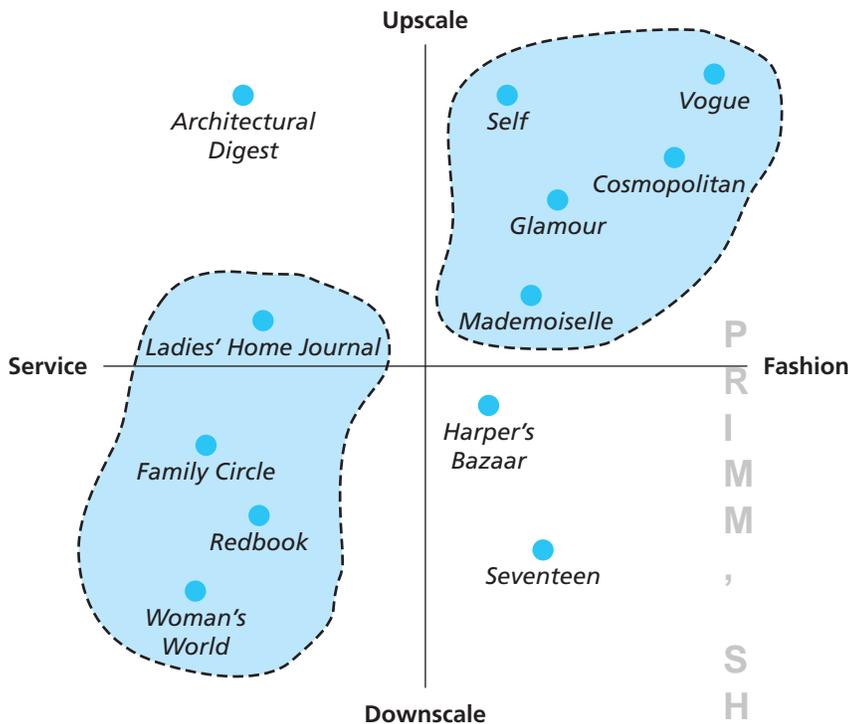
A once-popular brand that has been revived to experience a popularity comeback, often by riding a wave of nostalgia.



To summarize the steps we take to position a product, look at the strategy the SoBe Beverage Company developed. SoBe is a small drink manufacturer based in Connecticut that offers a line of teas, elixirs, and power drinks. The company first segmented the market in terms of age and psychographics. Then it targeted a segment of 18- to 35-year-olds whose profiles indicated they were into "New Age" beverages that would give them a feeling of energy without unhealthy additives. SoBe created XTC, a drink inspired by "herbal ecstasy" cocktails of extracts and amino acids first made popular at 1990s' "raves" featuring all-night gyrations to techno music. As an industry executive noted, this strategy provides a unique position for the elixir: "People are taking something that provides a four-times-removed high without having to get arrested or wrecking their bodies. It carries the image of being a little further out there without carrying the risk." Today, XTC has given way to an amazing line of products in various flavors under such thematic purposes as Purify, C-boost, N-Dure, Electrify, Lean Machine, and D-Fence for the ever-moving and multitasking Gen Y as well as a line of teas and elixirs with broader generational appeal.

Figure 7.7  Snapshot | Perceptual Map

Perceptual mapping allows marketers to identify consumers' perceptions of their brand in relation to the competition.



brand personality

A distinctive image that captures a good's or service's character and benefits.

perceptual map

A technique to visually describe where brands are "located" in consumers' minds relative to competing brands.

customer relationship management (CRM)

A systematic tracking of consumers' preferences and behaviors over time in order to tailor the value proposition as closely as possible to each individual's unique wants and needs. CRM allows firms to talk to individual customers and to adjust elements of their marketing programs in light of how each customer reacts.

which found a spot for low fares and high tech without the poor-boy service attitude and cattle-call boarding procedure of other budget airlines; and Liz Claiborne, which pioneered the concept of comfortable, "user-friendly" clothing for working women. In the magazine category, perhaps *Marie Claire* comes closest to this position.

5

OBJECTIVE

Explain how marketers increase long-term success and profits by practicing customer relationship management.

(pp. 204–208)

Customer Relationship Management (CRM): Toward a Segment of One

We've talked about how marketers identify a unique group of consumers and then develop products specifically to meet their needs. And we talked about how marketers today build products to meet the needs of individual consumers by using mass customization techniques. As we discussed in Chapter 1, currently many highly successful marketing firms embrace **customer relationship management (CRM)** programs that involve systematically tracking consumers' preferences and behaviors over time in order to tailor the value proposition as closely as possible to each individual's unique wants and needs. CRM allows firms to talk to individual customers and to adjust elements of their marketing programs in light of how each customer reacts.⁴⁸ The CRM trend facilitates *one-to-one marketing*, which includes several steps.⁴⁹

1. Identify customers and get to know them in as much detail as possible.
2. Differentiate among these customers in terms of both their needs and their value to the company.

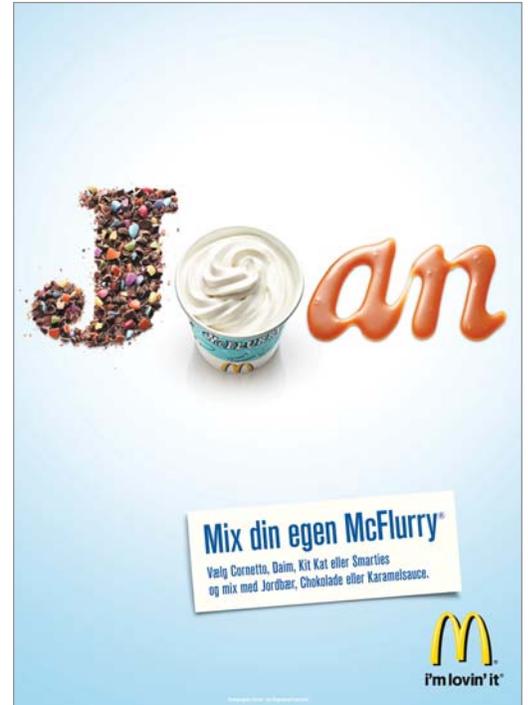
3. Interact with customers and find ways to improve cost efficiency and the effectiveness of the interaction.
4. Customize some aspect of the goods or services that you offer to each customer. This means treating each customer differently based on what has been learned through customer interactions.⁵⁰

Table 7.1 suggests some specific activities to implement these four steps of one-to-one marketing. Remember, successful one-to-one marketing depends on CRM, which allows a company to identify its best customers, stay on top of their needs, and increase their satisfaction.⁵¹

CRM: A New Perspective on an Old Problem

CRM is about communicating with customers, and about customers being able to communicate with a company “up close and personal.” CRM systems are applications that use computers, specialized computer software, databases, and often the Internet to capture information at each **touchpoint**, which is any point of direct interface between customers and a company (online, by phone, or in person).

These systems include everything from Web sites that let you check on the status of a bill or package to call centers that solicit your business. When you log on to the FedEx Web site to track a lost package, that’s part of a CRM system. When you get a phone message from the dentist reminding you about your appointment tomorrow to get a root canal, that’s CRM (sorry about that). And



Marketers know that one way to more finely segment consumers is to allow them to personalize products. That's the message behind this Danish ad for McDonald's.

Table 7.1 | The Four Steps of One-to-One Marketing

Step	Suggested Activities
Identify	<ul style="list-style-type: none"> Collect and enter names and additional information about your customers. Verify and update, deleting outdated information.
Differentiate	<ul style="list-style-type: none"> Identify top customers. Determine which customers cost the company money. Find higher-value customers who have complained about your product more than once. Find customers who buy only one or two products from your company but a lot from other companies. Rank customers into A, B, and C categories based on their value to your company.
Interact	<ul style="list-style-type: none"> Call the top three people in the top 5 percent of dealers, distributors, and retailers that carry your product and make sure they're happy. Call your own company and ask questions; see how hard it is to get through and get answers. Call your competitors and compare their customer service with yours. Use incoming calls as selling opportunities. Initiate more dialogue with valuable customers. Improve complaint handling.
Customize	<ul style="list-style-type: none"> Find out what your customers want. Personalize your direct mail. Ask customers how and how often they want to hear from you. Ask your top 10 customers what you can do differently to improve your product. Involve top management in customer relations.

Source: Adapted by permission of *Harvard Business Review* from Don Peppers, Martha Rogers, and Bob Dorf, “Is Your Company Ready for One-to-One Marketing?” *Harvard Business Review* (January–February 1999), 151–60. Copyright © 1999 by the Harvard Business School Publishing Corporation. All rights reserved.

touchpoint

Any point of direct interface between customers and a company (online, by phone, or in person).

when you get a call from the car dealer asking how you like your new vehicle, that's also CRM. Remember how in Chapter 4 we said information is the fuel that runs the marketing engine? It is through CRM that companies act upon and manage the information they gather from their customers.

To fully appreciate the value of a CRM strategy, consider the experience of USAA, which began as an insurance company catering to the military market and today is a leading global financial services powerhouse. In 1922, when 25 army officers met in San Antonio and decided to insure each other's vehicles, they could not have imagined that their tiny organization would one day serve 6 million members and become the only fully integrated financial services company in America. Unlike State Farm, Allstate, and other traditional insurance providers, USAA does not provide field agents with an office you can go to, sit down, and shoot the breeze. In fact, USAA's employees conduct business almost entirely over the phone. But just ask any USAA member how they feel about the service, and you'll get a glowing report.

The secret to USAA's success is largely due to its state-of-the-art CRM system. No matter where on the globe you are, no matter what time of day or night, a USAA representative will pull up your profile and you'll feel that he knows you. Of course, it takes a good dose of employee training to enable those folks to use the system to its potential. But USAA does a great job of building and maintaining long-term customer relationships, and (more importantly) getting customers to move many or all of their business over to USAA including banking, credit cards, money management, investments, and financial planning. To further build loyalty, USAA even runs an online company store that sells all sorts of popular product lines and brands for which members get purchase discounts.⁵²

USAA's success helps explain why CRM has become a driving philosophy in many successful firms. A study by the Services & Support Professionals Association (SSPA) estimates that in 2008, organizations with more than \$1 billion in revenue spent approximately \$565 million on e-service, CRM, contact center, and field service technology. Small and mid-sized businesses spent about \$884 million. And Forrester Research estimates the CRM market reached about \$11 billion in 2010.⁵³ Here are some current examples of CRM at work:

- Amazon.com is the world champion master of the happy customer approach to CRM. For loyal users, Amazon tracks visits so it can customize advertisements, product promotions, and discounts for each shopper. And, if you happen to have a passion for, say, grunge bands of the 1990s, the Web site is quick to recommend that new retrospective on Pearl Jam the next time you visit.⁵⁴
- Coca-Cola launched its My Coke Rewards online program, the multiyear customer-loyalty marketing blitz into which it poured millions of dollars.
- JCPenney uses the power of its CRM system to develop lasting consumer relationships. Its JCP Rewards program lets customers earn points to snag members-only benefits. Rival Macy's West, one of the retailer's biggest divisions, also has been investing in CRM to decipher a more effective media mix and gauge reaction to digital efforts.⁵⁵

Characteristics of CRM

In addition to having a different mind-set, companies that successfully practice CRM have different goals, use different measures of success, and look at customers in some different ways. Followers of CRM look at four critical elements, as portrayed in  Figure 7.8: share of customer, lifetime value of a customer, customer equity, and customer prioritization. Let's have a look at each of these ideas now.

Share of Customer

Historically, marketers measured success in a product category by their *market share*. For example, if people buy 100 million pairs of athletic shoes each year, a firm that sells 10 million of them claims a 10 percent market share. If the shoemaker's marketing objective is to in-

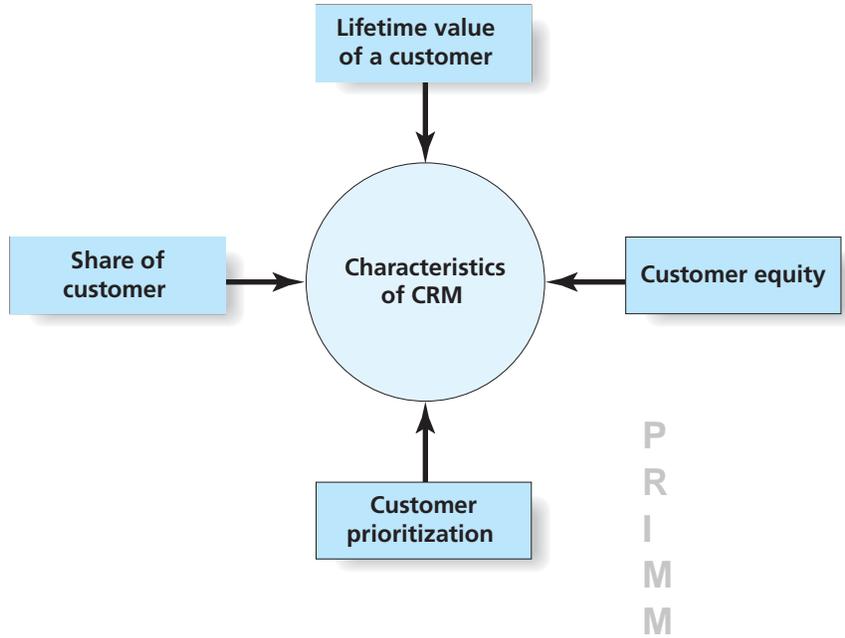


Figure 7.8 **Snapshot | Characteristics of CRM**

Followers of CRM look at share of customer, lifetime value of a customer, customer equity, and customer prioritization.

crease market share, it may lower the price of its shoes, increase its advertising, or offer customers a free basketball with every pair of shoes they purchase. These tactics may increase sales in the short run. Unfortunately, they may not do much for the long-term success of the shoemaker. In fact, they may actually decrease the value of the brand because they cheapen its image with giveaways.

Because it is always easier and less expensive to keep an existing customer than to get a new customer (yes, we've said that already), CRM firms try to increase their **share of customer**, not share of market. Let's say that a consumer buys six pairs of shoes a year—two pairs from each of three different manufacturers. Assume one shoemaker has a CRM system that allows it to send letters to its current customers inviting them to receive a special price discount or a gift if they buy more of the firm's shoes during the year. If the firm can get the consumer to buy three or four or perhaps all six pairs from it, it has increased its share of customer. And that may not be too difficult, because the customer already likes the firm's shoes. Without the CRM system, the shoe company would probably use traditional advertising to increase sales, which would be far more costly than the customer-only direct-mail campaign. So the company can increase sales and profits at a much lower cost than it would spend to get one, two, or three new customers.

Lifetime Value of a Customer

As you'll recall from Chapter 1, the **lifetime value of a customer** is the potential profit a single customer's purchase of a firm's products generates over the customer's lifetime. It just makes sense that a firm's profitability and long-term success are going to be far greater if it develops long-term relationships with its customers so that those customers buy from it again and again. Costs will be far higher and profits lower if each customer's purchase is a first-time sale.

How do marketers calculate the lifetime value of a customer? They first estimate a customer's future purchases across all products from the firm over the next 20 or 30 years. The goal is to try to figure out what profit the company could make from the customer in the future (obviously, this will just be an estimate). For example, an auto dealer might calculate the lifetime value of a single customer by first calculating the total revenue the customer will generate for the company during his or her life. This figure includes the number of automobiles he will probably buy times their average price, plus the service the dealership would provide over the years, and even possibly the income from auto loan financing. The lifetime value of the customer would be the total profit the revenue stream generates.

share of customer

The percentage of an individual customer's purchase of a product that is a single brand.

lifetime value of a customer

The potential profit a single customer's purchase of a firm's products generates over the customer's lifetime.

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ISBN 1-256-36591-2

customer equity

The financial value of a customer relationship throughout the lifetime of the relationship.

Customer Equity

Today an increasing number of companies consider their relationships with customers as financial assets. These firms measure success by calculating the value of their **customer equity**—the financial value of a customer throughout the lifetime of the relationship.⁵⁶ To do this, they compare the investments they make to acquire customers and then to retain them to the financial return they'll get on those investments.

Focus on High-Value Customers

Using a CRM approach, the organization prioritizes its customers and customizes its communications to them accordingly. For example, any banker will tell you that not all customers are equal when it comes to profitability. Some generate a lot of revenue because they bank interest on loans or credit cards, while others basically just use the bank as a convenient place to store a small amount of money and take out a little bit each week to buy beer. Banks use CRM systems to generate a profile of each customer based on factors such as value, risk, attrition, and interest in buying new financial products. This automated system helps the bank decide which current or potential customers it will target with certain communications or how much effort it will expend to retain an account—all the while cutting its costs by as much as a third. It just makes sense to use different types of communication contacts based on the value of each individual customer. For example, personal selling (the most expensive form of marketing communication per contact) may constitute 75 percent of all contacts with high-volume customers, while direct mail or telemarketing is more often the best way to talk to low-volume customers.

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Here's my choice. . .

Real People, Real Choices

Why do you think Jim chose option 3?



How It Worked Out at PBS Kids Sprout

Sprout implemented a dual target audience strategy with a campaign it called "We share." The campaign featured the fresh and playful spirit of Sprout's brand, while reinforcing the network's core vision of bringing parents and kids together into a child's world. Using the theme of "together time" for parents and preschoolers, print, outdoor, and TV ads linked users to SproutOnline.com, which includes crafts, activities, games, videos, and more for parents to share with their preschoolers.

To learn the whole story, visit www.mypearsonmarketinglab.com.

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S H A R P E N T H E F O C U S

Objective Summary → Key Terms → Apply

CHAPTER 7

Study Map

1. Objective Summary (pp. 184–185)**Identify the steps in the target marketing process.**

Marketers must balance the efficiency of mass marketing, serving the same items to everyone, with the effectiveness of offering each individual exactly what she wants. To accomplish this, instead of trying to sell something to everyone, marketers follow these steps: (1) select a target marketing strategy, in which they divide the total market into different segments based on customer characteristics; (2) select one or more segments; and (3) develop products to meet the needs of those specific segments.

Key Terms

market fragmentation, p. 184

target marketing strategy, p. 184

2. Objective Summary (pp. 185–198)**Understand the need for market segmentation and the approaches available to do it.**

Market segmentation is often necessary in today's marketplace because of market fragmentation—that is, the splintering of a mass society into diverse groups due to technological and cultural differences. Most marketers can't realistically do a good job of meeting the needs of everyone, so it is more efficient to divide the larger pie into slices in which members of a segment share some important characteristics and tend to exhibit the same needs and preferences. Marketers frequently find it useful to segment consumer markets on the basis of demographic characteristics, including age, gender, family life cycle, social class, race or ethnic identity, and place of residence. A second dimension, psychographics, uses measures of psychological and social characteristics to identify people with shared preferences or traits. Consumer markets may also be segmented on the basis of how consumers behave toward the product, for example, their brand loyalty, usage rates (heavy, moderate, or light), and usage occasions. Business-to-business markets are often segmented on the basis of industrial demographics, type of business based on the North American Industry Classification (NAICS) codes, and geographic location.

Key Terms

segmentation, p. 185

segmentation variables, p. 185

Generation Y, p. 185

demographics, p. 186

generational marketing, p. 186

Generation X, p. 188

baby boomers, p. 188

metrosexual, p. 189

cultural diversity, p. 192

geodemography, p. 193

geocoding, p. 193

psychographics, p. 194

VALS™ (Values and Lifestyles), p. 194

behavioral segmentation, p. 196

80/20 rule, p. 197

long tail, p. 197

usage occasions, p. 197

3. Objective Summary (pp. 198–201)**Explain how marketers evaluate segments and choose a targeting strategy.**

To choose one or more segments to target, marketers examine each segment and evaluate its potential for success as a target market. Meaningful segments have wants that are different from those in other segments, can be identified, can be reached with a unique marketing mix, will respond to unique marketing communications, are large enough to be profitable, have future growth potential, and possess needs that the organization can satisfy better than the competition.

After marketers identify the different segments, they estimate the market potential of each. The relative attractiveness of segments also influences the firm's selection of an overall marketing strategy. The firm may choose an undifferentiated, differentiated, concentrated, or custom strategy based on the company's characteristics and the nature of the market.

Key Terms

targeting, p. 198

target market, p. 198

segment profile, p. 199

undifferentiated targeting strategy, p. 199

differentiated targeting strategy, p. 199

concentrated targeting strategy, p. 199

custom marketing strategy, p. 200

mass customization, p. 201

4. Objective Summary (pp. 201–204)

Understand how marketers develop and implement a positioning strategy.

After marketers select the target market(s) and the overall strategy, they must determine how they wish customers to perceive the brand relative to the competition—that is, should the brand be positioned like, against, or away from the competition? Through positioning, a brand personality is developed. Marketers can compare brand positions by using such research techniques as perceptual mapping. In developing and implementing the positioning strategy, firms analyze the competitors' positions, determine the competitive advantage offered by their product, tailor the marketing mix in accordance with the positioning strategy, and evaluate responses to the marketing mix selected. Marketers must continually monitor changes in the market that might indicate a need to reposition the product.

Key Terms

- positioning, p. 201
- repositioning, p. 203
- retro brands, p. 203
- brand personality, p. 203
- perceptual map, p. 203

5. Objective Summary (pp. 204–208)

Explain how marketers increase long-term success and profits by practicing customer relationship management.

Companies using customer relationship management (CRM) programs establish relationships and differentiate their behavior toward individual customers on a one-to-one basis through dialogue and feedback. Success is often measured one customer at a time using the concepts of share of customer, lifetime value of the customer, and customer equity. In CRM strategies, customers are prioritized according to their value to the firm, and communication is customized accordingly.

Key Terms

- customer relationship management (CRM), p. 204
- touchpoint, p. 205
- share of customer, p. 207
- lifetime value of a customer, p. 207
- customer equity, p. 208

Chapter Questions and Activities

Concepts: Test Your Knowledge

1. What is market segmentation, and why is it an important strategy in today's marketplace?
2. List and explain the major demographic characteristics frequently used in segmenting consumer markets.
3. Explain consumer psychographic segmentation.
4. What is behavioral segmentation?
5. What are some of the ways marketers segment industrial markets?
6. List the criteria marketers use to determine whether a segment may be a good candidate for targeting.
7. Explain undifferentiated, differentiated, concentrated, and customized marketing strategies. What is mass customization?
8. What is product positioning? What do marketers mean by creating a brand personality? How do marketers use perceptual maps to help them develop effective positioning strategies?
9. What is CRM? How do firms practice CRM?
10. Explain the concepts of share of customer, lifetime value of a customer, customer equity, and customer prioritization.

Activities: Apply What You've Learned

1. Assume that a small regional beer brewery has hired you to help them with their target marketing. They are pretty unsophisticated about marketing—you will need to explain some things to them and provide ideas for their future. In the past,

the brewery has simply produced and sold a single beer brand to the entire market—a mass-marketing strategy. As you begin work, you come to believe that the firm could be more successful if it developed a target marketing strategy. Write a memo to the owner outlining the following:

- a. The basic reasons for doing target marketing in the first place
 - b. The specific advantages of a target marketing strategy for the brewery
 - c. An initial "short list" of possible target segment profiles
2. As the marketing director for a company that is planning to enter the business-to-business market for photocopy machines, you are attempting to develop an overall marketing strategy. You have considered the possibility of using mass marketing, concentrated marketing, differentiated marketing, and custom marketing strategies.
 - a. Prepare a summary explaining what each type of strategy would mean for your marketing plan in terms of product, price, promotion, and distribution channel.
 - b. Evaluate the desirability of each type of strategy.
 - c. What are your final recommendations for the best type of strategy?
 3. As an account executive for a marketing consulting firm, your newest client is a university—your university. You have been asked to develop a positioning strategy for the university. Develop an outline of your ideas, including the following:
 - a. Who are your competitors?
 - b. What are the competitors' positions?

- c. What target markets are most attractive to the university?
 - d. How will you position the university for those segments relative to the competition?
4. Assume that a firm hires you as marketing manager for a chain of retail bookstores. You believe that the firm should develop a CRM strategy. Outline the steps you would take in developing that strategy.

Marketing Metrics Exercise

In the chapter discussion about CRM, you read about four key characteristics of CRM: share of customer, lifetime value of a customer, customer equity, and customer prioritization. Each of these elements is discussed in the context of monitoring and assessing the effectiveness of a CRM initiative.

Consider JCPenney's relatively new loyalty program, JCP Rewards. Go to their Web site (www.jcpwards.com) and click on "How it works." In what ways could JCPenney expect to measure the four elements of CRM above within the context of a reward program such as this? How would data be collected for each element, and how might management at JCPenney utilize that data to provide loyal customers with a very strong relationship with the firm?

Choices: What Do You Think?

1. Some critics of marketing have suggested that market segmentation and target marketing lead to an unnecessary proliferation of product choices that wastes valuable resources. These critics suggest that if marketers didn't create so many different product choices, there would be more resources to feed the hungry and house the homeless and provide for the needs of people around the globe. Are the results of segmentation and target marketing harmful or beneficial to society as a whole? Should firms be concerned about these criticisms? Why or why not?
2. One of the criteria for a usable market segment is its size. This chapter suggested that to be usable, a segment must be large enough to be profitable now and in the future and that some very small segments get ignored because they can never be profitable. So how large should a segment be? How do you think a firm should go about determining if a segment is profitable? Have technological advances made it possible for smaller segments to be profitable? Do firms ever have a moral or ethical obligation to develop products for small, unprofitable segments? When?
3. A few years ago, Anheuser-Busch Inc. created a new division dedicated to marketing to Hispanics and announced it would boost its ad spending in Hispanic media by two-thirds to more than \$60 million, while Miller Brewing Co. signed a \$100 million, three-year ad package with Spanish-language broadcaster Univision Communications Inc. But Hispanic activists immediately raised public-health concerns

about the beer ad blitz on the grounds that it targets a population that skews young and is disproportionately likely to abuse alcohol. Surveys of Hispanic youth show that they are much more likely to drink alcohol, get drunk, and to engage in binge drinking, than their white or black peers. A senior executive at Anheuser-Busch responded, "We would disagree with anyone who suggests beer billboards increase abuse among Latino or other minority communities. It would be poor business for us in today's world to ignore what is the fastest-growing segment of our population."⁵⁶

Manufacturers of alcohol and tobacco products have been criticized for targeting unwholesome products to certain segments of the market—the aged, ethnic minorities, the disabled, and others. Do you view this as a problem? Should a firm use different criteria in targeting such groups? Should the government oversee and control such marketing activities?

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4. Customer relationship management (CRM) relies on data collected from customers to create customized or one-to-one experiences for those customers. Data are collected at various touchpoints—places in which the customer interfaces with the firm to provide information, such as at a checkout lane, on the phone, on the Web site, and so on. Do firms have an obligation to explain to customers that they are collecting information from them to populate and drive their CRM initiative, or is it inherently obvious in today's world that such practices are routine? In general, what is your personal viewpoint of database-driven positioning strategies? What are the potential pros and cons to the company and to the customer?

Miniproject: Learn by Doing

This miniproject will help you to develop a better understanding of how firms make target marketing decisions. The project focuses on the market for women's beauty-care products.

1. Gather ideas about different dimensions useful for segmenting the women's beauty products market. You may use your own ideas, but you probably will also want to examine advertising and other marketing communications developed by different beauty care brands.
2. Based on the dimensions for market segmentation that you have identified, develop a questionnaire and conduct a survey of consumers. You will have to decide which questions should be asked and which consumers should be surveyed.
3. Analyze the data from your research and identify the different potential segments.
4. Develop segment profiles that describe each potential segment.
5. Generate several ideas for how the marketing strategy might be different for each segment based on the profiles. Develop a presentation (or write a report) outlining your ideas, your research, your findings, and your marketing strategy recommendations.

Marketing in Action Case Real Choices at Subaru

How do companies “share the love” with their customers? Subaru of America, the automobile manufacturing division and brand name of Japanese transportation conglomerate Fuji Heavy Industries, attempts to “share the love” through its marketing efforts. Alexander Edwards, president of market researcher Strategic Vision, says, “In their marketing they’ve been focusing on what creates love between the owner and the automobile.” The focus of Subaru’s promotional campaign is to build the connection of fun and adventure with the Subaru brand.

In 1968, Subaru of America began in Philadelphia and subsequently moved its headquarters to Cherry Hill, New Jersey. In 1986, the company was acquired by Fuji Heavy Industries. Internationally, the Subaru brand is identified by its use of boxer engines and the all-wheel drive train layout. In 2008, Subaru was the nineteenth seller of automobiles in the United States. The next year Subaru moved up to the number 11 slot. Subaru was the fastest growing mass-market automobile brand in the United States, outselling BMW.

As it grew, Subaru decided to move away from its traditional customers who were concentrated in regions like the North American Rocky Mountains, New England, and the Pacific Northwest. The challenge is to appeal to drivers who don’t necessarily live in such a rough terrain, but not lose ground with its core customers.

Edwards states that the average household income of a Subaru owner is \$88,000, the same as Honda Motor and \$10,000 more than Toyota. The average owner is younger than the industry average and more likely to be college educated. Subaru customers are penny-wise and do not make automobile purchases that stretch their budgets. This market wants to acquire exciting driving experiences, but not with a big price tag.

Kevin Mayer, Subaru’s U.S.A.’s director of marketing communications, says, “We wanted to develop the next stage of

that partnership. The idea was to emotionally connect with the customers.” The company’s research showed that its’ target market is particularly eco-friendly. One of the brand-building strategies was to build a manufacturing plant located in an official wildlife preserve with no landfill waste. Another is that at an annual sales event, customers can donate \$250 of their Subaru purchase to one of five charities. The end result of these activities is that the company’s acquisition costs per customer are lower than those of its competition.

Subaru takes a holistic approach to marketing its brand with the goal to demonstrate to customers that it “cares about their passion points.” Subaru managers believe that the market for the upscale buyer who values freedom and frugality exceeds 60 million. There are currently 2.4 million Subarus in use, which makes for a huge opportunity in the U.S.A. In order to maintain or grow market share, the firm will have to attract more customers. Its past tactics may or may not work in other regions of the country. If Subaru has to adjust its marketing tactics, will it harm its relationships with current customers who value the company’s outdoors, eco-friendly brand personality?

You Make the Call

1. What is the decision facing Subaru?
2. What factors are important in understanding this decision situation?
3. What are the alternatives?
4. What decision(s) do you recommend?
5. What are some ways to implement your recommendation?

Based on: Jeff Green and Alan Ohnsman, “At Subaru, Sharing the Love Is a Market Strategy,” *Bloomberg Businessweek*, May 20, 2010 (http://www.businessweek.com/magazine/content/10_22/b4180018655478.htm); Subaru, *Wikipedia*, <http://en.wikipedia.org/wiki/Subaru> (accessed June 21, 2010); Andrew Hampp, “Subaru Puts Dogs in the Driver Seat for New Campaign,” *Advertising Age*, February 4, 2010 (http://adage.com/article?article_id5141915).

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