

## CHAPTER 5

# Market Segmenting, Targeting, and Positioning

Suppose you have an idea for a great new offering you hope will become a hot seller. Before you quit your day job, you'll need to ask yourself, "Does my idea satisfy consumers' needs and add value to existing products?" "Who's going to buy my product?" and "Will there be enough of these people to make it worth my while?"

Certain people will be more interested in what you plan to offer than others. Not everyone needs homeowners' insurance, not everyone needs physical therapy services, and not every organization needs to purchase vertical lathes or CT scanners. Among those that do, some will buy a few, and a few will buy many. In terms of potential buyers, not all of them are "created equal." Some customers are more equal than others, however. A number of people might be interested in your product idea if it satisfies a need, adds value, is priced right, or if they are aware when your product exists in the marketplace.

Your goal is to figure out which people and organizations are interested in your product ideas. To do this you will need to divide or segment the people and organizations into different groups of potential buyers with similar characteristics. This process is called **market segmentation** and involves asking the question, *What groups of buyers are similar enough that the same product or service will appeal to all of them?*<sup>[1]</sup> After all, your marketing budget is likely to be limited. You need to get the biggest bang for your buck by focusing on those people you truly have a shot at selling to and tailoring your offering toward them.

### market segmentation

The process of breaking down all consumers into groups of potential buyers with similar characteristics.

## 1. TARGETED MARKETING VERSUS MASS MARKETING

### LEARNING OBJECTIVES

1. Distinguish between targeted marketing and mass marketing and explain what led to the rise of each.
2. Describe how targeted marketing can benefit firms.
3. Explain why companies differentiate among their customers.

The segment(s) or group(s) of people and organizations you decide to sell to is called a **target market**. Targeted marketing, or *differentiated marketing*, means that you may differentiate some aspect of marketing (offering, promotion, price) for different groups of customers selected. It is a relatively new phenomenon. **Mass marketing**, or *undifferentiated marketing*, came first. It evolved along with mass production and involves selling the same product to everybody. You can think of mass marketing as a shotgun approach: you blast out as many marketing messages as possible on every medium available as often as you can afford.<sup>[2]</sup> By contrast, targeted marketing is more like shooting a rifle; you take careful aim at one type of customer with your message.

Automaker Henry Ford was very successful at both mass production and mass marketing. Ford pioneered the modern-day assembly line early in the twentieth century, which helped him cost-effectively pump out huge numbers of identical Model T automobiles. They came in only one color: black. "Any customer can have a car painted any color he wants, so long as it is black," Ford used to joke. He also

### target market

The select group of people you choose to sell to.

### mass marketing

Selling the same product to all consumers.

advertised in every major newspaper and persuaded all kinds of publications to carry stories about the new, inexpensive cars. By 1918, half of all cars on America's roads were Model Ts.<sup>[3]</sup>

Then Alfred P. Sloan, the head of General Motors (GM), appeared on the scene. Sloan began to segment consumers in the automobile market—to divide them up by the prices they wanted to pay and the different cars they wanted to buy. The idea was to offer a car for every target market or for every income level. His efforts were successful, and in the 1950s, GM overtook Ford as the nation's top automaker.<sup>[4]</sup> (You might be interested to know that before GM declared bankruptcy in 2009, it was widely believed the automaker actually had too many car models. After eliminating many models including Pontiac and Oldsmobile, General Motors made a turnaround and posted a large profit for 2011.)

## FIGURE 5.1

You could forget about buying a custom Model T from Ford in the early 1900s. The good news? The price was right.



## 1.1 Benefits of Segmenting and Targeting Markets

The story of General Motors raises an important point, which is that segmenting and targeting markets doesn't necessarily mean "skinnying down" the number of your customers. In fact, it can help you enlarge your customer base by giving you information with which to successfully adjust some component of your offering—the offering itself, its price, the way you service and market it. More specifically, the process can help you do the following:

- Avoid head-on competition with other firms trying to capture the same customers.
- Develop new offerings and expand profitable brands and products lines.
- Remarket older, less-profitable products and brands.
- Identify early adopters.
- Redistribute money and sales efforts to focus on your most profitable customers.
- Retain "at-risk" customers in danger of defecting to your competitors.

The trend today is toward more precise, targeted marketing. Figuring out "who's who" in terms of your customers involves some detective work, though—often market research. A variety of tools and research techniques can be used to segment markets. Government agencies, such as the U.S. Census Bureau, collect and report vast amounts of population information and economic data that can reveal changing consumption trends. Technology is also making it easier for even small companies and entrepreneurs to gather information about potential customers. For example, the online game company GamePUMA.com originally believed its target market consisted of U.S. customers, but when the firm looked more closely at who was downloading games from its Web site, they were people from all over the globe. With the increased use of social media, companies are able to get information on consumers' search behavior. Loyalty cards that consumers scan at many grocery and drug stores provide an incredible amount of information on consumers' buying behavior.

The great product idea you had? Companies are now using the Internet to track people's Web browsing patterns and segment them into target groups. Even small businesses are able to do this cost-effectively because they don't need their own software and programs. They can simply sign up online for products like Google's AdSense and AdWords programs. You can locate potential customers by looking at blog sites and discussion forums on the Web. Big-boards.com has thousands of discussion forums you can mine to find potential customers interested in your product. Do you have a blog? Go to BlogPoll.com, and you can embed a survey in your blog to see what people think of your idea. If you have a Web site, you can download an application onto your iPhone that will give you up-to-the-minute information and statistics on your site's visitors.

Getting a read on potential target markets doesn't necessarily have to involve technology. Your own personal experience and talking to would-be buyers is an important part of the puzzle. Go where you think would-be buyers go—restaurants, malls, gyms, subways, grocery stores, daycare centers, and offices—and ask questions to find out what they do during the day, what they talk about, what products or services do you see them using, and do they seem to be having an enjoyable experience when using those products or are they frustrated?

Healthy Choice frozen dinners were conceived as a result of questioning potential customers. The food-maker ConAgra launched the dinners in the late 1980s after its CEO, Charlie Harper, suffered a heart attack. One day a colleague complimented Harper on his wife's tasty low-fat turkey stew. That's when Harper realized there were people like him who wanted healthy convenience foods, so he began talking to them about what they wanted. Two years after the Healthy Choice line was launched, it controlled 10 percent of the frozen-dinner market by concentrating on the health conscious segment.<sup>[5]</sup>

## 1.2 Segmenting and Targeting a Firm's Current Customers

Finding and attracting new customers is generally far more difficult than retaining your current customers. Think about how much time and energy you spend when you switch your business from one firm to another, even when you're buying something as simple as a haircut. If you aren't happy with your hair stylist and want to find a new hairdresser, you first have to talk to people with haircuts you like or read reviews of salons. Once you decide on a particular salon, you have to find it and explain to the new hairdresser how you want your hair cut and hope he or she gets it right. You also have to figure out what type of credit cards the new salon will accept and whether tips can be put on your credit card.

Finding new customers, getting to know them, and figuring out what they really want is also a difficult process, one that's fraught with trial and error. That's why it's so important to get to know, form close relationships, and focus selling efforts on current customers.<sup>[6]</sup>

In 2009, Backroads, a California company focused on adventure-based travel increased its revenues by creating a personalized marketing campaign for people who had done business with them in the past. Backroads looked at customers' past purchases, the seasons in which they took their trips, the levels of activity associated with them, and whether or not the customers tended to vacation with children. Based on their findings, Backroads created three relevant trip suggestions for each customer and sent postcards and e-mails with links to customized Web pages reminding each customer of the trips he/she had previously booked with Backroads and suggesting new ones. "In terms of past customers, it was like off-the-charts better [than past campaigns]," says Massimo Prioreschi, the vice president of Backroads' sales and marketing group.<sup>[7]</sup>

In addition to studying their buying patterns, firms also try to get a better understanding of their customers by surveying them or hiring marketing research firms to do so or by utilizing loyalty programs. (A good source for finding marketing research companies is <http://www.greenbook.org>.) For example, if you sign up to become a frequent flier with a certain airline, the airline will likely ask you a number of questions about your likes and dislikes. This information will then be entered into a customer relationship management (CRM) system, and you might be e-mailed special deals based on the routes you tend to fly. British Airways goes so far as to track the magazines its most elite fliers like to read so the publications are available to them on its planes.

Twitter is another way companies are keeping in touch with their customers and boosting their revenues. When the homemaking maven Martha Stewart schedules a book signing, she tweets her followers, and voilà, many of them show up at the bookstore she's appearing at to buy copies. Finding ways to interact with customers that they enjoy—whether it's meeting or "tweeting" them, or putting on events and tradeshow they want to attend—is the key to forming relationships with them.

Many firms, even small ones, are using Facebook to develop closer relationships with their customers. Hansen Cakes, a Beverly Hills (California) bakery, has about two thousand customers who visit its Facebook page. During her downtime at the bakery, employee Suzi Finer posts "cakes updates" and photos of the goodies she's working on to the site. Along with information about the cakes, Finer extends special offers to customers and mixes in any gossip about Hollywood celebrities she's spotted in the area. After Hansen Cakes launched its Facebook page, the bakery's sales shot up 15–20 percent. "And that's during the recession," notes Finer, who is obviously proud of the results she's gotten.<sup>[8]</sup>

Regardless of how well companies know their customers, it's important to remember that some customers are highly profitable, others aren't, and others actually end up costing your firm money to serve. Consequently, you will want to interact with some customers more than others. Believe it or not, some firms deliberately "untarget" unprofitable customers. Best Buy got a lot of attention (not all of it good) when it was discovered they had categorized its buyers into "personas," or types of buyers, and created customized sales approaches for each. For example, an upper-middle-class woman was referred to as a "Jill." A young urban man was referred to as a "Buzz." Pesky, bargain-hunting customers that Best Buy couldn't make much of a profit from were referred to as "devils" and taken off the company's mailing lists.<sup>[9]</sup>

**FIGURE 5.2**

The Healthy Choice line of frozen dinners was launched by a heart attack victim.



The knife cuts both ways, though. Not all firms are equal in the minds of consumers, who will choose to do business with some companies rather than others. To consumers, market segmentation means: meet *my* needs—give me what *I* want.<sup>[10]</sup>

Steps companies take to target their best customers, form close, personal relationships with them, and give them what they want—a process called **one-to-one marketing**—are outlined in “Steps in One-to-One Marketing.” In terms of our shotgun versus rifle approach, you can think of one-to-one marketing as a rifle approach, but with an added advantage: now you have a scope on your rifle.

One-to-one marketing is an idea proposed by Don Peppers and Martha Rogers in their 1994 book *The One to One Future*. The book described what life would be like after mass marketing. We would all be able to get exactly what we want from sellers, and our relationships with them would be collaborative, rather than adversarial. Are we there yet? Not quite, but it does seem to be the direction the trend toward highly targeted marketing is leading.

### FIGURE 5.3

Are you a “high maintenance” customer? Always trying to “work a deal”? Then don’t call Best Buy. They’ll call you.



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#### one-to-one marketing

Forming close, personal relationships with customers and giving them exactly what they want.

### Steps in One-to-One Marketing

1. **Establish short-term measures to evaluate your efforts.** Determine how you will measure your effort. Will you use higher customer satisfaction ratings, increased revenues earned per customer, number of products sold to customers, transaction costs, or another measure?
2. **Identify your customers.** Gather all the information you can about your current customers, including their buying patterns, likes, and dislikes. When conducting business with them, include an “opt in” question that allows you to legally gather and use their phone numbers and e-mail addresses so you can remain in contact with them.
3. **Differentiate among your customers.** Determine who your best customers are in terms of what they spend and will spend in the future (their customer lifetime value), and how easy or difficult they are to serve. Identify and target customers that spend only small amounts with you but large amounts with your competitors.
4. **Interact with your customers, targeting your best ones.** Find ways and media in which to talk to customers about topics they’re interested in and enjoy. Spend the bulk of your resources interacting with your best (high-value) customers. Minimize the time and money you spend on low-value customers with low growth potential.
5. **Customize your products and marketing messages to meet their needs.** Try to customize your marketing messages and products in order to give your customers exactly what they want—whether it’s the product itself, its packaging, delivery, or the services associated with it.<sup>[11]</sup>



#### Audio Clip

##### Interview with Apurva Ghelani

Listen to Apurva Ghelani, a senior sales engineer, from the marketing company Air2Web, discuss how companies like NASCAR get permission from consumers to send them advertisements via their wireless devices.

### KEY TAKEAWAY

Choosing select groups of people to sell to is called target marketing, or *differentiated marketing*. Mass marketing, or *undifferentiated marketing*, involves selling the same product to everyone. The trend today is toward more precise, targeted marketing. Finding and attracting new customers is generally far more difficult than retaining one’s current customers, which is why organizations try to interact with and form relationships with their current customers. The goal of firms is to do as much business with their best customers as possible. Forming close, personal relationships with customers and giving them exactly what they want is a process called one-to-one marketing. It is the opposite of mass marketing.

### REVIEW QUESTIONS

1. Using the shotgun and rifle analogy, how do mass marketing, targeted marketing, and one-to-one marketing compare with one another?
2. How is technology making it easier for firms to target potential customers?
3. Outline the steps companies need to take to engage in one-to-one marketing with their customers.

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## 2. HOW MARKETS ARE SEGMENTED

### LEARNING OBJECTIVES

1. Understand and outline the ways in which markets are segmented.
2. Explain why marketers use some segmentation bases versus others.

Sellers can choose to pursue consumer markets, business-to-business (B2B) markets, or both. Consequently, one obvious way to begin the segmentation process is to segment markets into these two types of groups.

Different factors influence consumers to buy certain things. Many of the same factors can also be used to segment customers. A firm will often use multiple **segmentation bases**, or criteria to classify buyers, to get a fuller picture of its customers and create real value for them. Each variable adds a layer of information. Think of it as being similar to the way in which your professor builds up information on a PowerPoint slide to the point at which you are able to understand the material being presented.

There are all kinds of characteristics you can use to slice and dice a market. “Big-and-tall” stores cater to the segment of population that’s larger sized. What about people with wide or narrow feet, or people with medical conditions, or certain hobbies? Next, we look primarily at the ways in which consumer markets can be segmented. Later in the chapter, we’ll look at the ways in which B2B markets can be segmented.

#### segmentation bases

Criteria used to classify and divide buyers into different groups.

### 2.1 Types of Segmentation Bases

Table 5.1 shows some of the different types of buyer characteristics used to segment markets. Notice that the characteristics fall into one of four segmentation categories: *behavioral*, *demographic*, *geographic*, or *psychographic*. We’ll discuss each of these categories in a moment. For now, you can get a rough idea of what the categories consist of by looking at them in terms of how marketing professionals might answer the following questions:

- **Behavioral segmentation.** What benefits do customers want, and how do they use our product?
- **Demographic segmentation.** How do the ages, races, and ethnic backgrounds of our customers affect what they buy?
- **Geographic segmentation.** Where are our customers located, and how can we reach them? What products do they buy based on their locations?
- **Psychographic segmentation.** What do our customers think about and value? How do they live their lives?

**TABLE 5.1 Common Ways of Segmenting Buyers**

By Behavior	By Demographics	By Geography	By Psychographics
<ul style="list-style-type: none"> <li>■ Benefits sought from the product</li> <li>■ How often the product is used (usage rate)</li> <li>■ Usage situation (daily use, holiday use, etc.)</li> <li>■ Buyer's status and loyalty to product (nonuser, potential user, first-time users, regular user)</li> </ul>	<ul style="list-style-type: none"> <li>■ Age/generation</li> <li>■ Income</li> <li>■ Gender</li> <li>■ Family life cycle</li> <li>■ Ethnicity</li> <li>■ Family size</li> <li>■ Occupation</li> <li>■ Education</li> <li>■ Nationality</li> <li>■ Religion</li> <li>■ Social class</li> </ul>	<ul style="list-style-type: none"> <li>■ Region (continent, country, state, neighborhood)</li> <li>■ Size of city or town</li> <li>■ Population density</li> <li>■ Climate</li> </ul>	<ul style="list-style-type: none"> <li>■ Activities</li> <li>■ Interests</li> <li>■ Opinions</li> <li>■ Values</li> <li>■ Attitudes</li> <li>■ Lifestyles</li> </ul>

## 2.2 Segmenting by Behavior

### behavioral segmentation

Dividing people and organization into groups according to how they behave with or act toward products.

**Behavioral segmentation** divides people and organization into groups according to how they behave with or act toward products. *Benefits segmentation*—segmenting buyers by the benefits they want from products—is very common. Take toothpaste, for example. Which benefit is most important to you when you buy a toothpaste: The toothpaste's price, ability to whiten your teeth, fight tooth decay, freshen your breath, or something else? Perhaps it's a combination of two or more benefits. If marketing professionals know what those benefits are, they can then tailor different toothpaste offerings to you (and other people like you). For example, Colgate 2-in-1 Toothpaste & Mouthwash, Whitening Icy Blast is aimed at people who want the benefits of both fresher breath and whiter teeth.



### Video Clip

#### A Vintage Colgate Commercial from the 1950s

Watch the YouTube video to see a vintage Colgate toothpaste ad that describes the product's various benefits to consumers. (Onscreen kissing was evidently too racy for the times.)



View the video online at: <http://www.youtube.com/v/9QrFa3tDwwY>

Another way in which businesses segment buyers is by their usage rates—that is, how often, if ever, they use certain products. Harrah's, an entertainment and gaming company, gathers information about the people who gamble at its casinos. High rollers, or people who spend a lot of money, are considered "VIPs." VIPs get special treatment, including a personal "host" who looks after their needs during their casino visits. Companies are interested in frequent users because they want to reach other people like them. They are also keenly interested in nonusers and how they can be persuaded to use products.

The way in which people use products is also be a basis for segmentation. Avon Skin So Soft was originally a beauty product, but after Avon discovered that some people were using it as a mosquito repellent, the company began marketing it for that purpose. Eventually, Avon created a separate product called Skin So Soft Bug Guard, which competes with repellents like Off! Similarly, Glad, the company

that makes plastic wrap and bags, found out customers were using its Press'n Seal wrap in ways the company could never have imagined. The personnel in Glad's marketing department subsequently launched a Web site called 1000uses.com that contains both the company's and consumers' use tips. Some of the ways in which people use the product are pretty unusual, as evidenced by the following comment posted on the site: "I have a hedgehog who likes to run on his wheel a lot. After quite a while of cleaning a gross wheel every morning, I got the tip to use 'Press'n Seal wrap' on his wheel, making clean up much easier! My hedgehog can run all he wants, and I don't have to think about the cleanup. Now we're both GLAD!"

Although we doubt Glad will ever go to great lengths to segment the Press 'n Seal market by hedgehog owners, the firm has certainly gathered a lot of good consumer insight about the product and publicity from its 1000uses.com Web site. (Incidentally, one rainy day, the author of this chapter made "rain boots" out of Press 'n Seal for her dog. But when she later tried to tear them off of the dog's paws, he bit her. She is now thinking of trading him in for a hedgehog.)

### 2.3 Segmenting by Demographics

Segmenting buyers by personal characteristics such as age, income, ethnicity and nationality, education, occupation, religion, social class, and family size is called **demographic segmentation**. Demographics are commonly utilized to segment markets because demographic information is publicly available in databases around the world. You can obtain a great deal of demographic information on the U.S. Census Bureau's Web site (<http://www.census.gov>). Other government Web sites you can tap include FedStats (<http://www.fedstats.gov>) and *The World Factbook* (<http://www.cia.gov/cia/publications/factbook>), which contains statistics about countries around the world. In addition to current statistics, the sites contain forecasts of demographic trends, such as whether some segments of the population are expected to grow or decline.

#### Age

At this point in your life, you are probably more likely to buy a car than a funeral plot. Marketing professionals know this. That's why they try to segment consumers by their ages. You're probably familiar with some of the age groups most commonly segmented (see Table 5.2) in the United States. Into which category do you fall?

**FIGURE 5.4**

Encouraging consumers to use your products for multiple purposes is a smart marketing strategy.



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#### **demographic segmentation**

Segmenting buyers by personal characteristics such as their ages, incomes, ethnicity, and family sizes.

**TABLE 5.2 U.S. Generations and Characteristics**

Generation	Also Known As	Birth Years	Characteristics
Seniors	"The Silent Generation," "Matures," "Veterans," and "Traditionalists"	1945 and prior	<ul style="list-style-type: none"> <li>■ Experienced very limited credit growing up</li> <li>■ Tend to live within their means</li> <li>■ Spend more on health care than any other age group</li> <li>■ Internet usage rates increasing faster than any other group</li> </ul>
Baby Boomers		1946–1964	<ul style="list-style-type: none"> <li>■ Second-largest generation in the United States</li> <li>■ Grew up in prosperous times before the widespread use of credit</li> <li>■ Account for 50 percent of U.S. consumer spending</li> <li>■ Willing to use new technologies as they see fit</li> </ul>
Generation X		1965–1979	<ul style="list-style-type: none"> <li>■ Comfortable but cautious about borrowing</li> <li>■ Buying habits characterized by their life stages</li> <li>■ Embrace technology and multitasking</li> </ul>
Generation Y	"Millennials," "Echo Boomers," includes "Tweens" (preteens)	1980–2000	<ul style="list-style-type: none"> <li>■ Largest U.S. generation</li> <li>■ Grew up with credit cards</li> <li>■ Adept at multitasking; technology use is innate</li> <li>■ Ignore irrelevant media</li> </ul>
<b>Note: Not all demographers agree on the cutoff dates between the generations.</b>			

**retro brands**

Old brands or products companies "bring back" for a period of time.

Today's college-age students (Generation Y) compose the largest generation. The baby boomer generation is the second largest, and over the course of the last thirty years or so, has been a very attractive market for sellers. **Retro brands**—old brands or products that companies "bring back" for a period of time—were aimed at baby boomers during the recent economic downturn. Pepsi Throwback and Mountain Dew Throwback, which are made with cane sugar—like they were "back in the good old days"—instead of corn syrup, are examples.<sup>[12]</sup> Marketing professionals believe they appealed to baby boomers because they reminded them of better times—times when they didn't have to worry about being laid off, about losing their homes, or about their retirement funds and pensions drying up.

Baby boomers are aging and the size of the group will eventually decline. By contrast, the members of Generation Y have a lifetime of buying still ahead of them, which translates to a lot of potential customer lifetime value (CLV), the amount a customer will spend on a particular brand over his/her lifetime, for marketers if they can capture this group of buyers. However, a recent survey found that the latest recession had forced teens to change their spending habits and college plans and that roughly half of older Generation Yers reported they had no savings.<sup>[13]</sup>

So which group or groups should your firm target? Although it's hard to be all things to all people, many companies try to broaden their customer bases by appealing to multiple generations so they don't lose market share when demographics change. Several companies have introduced lower-cost brands targeting Generation Xers, who have less spending power than boomers. For example, kitchenware and home-furnishings company Williams-Sonoma opened the Elm Street chain, a less-pricey version of the Pottery Barn franchise. The Starwood hotel chain's W hotels, which feature contemporary designs and hip bars, are aimed at Generation Xers.<sup>[14]</sup>

The video game market is very proud of the fact that along with Generation X and Generation Y, many older Americans still play video games. (You probably know some baby boomers who own a Nintendo Wii.) Products and services in the spa market used to be aimed squarely at adults, but not anymore. Parents are now paying for their tweens to get facials, pedicures, and other pampering in numbers no one in years past could have imagined.



### Video Clip

#### Evian Water: Roll, Baby, Roll!

Watch the YouTube video to see a fun generational type of advertisement. No, the ad isn't designed to appeal to babies. It's aimed at us adults!



View the video online at: [http://www.youtube.com/v/\\_PHnRln74Ag](http://www.youtube.com/v/_PHnRln74Ag)

As early as the 1970s, U.S. automakers found themselves in trouble because of changing demographic trends. Many of the companies' buyers were older Americans inclined to "buy American." These people hadn't forgotten that Japan bombed Pearl Harbor during World War II and weren't about to buy Japanese vehicles, but younger Americans were. Plus, Japanese cars had developed a better reputation. Despite the challenges U.S. automakers face today, they have taken great pains to cater to the "younger" generation—today's baby boomers who don't think of themselves as being old. If you are a car buff, you perhaps have noticed that the once-stodgy Cadillac now has a sportier look and stiffer suspension. Likewise, the Chrysler 300 looks more like a muscle car than the old Chrysler Fifth Avenue your great-grandpa might have driven.

Automakers have begun reaching out to Generations X and Y, too. General Motors (GM) has sought to revamp the century-old company by hiring a new younger group of managers—managers who understand how Generation X and Y consumers are wired and what they want. "If you're going to appeal to my daughter, you're going to have to be in the digital world," explained one GM vice president.<sup>[15]</sup>

Companies have to develop new products designed to appeal to Generations X and Y and also find new ways to reach them. People in these generations not only tend to ignore traditional advertising but also are downright annoyed by it. To market to Scion drivers, who are generally younger, Toyota created Scion Speak, a social networking site where they can communicate, socialize, and view cool new models of the car. Online events such as the fashion shows broadcast over the Web are also getting the attention of younger consumers, as are text, e-mail, and Twitter messages they can sign up to receive so as to get coupons, cash, and free merchandise. Advergaming is likewise being used to appeal to the two demographic groups. **Advergaming** is an electronic game sellers create to promote a product or service. Would you like to play one now? Click on the following link to see a fun one created by Burger King to advertise its Tender Crisp Chicken.

#### advergaming

Electronic games sellers create to promote a product or service.

#### Burger King Advergame

<http://web.archive.org/web/20110426194400/http://www.bk.com/en/us/campaigns/subservient-chicken.html>

You can boss the "subservient chicken" around in this advergame. He will do anything you want—well, *almost* anything.

### Income

Tweens might appear to be a very attractive market when you consider they will be buying products for years to come. But would you change your mind if you knew that baby boomers account for 50 percent of all consumer spending in the United States? Americans *over* sixty-five now control nearly three-quarters of the net worth of U.S. households; this group spends \$200 billion a year on major "discretionary" (optional) purchases such as luxury cars, alcohol, vacations, and financial products.<sup>[16]</sup>

Income is used as a segmentation variable because it indicates a group's buying power and may partially reflect their education levels, occupation, and social classes. Higher education levels usually result in higher paying jobs and greater social status. The makers of upscale products such as Rolexes and Lamborghinis aim their products at high-income groups. However, a growing number of firms today are aiming their products at lower-income consumers. The fastest-growing product in the financial services sector is prepaid debit cards, most of which are being bought and used by people who don't have bank accounts. Firms are finding that this group is a large, untapped pool of customers who tend to be more brand loyal than most. If you capture enough of them, you can earn a profit.<sup>[17]</sup> Based on the targeted market, businesses can determine the location and type of stores where they want to sell their products.

Sometimes income isn't always indicative of who will buy your product. Companies are aware that many consumers want to be in higher income groups and behave like they are already part of them. Mercedes Benz's cheaper line of "C" class vehicles is designed to appeal to these consumers.

### FIGURE 5.5

Automobile companies may segment markets based on income, age, social class, and gender.



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### Gender

Gender is another way to segment consumers. Men and women have different needs and also shop differently. Consequently, the two groups are often, but not always, segmented and targeted differently. Marketing professionals don't stop there, though. For example, because women make many of the purchases for their households, market researchers sometimes try to further divide them into subsegments. (Men are also often subsegmented.) For women, those segments might include *stay-at-home* housewives, *plan-to-work* housewives, *just-a-job* working women, and *career-oriented* working women. Research has found that women who are solely homemakers tend to spend more money, perhaps because they have more time.

In addition to segmenting by gender, market researchers might couple gender with marital status and other demographic characteristics. For example, did you know that more women in America than ever before (51 percent) now live without spouses? Can you think of any marketing opportunities this might present?<sup>[18]</sup>

### FIGURE 5.6

Considering the rising number of U.S. women who live without spouses, entrepreneurs have launched handyman services in many markets.



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### Family Life Cycle

**Family life cycle** refers to the stages families go through over time and how it affects people's buying behavior. For example, if you have no children, your demand for pediatric services (medical care for children) is likely to be slim to none, but if you have children, your demand might be very high because children frequently get sick. You may be part of the target market not only for pediatric services but also for a host of other products, such as diapers, daycare, children's clothing, entertainment services, and educational products. A secondary segment of interested consumers might be grandparents who are likely to spend less on day-to-day childcare items but more on special-occasion gifts for children. Many markets are segmented based on the special events in people's lives. Think about brides (and want-to-be brides) and all the products targeted at them, including Web sites and television shows such as *Say Yes to the Dress*, *My Fair Wedding*, *Platinum Weddings*, and *Bridezillas*.

#### family life cycle

The stages families go through over time and how it affects people's buying behavior.

Resorts also segment vacationers depending on where they are in their family life cycles. When you think of family vacations, you probably think of Disney resorts. Some vacation properties, such as Sandals, exclude children from some of their resorts. Perhaps they do so because some studies show that the market segment with greatest financial potential is married couples without children.<sup>[19]</sup>

Keep in mind that although you might be able to isolate a segment in the marketplace, including one based on family life cycle, you can't make assumptions about what the people in it will want. Just like people's demographics change, so do their tastes. For example, over the past few decades U.S. families have been getting smaller. Households with a single occupant are more commonplace than ever, but until recently, that hasn't stopped people from demanding bigger cars (and more of them) as well as larger houses, or what some people jokingly refer to as "McMansions."

The trends toward larger cars and larger houses appear to be reversing. High energy costs, the credit crunch, and concern for the environment are leading people to demand smaller houses. To attract people such as these, D. R. Horton, the nation's leading homebuilder, and other construction firms are now building smaller homes.

**FIGURE 5.7**

Many markets are segmented based on people's family life cycle needs.



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## Ethnicity

People's ethnic backgrounds have a big impact on what they buy. If you've visited a grocery store that caters to a different ethnic group than your own, you were probably surprised to see the types of products sold there. It's no secret that the United States is becoming—and will continue to become—more diverse. Hispanic Americans are the largest and the fastest-growing minority in the United States. Companies are going to great lengths to court this once overlooked group. In California, the health care provider Kaiser Permanente runs television ads letting members of this segment know that they can request Spanish-speaking physicians and that Spanish-speaking nurses, telephone operators, and translators are available at all of its clinics.<sup>[20]</sup>

African Americans are the second-largest ethnic group in America. Collectively, they have the most buying power of any ethnic group in America. Many people of Asian descent are known to be early adapters of new technology and have above-average incomes. As a result, companies that sell electronic products, such as AT&T, spend more money segmenting and targeting the Asian community.<sup>[21]</sup> Table 5.3 contains information about the number of people in these groups and their buying power.

**TABLE 5.3 Major U.S. Ethnic Segments and Their Spending**

Group	Percentage of U.S. Population	Annual Spending Power (Billions of Dollars)
Hispanics	13.7	736
African Americans	13.0	761
Asians	5.0	397

Source: *New American Dimensions, LLC.*

As you can guess, even within various ethnic groups there are many differences in terms of the goods and services buyers choose. Consequently, painting each group with a broad brush would leave you with an incomplete picture of your buyers. For example, although the common ancestral language among the Hispanic segment is Spanish, Hispanics trace their lineages to different countries. Nearly 70 percent of Hispanics in the United States trace their lineage to Mexico; others trace theirs to Central America, South America, and the Caribbean.

All Asians share the same race. Chinese, Japanese, and Korean immigrants do not share the same language.<sup>[22]</sup> Moreover, both the Asian and Hispanic market segments include new immigrants, people who immigrated to the United States years ago, and native-born Americans. So what language will you use to communicate your offerings to these people, and where?

Subsegmenting the markets could potentially help you. New American Dimension, a multicultural research firm, has further divided the Hispanic market into the following subsegments:

- **Just moved in's.** Recent arrivals, Spanish dependent, struggling but optimistic.
- **FOBRs (fashionistas on a budget).** Spanish dominant, traditional, but striving for trendy.
- **Accidental explorers.** Spanish preferred, not in a rush to embrace U.S. culture.
- **The enlightened.** Bilingual, technology savvy, driven, educated, modern.
- **Doubting Tomásés.** Bilingual, independent, skeptical, inactive, shopping uninvolved.
- **Latin flavored.** English preferred, reconnecting with Hispanic traditions.
- **SYLrs (single, young latinos).** English dominant, free thinkers, multicultural.

You could go so far as to break down segments to the individual level, which is the goal behind one-to-one marketing. However, doing so would be dreadfully expensive, notes Juan Guillermo Tornoe, a marketing expert who specializes in Hispanic marketing issues. After all, are you really going to develop different products and different marketing campaigns and communications for each group? Probably not, but “you need to perform your due diligence and understand where the majority of the people you are trying to reach land on this matrix, modifying your message according to this insight,” Tornoe explains.<sup>[23]</sup>

## 2.4 Segmenting by Geography

Suppose your great new product or service idea involves opening a local store. Before you open the store, you will probably want to do some research to determine which geographical areas have the best potential. For instance, if your business is a high-end restaurant, should it be located near the local college or country club? If you sell ski equipment, you probably will want to locate your shop somewhere in the vicinity of a mountain range where there is skiing. You might see a snowboard shop in the same area but probably not a surfboard shop. By contrast, a surfboard shop is likely to be located along the coast, but you probably would not find a snowboard shop on the beach.

**Geographic segmentation** divides the market into areas based on location and explains why the checkout clerks at stores sometimes ask for your zip code. It’s also why businesses print codes on coupons that correspond to zip codes. When the coupons are redeemed, the store can find out where its customers are located—or not located. **Geocoding** is a process that takes data such as this and plots it on a map. Geocoding can help businesses see where prospective customers might be clustered and target them with various ad campaigns, including direct mail. One of the most popular geocoding software programs is PRIZM NE, which is produced by a company called Claritas. PRIZM NE uses zip codes and demographic information to classify the American population into segments. The idea behind PRIZM is that “you are where you live.” Combining both demographic and geographic information is referred to as **geodemographics** or neighborhood geography. The idea is that housing areas in different zip codes typically attract certain types of buyers with certain income levels. To see how geodemographics works, visit the following page on Claritas’ Web site: <http://www.claritas.com/MyBestSegments/Default.jsp?ID=20>.

Type in your zip code, and you will see **customer profiles** of the types of buyers who live in your area. Table 5.4 shows the profiles of buyers who can be found the zip code 76137—the “Brite Lites, Li'l City” bunch, and “Home Sweet Home” set. Click on the profiles on the Claritas site to see which one most resembles you.

TABLE 5.4 An Example of Geodemographic Segmentation for 76137 (Fort Worth, TX)

Number	Profile Name
12	Brite Lites, Li'l City
19	Home Sweet Home
24	Up-and-Comers
13	Upward Bound
34	White Picket Fences

The tourism bureau for the state of Michigan was able to identify and target different customer profiles using PRIZM. Michigan’s biggest travel segment are Chicagoans in certain zip codes consisting of upper-middle-class households with children—or the “kids in cul-de-sacs” group, as Claritas puts it. The bureau was also able to identify segments significantly different from the Chicago segment, including blue-collar adults in the Cleveland area who vacation without their children. The organization then created significantly different marketing campaigns to appeal to each group.

City size and **population density** (the number of people per square mile) are also used for segmentation purposes. Have you ever noticed that in rural towns, McDonald’s restaurants are hard to find, but Dairy Queens (DQ) are usually easy to locate? McDonald’s generally won’t put a store in a town of fewer than five thousand people. However, this is prime turf for the “DQ”—because it doesn’t have to compete with bigger franchises like McDonald’s.

**geographic segmentation**

Segmenting buyers by where they are located.

**geocoding**

The process of plotting geographic marketing information takes on a map.

**geodemographics (neighborhood geography)**

Combining both demographic and geographic information for marketing purposes.

**customer profile**

The description of a type of customer based on market segmentation criteria.

**population density**

The number of people per square mile.

**Proximity marketing** is an interesting new technology firms are using to segment and target buyers geographically within a few hundred feet of their businesses using wireless technology. In some areas, you can switch your mobile phone to a “discoverable mode” while you’re shopping and, if you want, get ads and deals from stores as you pass by them, which is often less expensive than hiring people to hand you a flier as you walk by.<sup>[24]</sup>



### Audio Clip

#### Interview with Apurva Ghelani

To learn about how proximity marketing works at a real company, listen to Apurva Ghelani in this audio clip. Ghelani is a senior sales engineer for Air2Web, a company that helps businesses promote their brands and conduct transactions with people via their mobile phones.

In addition to figuring out where to locate stores and advertise to customers in that area, geographic segmentation helps firms tailor their products. Chances are you won’t be able to find the same heavy winter coat you see at a Walmart in Montana at a Walmart in Florida because of the climate differences between the two places. Market researchers also look at migration patterns to evaluate opportunities. TexMex restaurants are more commonly found in the southwestern United States. However, northern states are now seeing more of them as more people of Hispanic descent move northward.

## 2.5 Segmenting by Psychographics

If your offering fulfills the needs of a specific demographic group, then the demographic can be an important basis for identifying groups of consumers interested in your product. What if your product crosses several market segments? For example, the group of potential consumers for cereal could be “almost” everyone although groups of people may have different needs with regard to their cereal. Some consumers might be interested in the fiber, some consumers (especially children) may be interested in the prize that comes in the box, other consumers may be interested in the added vitamins, and still other consumers may be interested in the type of grains. Associating these specific needs with consumers in a particular demographic group could be difficult. Marketing professionals want to know *why* consumers behave the way they do, what is of high priority to them, or how they rank the importance of specific buying criteria. Think about some of your friends who seem a lot like you. Have you ever gone to their homes and been shocked by their lifestyles and how vastly different they are from yours? Why are their families so much different from yours?

**Psychographic segmentation** can help fill in some of the blanks. Psychographic information is frequently gathered via extensive surveys that ask people about their activities, interests, opinion, attitudes, values, and lifestyles. One of the most well-known psychographic surveys is VALS (which originally stood for “Values, Attitudes, and Lifestyles”) and was developed by a company called SRI International in the late 1980s. SRI asked thousands of Americans the extent to which they agreed or disagreed with questions similar to the following: “My idea of fun at a national park would be to stay at an expensive lodge and dress up for dinner” and “I could stand to skin a dead animal.”<sup>[25]</sup> Based on their responses to different questions, consumers were divided up into the following categories, each characterized by certain buying behaviors.

- **Innovators.** Innovators are successful, sophisticated, take-charge people with high self-esteem. Because they have such abundant resources, they exhibit all three primary motivations in varying degrees. They are change leaders and are the most receptive to new ideas and technologies. Innovators are very active consumers, and their purchases reflect cultivated tastes for upscale, niche products and services. Image is important to Innovators, not as evidence of status or power but as an expression of their taste, independence, and personality. Innovators are among the established and emerging leaders in business and government, yet they continue to seek challenges. Their lives are characterized by variety. Their possessions and recreation reflect a cultivated taste for the finer things in life.
- **Thinkers.** Thinkers are motivated by ideals. They are mature, satisfied, comfortable, and reflective people who value order, knowledge, and responsibility. They tend to be well educated and actively seek out information in the decision-making process. They are well informed about world and national events and are alert to opportunities to broaden their knowledge. Thinkers have a moderate respect for the status quo institutions of authority and social decorum but are open to consider new ideas. Although their incomes allow them many choices, Thinkers are conservative, practical consumers; they look for durability, functionality, and value in the products they buy.

**FIGURE 5.8**

Virgin Mobile is helping stores capitalize on proximity marketing by sending text messages to Virgin Mobile users when they opt to receive them. Billboards outside stores tell Virgin Mobile users to “switch your Bluetooth on to get free stuff here!” (Who wouldn’t want free stuff?)



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### proximity marketing

The process of segmenting buyers geographically and targeting them within a few hundred feet of a business businesses using wireless technology.

### psychographic segmentation

Segmenting people by their activities, interests, opinion, attitudes, values, and lifestyles.

- **Achievers.** Motivated by the desire for achievement, Achievers have goal-oriented lifestyles and a deep commitment to career and family. Their social lives reflect this focus and are structured around family, their place of worship, and work. Achievers live conventional lives, are politically conservative, and respect authority and the status quo. They value consensus, predictability, and stability over risk, intimacy, and self-discovery. With many wants and needs, Achievers are active in the consumer marketplace. Image is important to Achievers; they favor established, prestige products and services that demonstrate success to their peers. Because of their busy lives, they are often interested in a variety of timesaving devices.
- **Experiencers.** Experiencers are motivated by self-expression. As young, enthusiastic, and impulsive consumers, Experiencers quickly become enthusiastic about new possibilities but are equally quick to cool. They seek variety and excitement, savoring the new, the offbeat, and the risky. Their energy finds an outlet in exercise, sports, outdoor recreation, and social activities. Experiencers are avid consumers and spend a comparatively high proportion of their income on fashion, entertainment, and socializing. Their purchases reflect the emphasis they place on looking good and having “cool” stuff.
- **Believers.** Like Thinkers, Believers are motivated by ideals. They are conservative, conventional people with concrete beliefs based on traditional, established codes: family, religion, community, and the nation. Many Believers express moral codes that are deeply rooted and literally interpreted. They follow established routines, organized in large part around home, family, community, and social or religious organizations to which they belong. As consumers, Believers are predictable; they choose familiar products and established brands. They favor American products and are generally loyal customers.
- **Strivers.** Strivers are trendy and fun loving. Because they are motivated by achievement, Strivers are concerned about the opinions and approval of others. Money defines success for Strivers, who don’t have enough of it to meet their desires. They favor stylish products that emulate the purchases of people with greater material wealth. Many see themselves as having a job rather than a career, and a lack of skills and focus often prevents them from moving ahead. Strivers are active consumers because shopping is both a social activity and an opportunity to demonstrate to peers their ability to buy. As consumers, they are as impulsive as their financial circumstance will allow.
- **Makers.** Like Experiencers, Makers are motivated by self-expression. They express themselves and experience the world by working on it—building a house, raising children, fixing a car, or canning vegetables—and have enough skill and energy to carry out their projects successfully. Makers are practical people who have constructive skills and value self-sufficiency. They live within a traditional context of family, practical work, and physical recreation and have little interest in what lies outside that context. Makers are suspicious of new ideas and large institutions such as big business. They are respectful of government authority and organized labor but resentful of government intrusion on individual rights. They are unimpressed by material possessions other than those with a practical or functional purpose. Because they prefer value to luxury, they buy basic products.
- **Survivors.** Survivors live narrowly focused lives. With few resources with which to cope, they often believe that the world is changing too quickly. They are comfortable with the familiar and are primarily concerned with safety and security. Because they must focus on meeting needs rather than fulfilling desires, Survivors do not show a strong primary motivation. Survivors are cautious consumers. They represent a very modest market for most products and services. They are loyal to favorite brands, especially if they can purchase them at a discount.<sup>[26]</sup>

To find out which category you’re in, take a VALS survey at <http://www.sric-bi.com/vals/surveynew.shtml>. VALS surveys have been adapted and used to study buying behavior in other countries, too. Note that both VALS and PRIZM group buyers are based on their values and lifestyles, but PRIZM also overlays the information with geographic data. As a result, you can gauge what the buying habits of people in certain zip codes are, which can be helpful if you are trying to figure out where to locate stores and retail outlets.

#### consumer insight

An understanding of consumers that results when both quantitative and qualitative information are gathered about them.

The segmenting techniques we’ve discussed so far in this section require gathering quantitative information and data. Quantitative information can be improved with *qualitative* information you gather by talking to your customers and getting to know them. (Recall that this is how Healthy Choice frozen dinners were created.) **Consumer insight** is what results when you use both types of information. You want to be able to answer the following questions:

- Am I looking at the consumers the way they see themselves?
- Am I looking at life from their point of view?

Best Buy asked store employees to develop insight about local consumer groups in order to create special programs and processes for them. Employees in one locale invited a group of retirees to their store to explain how to make the switch to digital television. The store sold \$350,000 worth of equipment

and televisions in just two hours' time. How much did it cost? The total cost included ninety-nine dollars in labor costs plus coffee and donuts.

Intuit, the company that makes the tax software Quicken, has a “follow me home” program. Teams of engineers from Intuit visit people's homes and spend a couple of hours watching consumers use Quicken. Then they use the insights they gain to improve the next version of Quicken. Contrast this story with that of a competing firm. When a representative of the firm was asked if he had ever observed consumers installing or using his company's product, he responded, “I'm not sure I'd want to be around when they were trying to use it.”<sup>[27]</sup> This company is now struggling to stay in business.

To read about some of the extreme techniques Nokia uses to understand cell phone consumers around the world, click on the following link: <http://www.nytimes.com/2008/04/13/magazine/13anthropology-t.html?pagewanted=all>.

## 2.6 Segmentation in B2B Markets

Many of the same bases used to segment consumer markets are also used to segment B2B markets. For example, Goya Foods is a U.S. food company that sells different ethnic products to grocery stores, depending on the demographic groups the stores serve—Hispanic, Mexican, or Spanish. Likewise, B2B sellers often divide their customers by geographic areas and tailor their products to them accordingly. Segmenting by behavior is common as well. B2B sellers frequently divide their customers based on their product usage rates. Customers that order many goods and services from a seller often receive special deals and are served by salespeople who call on them in person. By contrast, smaller customers are more likely to have to rely on a firm's Web site, customer service people, and salespeople who call on them by telephone.

Researchers Matthew Harrison, Paul Hague, and Nick Hague have theorized that there are fewer behavioral and needs-based segments in B2B markets than in business-to-consumer (B2C) markets for two reasons: (1) business markets are made up of a few hundred customers whereas consumer markets can be made up of hundreds of thousands of customers, and (2) businesses aren't as fickle as consumers. Unlike consumers, they aren't concerned about their social standing or influenced by their families and peers. Instead, businesses are concerned solely with buying products that will ultimately increase their profits. According to Harrison, Hague, and Hague, the behavioral, or needs-based, segments in B2B markets include the following:

- **A price-focused segment** is composed of small companies that have low profit margins and regard the good or service being sold as not being strategically important to their operations.
- **A quality and brand-focused segment** is composed of firms that want the best possible products and are prepared to pay for them.
- **A service-focused segment** is composed of firms that demand high-quality products and have top-notch delivery and service requirements.
- **A partnership-focused segment** is composed of firms that seek trust and reliability on the part of their suppliers and see them as strategic partners.<sup>[28]</sup>

B2B sellers, like B2C sellers, are exploring new ways to reach their target markets. Trade shows and direct mail campaigns are two traditional ways of reaching B2B markets. Now, however, firms are finding they can target their B2B customers more cost-effectively via e-mail campaigns, search-engine marketing, and “fan pages” on social networking sites like Facebook. Companies are also creating blogs with cutting-edge content about new products and business trends of interest to their customers. For a fraction of the cost of attending a trade show to exhibit their products, B2B sellers are holding Webcasts and conducting online product demonstrations for potential customers.

### KEY TAKEAWAY

Segmentation bases are criteria used to classify buyers. The main types of buyer characteristics used to segment consumer markets are behavioral, demographic, geographic, and psychographic. Behavioral segmentation divides people and organization into groups according to how they behave with or toward products. Segmenting buyers by personal characteristics such as their age, income, ethnicity, family size, and so forth is called demographic segmentation. Geographic segmentation involves segmenting buyers based on where they live. Psychographic segmentation seeks to differentiate buyers based on their activities, interests, opinions, attitudes, values, and lifestyles. Oftentimes a firm uses multiple bases to get a fuller picture of its customers and create value for them. Marketing professionals develop consumer insight when they gather both quantitative and qualitative information about their customers. Many of the same bases used to segment consumer markets are used to segment business-to-business (B2B) markets. However, there are generally fewer behavioral-based segments in B2B markets.

## REVIEW QUESTIONS

1. What buyer characteristics do companies look at when they segment markets?
2. Why do firms often use more than one segmentation base?
3. What two types of information do market researchers gather to develop consumer insight?

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## 3. SELECTING TARGET MARKETS AND TARGET-MARKET STRATEGIES

### LEARNING OBJECTIVES

1. Describe the factors that make some markets more attractive targets than others.
2. Describe the different market-segmenting strategies companies pursue and why.
3. Outline the market-segmentation strategies used in global markets.

### 3.1 Selecting Target Markets

After you segment buyers and develop a measure of consumer insight about them, you can begin to see those that have more potential. Now you are hunting with a rifle instead of a shotgun. The question is, do you want to spend all day hunting squirrels or ten-point bucks? An attractive market has the following characteristics:

- **It is sizeable (large) enough to be profitable given your operating cost.** Only a tiny fraction of the consumers in China can afford to buy cars. However, because the country's population is so large (nearly 1.5 billion people), more cars are sold in China than in Europe (and in the United States, depending on the month). Three billion people in the world own cell phones. But that still leaves three billion who don't.<sup>[29]</sup>
- **It is growing.** The middle class of India is growing rapidly, making it a very attractive market for consumer products companies. People under thirty make up the majority of the Indian population, fueling the demand for "Bollywood" (Indian-made) films.
- **It is not already swamped by competitors, or you have found a way to stand out in a crowd.** IBM used to make PCs. However, after the marketplace became crowded with competitors, IBM sold the product line to a Chinese company called Lenovo.
- **Either it is accessible or you can find a way to reach it.** Accessibility, or the lack of it, could include geographic accessibility, political and legal barriers, technological barriers, or social barriers. For example, to overcome geographic barriers, the consumer products company Unilever hires women in third-world countries to distribute the company's products to rural consumers who lack access to stores.
- **The company has the resources to compete in it.** You might have a great idea to compete in the wind-power market. However, it is a business that is capital intensive. What this means is that you will either need a lot of money or must be able to raise it. You might also have to compete with the likes of T. Boone Pickens, an oil tycoon who is attempting to develop and profit from the wind-power market. Does your organization have the resources to do this?
- **It "fits in" with your firm's mission and objectives.** Consider TerraCycle, which has made its mark by selling organic products in recycled packages. Fertilizer made from worm excrement and sold in discarded plastic beverage bottles is just one of its products. It wouldn't be a good idea for TerraCycle to open up a polluting, coal-fired power plant, no matter how profitable the market for the service might be.



### Video Clip

#### Yogurt, Anyone? I Mean, Any Woman?

Are women an attractive target market for yogurt sellers? The maker of this humorous YouTube video thinks so. (She seems to imply they are the only market.)



View the video online at: <http://www.youtube.com/v/qMRDLCR8vAE>

## 3.2 Target-Market Strategies: Choosing the Number of Markets to Target

Henry Ford proved that mass marketing can work—at least for a while. Mass marketing is also efficient because you don't have to tailor any part of the offering for different groups of consumers, which is more work and costs more money. The problem is that buyers are not all alike. If a competitor comes along and offers these groups a product (or products) that better meet their needs, you will lose business.

## 3.3 Multisegment Marketing

Most firms tailor their offerings in one way or another to meet the needs of different segments of customers. Because these organizations don't have all their eggs in one basket, they are less vulnerable to competition. Marriott International is an example of a company that operates in multiple market segments. The company has different types of facilities designed to meet the needs of different market segments. Marriott has invested in unique brands so consumers don't confuse the brand and the brand is not diluted. Some of the Marriott brands and their target markets are as follows:

- **Marriott Courtyard.** Targeted at over-the-road travelers.
- **Ritz-Carlton Hotels.** Targeted at luxury travelers.
- **Marriott Conference Centers.** Targeted at businesses hosting small- and midsized meetings.
- **Marriott ExecuStay.** Targeted at executives needing month-long accommodations.
- **Marriott Vacation Clubs.** Targeted at travelers seeking to buy timeshares.

A **multisegment marketing** strategy can allow firms to respond to demographic changes and other trends in markets. For example, the growing number of people too old to travel have the option of moving into one of Marriott's "Senior Living Services" facilities, which cater to retirees who need certain types of care. A multisegment strategy can also help companies weather an economic downturn by allowing customers to trade up or down among brands and products. Suppose you take a pay cut and can't afford to stay at Marriott's Ritz-Carlton hotels anymore. A room at a JW Marriott—the most luxurious of the Marriott-brand hotels but cheaper than the Ritz—is available to you. A multisegment strategy can also help companies deal with the product life cycle issues. If one brand or product is "dying out," the company has others to compete.

#### **multisegment marketing**

Targeting multiple groups of consumers.

### 3.4 Concentrated Marketing

**concentrated marketing**

Targeting a very select group of customers.

Some firms—especially smaller ones with limited resources—engage in concentrated marketing. **Concentrated marketing** involves targeting a very select group of customers. Concentrated marketing can be a risky strategy because companies really *do* have all their eggs in one basket. The auto parts industry is an example. Traditionally, many North American auto parts makers have supplied parts exclusively to auto manufacturers. But when General Motors, Ford, Chrysler, and other auto companies experienced a slump in sales following the recession that began in 2008, the auto parts makers found themselves in trouble. Many of them began trying to make and sell parts for wind turbines, aerospace tools, solar panels, and construction equipment.<sup>[30]</sup>

**niche marketing**

Targeting an extremely select group of consumers.

**Niche marketing** involves targeting an even more select group of consumers. When engaging in niche marketing, a company’s goal is to be a big fish in a small pond instead of a small fish in a big pond.<sup>[31]</sup> Some examples of companies operating in niche markets include those shown in Table 5.5.

TABLE 5.5 Companies That Operate in Niche Markets

Company	Niche	Market Share (%)
Hohner	Harmonicas	85
Tetra	Tropical fish food	80
Swarovski	Crystal jewels	65
Uwatec	Snorkeling equipment	60
St. Jude Medical Center	Artificial heart valves	60

Source: José María Manzanedo, “Market Segmentation Strategies. How to Maximize Opportunities on the Potential Market,” February 20, 2005, [http://www.daemonquest.com/en/research\\_and\\_insight/2006/10/11/market\\_segmentation\\_strategies\\_how\\_to\\_maximize\\_opportunities\\_on\\_the\\_potential\\_market](http://www.daemonquest.com/en/research_and_insight/2006/10/11/market_segmentation_strategies_how_to_maximize_opportunities_on_the_potential_market) (accessed December 1, 2009).

**microtargeting**

The process of gathering multiple sources of data available on people, everything from their tax and phone records to the catalogs they receive, so as to market to them.

**Microtargeting**, or narrowcasting, is a new effort to isolate markets and target them. It was originally used to segment voters during elections, including the 2008 U.S. presidential election. Microtargeting involves gathering all kinds of data available on people—everything from their tax and phone records to the catalogs they receive. One company that compiles information such as this is Acxiom. For a fee, Acxiom can provide you with a list of Hispanic consumers who own two pets, have caller ID, drive a sedan, buy certain personal care products, subscribe to certain television cable channels, read specified magazines, and have income and education levels within a given range.<sup>[32]</sup> Clearly, microtargeting has ethical implications and privacy issues.

### 3.5 Targeting Global Markets

Firms that compete in the global marketplace can use any combination of the segmenting strategies or none at all. A microcosm of the targeting strategies used in global markets is shown in Figure 5.9. If you’re a seller of a metal like iron ore, you might sell the same product across the entire world via a metals broker. The broker would worry about communicating with customers around the world and devising different marketing campaigns for each of them.

**FIGURE 5.9 Targeting Strategies Used in Global Markets**

Most companies, however, tailor their offerings to some extent to meet the needs of different buyers around the world. For example, Mattel sells Barbie dolls all around the world—but not the same Barbie. Mattel has created thousands of different Barbie offerings designed to appeal to all kinds of people in different countries.

Pizza Hut has franchises around the world, but its products, packaging, and advertising are tailored to different markets. Squid is a popular topping in Asia. Companies tailor products not only for different countries but also for different customers in different countries. For example, Procter & Gamble's China division now offers products designed for different local market segments in that country. P&G has an advanced formulation of laundry detergent for the premium segment, a modified product for the second (economy) segment, and a very basic, inexpensive product created for the third (rural) segment.<sup>[33]</sup>

Sellers are increasingly targeting consumers in China, Russia, India, and Brazil because of their fast-growing middle classes. Take the cosmetics maker Avon. Avon's largest market is no longer the United States. It is Brazil. Brazilians are extremely looks-conscious and increasingly able to afford cosmetic products as well as plastic surgery.<sup>[34]</sup> So attractive are these countries that firms are changing how they develop goods and services, too. "Historically, American companies innovated in the U.S. and took those products abroad," says Vjay Govindarahan, a professor at Dartmouth's Tuck School of Business. Now, says Govindarahan, companies are creating low-cost products to capture large markets in developing countries and then selling them in developed countries. Acer's \$250 laptop and General Electric's ultrainexpensive \$1,000 electrocardiogram device are examples. The world's cheapest car, the \$2,500 Tata Nano, was developed for India but is slated to be sold in the United States.<sup>[35]</sup>

Other strategies for targeting markets abroad include acquiring (buying) foreign companies or companies with large market shares there. To tap the Indian market, Kraft made a bid to buy the candymaker Cadbury, which controls about one-third of India's chocolate market. Likewise, to compete against Corona beer, the Dutch brewer Heineken recently purchased Mexico's Femsa, which makes the beer brands Dos Equis, Tecate, and Sol.<sup>[36]</sup> However, some countries don't allow foreign firms to buy domestic firms. They can only form partnerships with them. Other regulatory and cultural barriers sometimes prevent foreign firms from "invading" a country. IKEA, the Swedish home-furnishings maker, eventually left Russia because it found it too hard to do business there. By contrast, McDonald's efforts to expand into Russia have been quite successful. Having saturated other markets, the hamburger chain is hoping to continue to grow by opening hundreds of new stores in the country.

## KEY TAKEAWAY

A market worth targeting has the following characteristics: (1) It's sizeable enough to be profitable, given your operating costs; (2) it's growing; (3) it's not already swamped by competitors, or you have found a way to stand out in the crowd; (4) it's accessible, or you can find a way to reach it; (5) you have the resources to compete in it; and (6) it "fits in" with your firm's mission and objectives. Most firms tailor their offerings in one way or another to meet the needs of different segments of customers. A multisegment marketing strategy can allow a company to respond to demographic and other changes in markets, including economic downturns. Concentrated marketing involves targeting a very select group of customers. Niche marketing involves targeting an even more select group of consumers. Microtargeting, or *narrowcasting*, is a new effort to "super target" consumers by gathering all kinds of data available on people—everything from their tax and phone records to the catalogs they receive. Firms that compete in the global marketplace can use any combination of these segmenting strategies or none at all. Sellers are increasingly targeting consumers in China, Russia, India, and Brazil because of their fast-growing middle classes. Firms are creating low-cost products to capture large markets in developing countries such as these and then selling the products in developed countries. Other strategies for targeting markets abroad include acquiring foreign companies or forming partnerships with them.

## REVIEW QUESTIONS

1. What factors does a firm need to examine before deciding to target a market?
2. Which of the segmenting strategies discussed in this section is the broadest? Which is the narrowest?
3. Why might it be advantageous to create low-cost products for developing countries and then sell them in nations such as the United States? Do you see any disadvantages of doing so?

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## 4. POSITIONING AND REPOSITIONING OFFERINGS

## LEARNING OBJECTIVES

1. Explain why positioning is an important element when it comes to targeting consumers.
2. Describe how a product can be positioned and mapped.
3. Explain what repositioning is designed to do.

**positioning**

How consumers view a product relative to the competition.

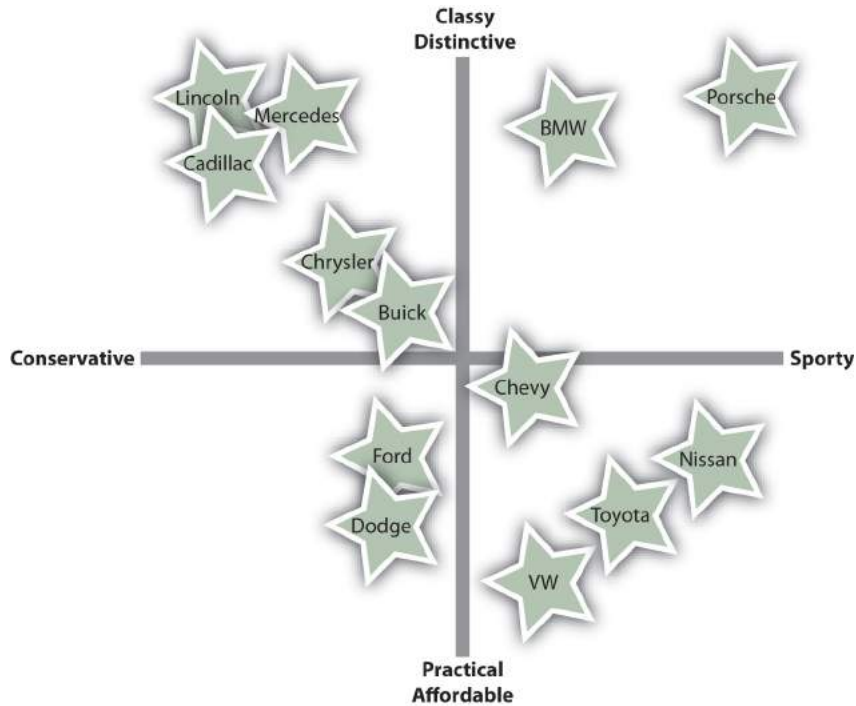
**perceptual map**

A two-dimensional graph that visually shows where a product stands, or should stand, relative to its competitors.

Why should buyers purchase your offering versus another? If your product faces competition, you will need to think about how to "position" it in the marketplace relative to competing products. After all you don't want the product to be just another "face in the crowd" in the minds of consumers. **Positioning** is how consumers perceive a product relative to the competition. Companies want to have a distinctive image and offering that stands out from the competition in the minds of consumers.

One way to position your product is to plot customer survey data on a perceptual map. A **perceptual map** is a two-dimensional graph that visually shows where your product stands, or should stand, relative to your competitors, based on criteria important to buyers. The criteria can involve any number of characteristics—price, quality, level of customer service associated with the product, and so on. An example of a perceptual map is shown in Figure 5.10. To avoid head-to-head competition with your competitors, you want to position your product somewhere on the map where your competitors aren't clustered.

FIGURE 5.10 An Example of a Perceptual Map



Source: Adapted from [http://en.wikipedia.org/wiki/Perceptual\\_mapping](http://en.wikipedia.org/wiki/Perceptual_mapping).

Many companies use taglines in their advertising to try to position their products in the minds of the buyer—where they want them, of course. A **tagline** is a catchphrase designed to sum up the essence of a product. You perhaps have heard Wendy’s tagline “It’s better than fast food.” The tagline is designed to set Wendy’s apart from restaurants like McDonald’s and Burger King—to plant the idea in consumers’ heads that Wendy’s offerings are less “fast foodish,” given the bad rap fast food gets these days.

Sometimes firms find it advantageous to reposition their products—especially if they want the product to begin appealing to different market segments. **Repositioning** is an effort to “move” a product to a different place in the minds of consumers. The i-house, a prefab house built by Clayton Homes, a mobile home manufacturer, is an example. According to the magazine *Popular Mechanics*, the i-house “looks like a house you’d order from IKEA, sounds like something designed by Apple, and consists of amenities—solar panels, tankless water heaters and rainwater collectors—that one would expect to come from an offbeat green company out of California selling to a high-end market.”<sup>[37]</sup> A Clayton Homes spokesperson says, “Are we repositioning to go after a new market? I would think we are maintaining our value to our existing market and expanding the market to include other buyers that previously wouldn’t have considered our housing product.”<sup>[38]</sup>

Recently, Porsche unveiled its new line of Panamera vehicles at a Shanghai car show. The car is a global model, but unlike Porsche’s other cars, it’s longer. Why? Because rich car buyers in China prefer to be driven by chauffeurs.<sup>[39]</sup> How do you think Porsche is trying to reposition itself for the future?

#### tagline

A catchphrase designed to sum up the essence of a product.

#### repositioning

The process of “moving” a product to a different place in the minds of consumers.



#### Audio Clip

##### Interview with Apurva Ghelani

Listen to Ghelani’s advice to students interested in working in his area of marketing.

FIGURE 5.11 The Clayton i-house: “A Giant Leap from the Trailer Park”



Source: <http://www.claytonihouse.com>.

## KEY TAKEAWAY

If a product faces competition, its producer will need to think about how to “position” it in the marketplace relative to competing products. Positioning is how consumers view a product relative to the competition. A perceptual map is a two-dimensional graph that visually shows where a product stands, or should stand, relative to its competitors, based on criteria important to buyers. Sometimes firms find it advantageous to reposition their products. Repositioning is an effort to “move” a product to a different place in the minds of consumers.

## REVIEW QUESTIONS

1. Why do companies position products?
2. Explain what a tagline is designed to do.
3. Why might an organization reposition a product?

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## 5. DISCUSSION QUESTIONS AND ACTIVITIES

## DISCUSSION QUESTIONS

1. Think about some of your friends and what you have discovered by visiting their homes. Do they buy different things than you do? If so, why? How might a company distinguish you from them in terms of its targeting?
2. Staples and The Limited have attempted to thwart shoppers who abuse store return policies. When a customer returns items, store clerks swipe the customer’s driver’s license through electronic card readers that track buying and return patterns for any suspicious activity.<sup>[40]</sup> What drawbacks do you think such a strategy could have?
3. Is it always harder to find new customers than it is to retain old ones or does it depend on the business you’re in?
4. Does one-to-one marketing have to be expensive? How can small organizations interact with their customers in a cost-effective way?
5. Are large companies better off using multisegment strategies and small companies better off using niche strategies? Why or why not?
6. How have companies such as JCPenney and Sears tried to change their position (reposition their stores)?
7. Do you think hotel companies have segmented the market too much and confused customers?

## A C T I V I T I E S

1. Visit <http://aclu.org/pizza/images/screen.swf> to see a video created by the American Civil Liberties Union in an effort to warn consumers about the information being collected about them. Do you think the video is far-fetched? Or do you think consumers should be alarmed? In your opinion, do the potential benefits of CRM databases exceed the potential downsides—or not?
2. Form groups of three students. Think of a product or service that one of you purchased recently on campus. How might you go about developing a customer profile for the product? List the sources you would use.
3. Describe a product you like that you believe more people should use. As a marketer, how would you reposition the product to increase its use? Outline your strategy.
4. Look at the latest census data and identify at least two areas of the country that are growing. What type of businesses would you recommend enter the growing markets?
5. Think of an idea for a new product or service. Who would be the target market(s) and how would you position your offering?

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