9 Identifying Market Segments and Targets

Companies cannot connect with all customers in large, broad, or diverse markets. They need to identify the market segments they can serve effectively. This decision requires a keen understanding of consumer behavior and careful strategic thinking about what makes each segment unique and different. Identifying and uniquely satisfying the right market segments are often the key to marketing success. LinkedIn has built an online powerhouse by fulfilling the needs of career-minded professionals.[1]

LinkedIn was the first major social network to issue an IPO, after being one of the first entries into social networking back in 2003. The company targeted a different audience than most other social networks, establishing itself as the premier professional networking site with a vision "...to create economic opportunity for every professional in the world." Also separating LinkedIn from other social networks is the fact that it has diverse revenue streams, driven by three distinct customer segments: job seekers who buy premium subscriptions with various special services; advertisers large and small who rely on its marketing solutions unit; and, supporting its largest and fastest-growing business, corporate recruiters who buy special search tools from its talent solutions unit. At the time of its IPO on May 19, 2011, LinkedIn had amassed 100 million registered users, adding a new one literally every second and a million every 10 days, half of them outside the United States. These users were attracted by the ability to manage their careers by networking with other professionals, seeking and sharing insights, and searching for jobs if the need arose.

Like most online services, LinkedIn strives to engage users on its site for as long as possible through continually improved content and new features. Toward that goal, the company acquired SlideShare, a presentation-hosting site, and Pulse, a news-reading application, and also launched Talent Pipeline to help recruiters manage their leads. LinkedIn sees much growth from its mobile users, who in 2013 accounted for more than 30 percent of unique visits to the site, leading to a complete makeover of its apps for easier navigation and greater personalization. Although LinkedIn's well-targeted and positioned brand has led to much initial success, competition looms from other online giants, such as Facebook, and from established professional network services overseas, such as Viadeo SA in Europe and elsewhere.

To compete more effectively, many companies are now embracing target marketing. Instead of scattering their marketing efforts, they're focusing on those consumers they have the greatest chance of satisfying.

Effective target marketing requires that marketers:

1. Identify and profile distinct groups of buyers who differ in their needs and wants (market segmentation).
2. Select one or more market segments to enter (market targeting).
3. For each target segment, establish, communicate, and deliver the right benefit(s) for the company's market offering (market positioning).

Market segmentation, targeting, and positioning are known as the "STP" of marketing. This chapter will focus on the first two steps; Chapter 10 discusses the third step. Chapters 11 and 12 describe how effective market segmentation, targeting, and positioning can build strong brands that grow over time and withstand competitive attacks.

Bases for Segmenting Consumer Markets

Market segmentation divides a market into well-defined slices. A *market segment* consists of a group of customers who share a similar set of needs and wants. The marketer's task is to identify the appropriate number and nature of market segments and decide which one(s) to target.

We use two broad groups of variables to segment consumer markets. Some researchers define segments by looking at descriptive characteristics—geographic, demographic, and psychographic—and asking whether these segments exhibit different needs or product responses. For example, they might examine the differing attitudes of "professionals," "blue collars," and other groups toward, say, "safety" as a product benefit.

Other researchers define segments by looking at behavioral considerations, such as consumer responses to benefits, usage occasions, or brands, then seeing whether different characteristics are associated with each consumer-response segment. For example, do people who want "quality" rather than "low price" in an automobile differ in their geographic, demographic, and/or psychographic makeup?

Regardless of which type of segmentation scheme we use, the key is adjusting the marketing program to recognize customer differences. The major segmentation variables—geographic, demographic, psychographic, and behavioral segmentation—are summarized in Table 9.1.

GEOGRAPHIC SEGMENTATION

Geographic segmentation divides the market into geographical units such as nations, states, regions, counties, cities, or neighborhoods. The company can operate in one or a few areas, or it can operate in all but pay attention to local variations. In that way it can tailor marketing programs to the needs and wants of local customer groups in trading areas, neighborhoods, even individual stores. In a growing trend called *grassroots marketing*, marketers concentrate on making such activities as personally relevant to individual customers as possible.

Much of Nike's initial success came from engaging target consumers through grassroots marketing efforts such as sponsorship of local school teams, expert-conducted clinics, and provision of shoes, clothing, and equipment to young athletes. Citibank provides different mixes of banking services in its branches depending on neighborhood demographics. Retail firms such as Starbucks, Costco, Trader Joe's, and REI have all found great success emphasizing local marketing initiatives, and other types of firms have also jumped into the action.[2]

Source: Denver Post via Getty Images

Outdoor goods retailer REI emphasizes local marketing initiatives in engaging its customers.

More and more, regional marketing means marketing right down to a specific zip code. Many companies use mapping software to pinpoint the geographic locations of their customers, learning, say, that most customers are within a 10-mile radius of the store and are further concentrated within certain zip+4 areas. By mapping the densest areas, the retailer can rely on *customer cloning*, assuming the best prospects live where most of the customers already come from.

Some approaches combine geographic data with demographic data to yield even richer descriptions of consumers and neighborhoods. Nielsen Claritas has developed a geoclustering approach called PRIZM (Potential Rating Index by Zip Markets) NE that classifies more than half a million U.S. residential neighborhoods into 14 distinct groups and 66 distinct lifestyle segments called PRIZM Clusters.[3] The groupings take into consideration 39 factors in five broad categories: (1) education and affluence, (2) family life cycle, (3) urbanization, (4) race and ethnicity, and (5) mobility. The neighborhoods are broken down by zip code, zip+4, or census tract and block group. The clusters have descriptive titles such as *Blue Blood Estates, Winner's Circle, Hometown Retired, Shotguns and Pickups,* and *Back Country Folks.* The inhabitants in a cluster tend to lead similar lives, drive similar cars, have similar jobs, and read similar magazines. Table 9.2 has examples of three PRIZM clusters.

Geoclustering captures the increasing diversity of the U.S. population. PRIZM has been used to answer questions such as: Which neighborhoods or zip codes contain our most valuable customers? How deeply have we already penetrated these segments? Which distribution channels and promotional media work best in reaching our target clusters in each area? Barnes & Nobles placed its stores

TABLE 9.1 Major Segmentation Variables for Consumer Markets

Geographic region	Pacific Mountain, West North Central, West South Central, East North Central, East South Central, South Atlantic, Middle Atlantic, New England
City or metro size	Under 5,000; 5,000–20,000; 20,000–50,000; 50,000–100,000; 100,000–250,000; 250,000–500,000; 500,000–1,000,000; 1,000,000–4,000,000; 4,000,000+
Density	Urban, suburban, rural
Climate	Northern, southern
Demographic age	Under 6, 6–11, 12–17, 18–34, 35–49, 50–64, 64+
Family size	1–2, 3–4, 5+
Family life cycle	Young, single; young, married, no children; young, married, youngest child under 6; young; married, youngest child 6 or older; older, married, with children; older, married, no children under 18; older, single; other
Gender	Male, female
Income	Under $10,000; $10,000–$15,000; $15,000–$20,000; $20,000–$30,000; $30,000–$50,000; $50,000–$100,000; $100,000+
Occupation	Professional and technical; managers, officials, and proprietors; clerical sales; craftspeople; forepersons; operatives; farmers; retired; students; homemakers; unemployed
Education	Grade school or less; some high school; high school graduate; some college; college graduate; post college
Religion	Catholic, Protestant, Jewish, Muslim, Hindu, other
Race	White, Black, Asian, Hispanic, Other
Generation	Silent Generation, Baby Boomers, Gen X, Millennials (Gen Y)
Nationality	North American, Latin American, British, French, German, Italian, Chinese, Indian, Japanese
Social class	Lower lowers, upper lowers, working class, middle class, upper middles, lower uppers, upper uppers
Psychographic lifestyle	Culture-oriented, sports-oriented, outdoor-oriented
Personality	Compulsive, gregarious, authoritarian, ambitious
Behavioral occasions	Regular occasion, special occasion
Benefits	Quality, service, economy, speed
User status	Nonuser, ex-user, potential user, first-time user, regular user
Usage rate	Light user, medium user, heavy user
Loyalty status	None, medium, strong, absolute
Readiness stage	Unaware, aware, informed interested, desirous, intending to buy
Attitude toward product	Enthusiastic, positive, indifferent, negative, hostile

TABLE 9.2 Examples of PRIZM Clusters

- ***Young Digerati.*** Young Digerati are the nation's tech-savvy singles and couples living in fashionable neighborhoods on the urban fringe. Affluent, highly educated, and ethnically mixed, they live in areas 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.
- ***Beltway Boomers.*** One segment of the huge baby boomer cohort—college-educated, upper-middle-class, and home-owning—is Beltway Boomers. Like many of their peers who married late, these boomers are still raising children in comfortable suburban subdivisions and pursuing kid-centered lifestyles.
- ***The Cosmopolitans.*** Educated, midscale, and multiethnic, the Cosmopolitans are urbane couples in America's fast-growing cities. Concentrated in a handful of metros—such as Las Vegas, Miami, and Albuquerque—these households feature older homeowners, empty nesters, and college graduates. A vibrant social scene surrounds their older homes and apartments, and residents love the nightlife and enjoy leisure-intensive lifestyles.

Source: *Nielsen*, www.claritas.com.

where the "Money & Brains" segment hangs out. Hyundai successfully targeted a promotional campaign to neighborhoods where the "Kids & Cul-de-Sacs," "Bohemian Mix," and "Pool & Patios" could be found.[4]

Marketing to microsegments has become possible even for small organizations as database costs decline, software becomes easier to use, and data integration increases. Going online to reach customers directly can open a host of local opportunities, as Yelp has found out.[5]

YELP Founded in 2004, Yelp.com wants to "connect people with great local businesses" by targeting consumers who seek or want to share reviews of local businesses in 96 markets around the world. Almost two-thirds of the Web site's millions of vetted online reviews are for restaurants and retailers. Yelp was launched in San Francisco, where monthly parties with preferred users evolved into a formal program, Yelp Elite, now used to launch the service into new cities. The company's recently introduced mobile app allows it to bypass the Internet and connect with consumers directly; almost 50 percent of searches on the site now come from its mobile platform. Yelp generates revenue by selling designated Yelp Ads to local merchants via hundreds of salespeople. The local advertising business is massive—estimated to be worth between $90 billion and $130 billion—but relatively untapped given that many local businesses are not that tech-savvy. Sheryl Sandberg, COO of Facebook (a Yelp competitor), calls local advertising the Internet's "Holy Grail." Local businesses also benefit from Yelp—several research studies have demonstrated the potential revenue payback from having reviews of their businesses on the site.

Yelp has attracted scores of consumers and advertisers with its carefully vetted online reviews of local businesses.

Source: © Don Smetzer/Alamy

Those who favor such localized marketing see national advertising as wasteful because it is too "arm's length" and fails to address local needs. Those against local marketing argue that it drives up manufacturing and marketing costs by reducing economies of scale and magnifying logistical problems. A brand's overall image might be diluted if the product and message are too different in different localities.

DEMOGRAPHIC SEGMENTATION

One reason demographic variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality, and social class are so popular with marketers is that they're often associated with consumer needs and wants. Another is that they're easy to measure. Even when we describe the target market in nondemographic terms (say, by personality type), we may need the link back to demographic characteristics in order to estimate the size of the market and the media we should use to reach it efficiently.

Here's how marketers have used certain demographic variables to segment markets.

AGE AND LIFE-CYCLE STAGE Consumer wants and abilities change with age. Toothpaste brands such as Crest and Colgate offer three main lines of products to target kids, adults, and older consumers. Age segmentation can be even more refined. Pampers divides its market into prenatal, new baby (0–5 months), baby (6–12 months), toddler (13–23 months), and preschooler (24 months+). Indirect age effects also operate for some products. One study of kids ages 8–12 found that 91 percent decided or influenced clothing or apparel buys, 79 percent grocery purchases, and 54 percent vacation choices, while 14 percent even made or swayed vehicle purchase decisions.[6]

Nevertheless, age and life cycle can be tricky variables. The target market for some products may be the *psychologically* young. To target 21-year-olds with its boxy Element, which company officials described as a "dorm room on wheels," Honda ran ads depicting sexy college kids partying near the car at a beach. So many baby boomers were attracted to the ads, however, that the average age of Element buyers turned out to be 42! With baby boomers seeking to stay young, Honda decided the lines between age groups were getting blurred. When sales fizzled, Honda decided to discontinue sales of the Element. When it was ready to launch a new subcompact called the Fit, the firm deliberately targeted Gen Y buyers as well as their empty-nest parents.[7]

LIFE STAGE People in the same part of the life cycle may still differ in their life stage. **Life stage** defines a person's major concern, such as going through a divorce, going into a second marriage, taking care of an older parent, deciding to cohabit with another person, buying a new home, and so on. As Chapter 6 noted, these life stages present opportunities for marketers who can help people cope with the accompanying decisions.

For example, the wedding industry attracts marketers of a vast range of products and services. No surprise—the average U.S. couple spends almost $27,000 on their wedding (see Table 9.3 for some major wedding expenditures).[8] But that's just the start. Newlyweds in the United States spend a total of about $70 billion on their households in the first year after marriage—and they buy more in the first six months than an established household does in five years!

Source: Courtesy American Honda Motor Co., Inc.

The Honda Fit targets young Gen Y buyers as well as psychologically young empty nest parents.

TABLE 9.3 Major Wedding Expenditures

Reception: $11,599
Engagement ring: $5,229
Wedding rings: $1,594
Photography: $2,186
Wedding gown: $1,355
Flowers: $1,334
Wedding cake: $486

Source: May 2012 survey from *Brides* magazine.

Marketers know marriage often means two sets of shopping habits and brand preferences must be blended into one. Procter & Gamble, Clorox, and Colgate-Palmolive include their products in "Newlywed Kits," distributed when couples apply for a marriage license. JCPenney has identified "Starting Outs" as one of its two major customer groups. Marketers pay a premium for name lists to assist their direct marketing because, as one noted, newlywed names "are like gold."[9]

But not everyone goes through that life stage at a certain time—or at all, for that matter. More than a quarter of all U.S. households now consist of only one person—a record high. It's no surprise this $1.9 trillion market is attracting interest from marketers: Lowe's has run an ad featuring a single woman renovating her bathroom; DeBeers sells a "right-hand ring" for unmarried women; and at the recently opened, ultra-hip Middle of Manhattan 63-floor tower, two-thirds of the occupants live alone in one-bedroom and studio rental apartments.[10]

GENDER Men and women have different attitudes and behave differently, based partly on genetic makeup and partly on socialization.[11] Research shows that women have traditionally tended to be more communal-minded and men more self-expressive and goal-directed; women have tended to take in more of the data in their immediate environment and men to focus on the part of the environment that helps them achieve a goal.

A research study of shopping found that men often need to be invited to touch a product, whereas women are likely to pick it up without prompting. Men often like to read product information; women may relate to a product on a more personal level.

Marketers can now reach women more easily via media like Lifetime, Oxygen, and WE television networks and scores of women's magazines and Web sites; men are more easily found at ESPN, Comedy Central, and Spike TV channels and through magazines such as *Maxim* and *Men's Health*.[12] After Pinterest proved its

Given their elevated household spending rates, newlyweds are a lucrative target segment for marketers.

Source: © MNStudio/Fotolia

popularity among women, five different Web sites with similar functionality but targeted at men sprang up, including MANinteresting, Dudepins, and Gentlemint.[13]

Gender differences are shrinking in some other areas as men and women expand their roles. One Yahoo survey found that more than half of men identified themselves as the primary grocery shoppers in their households. Procter & Gamble now designs some ads with men in mind, such as for its Gain and Tide laundry detergents, Febreze air freshener, and Swiffer sweepers. On the flip side, according to some studies, women in the United States and the United Kingdom make 75 percent of decisions about buying new homes and purchase 60 percent of new cars.[14]

Nevertheless, gender differentiation has long been applied in clothing, hairstyling, and cosmetics. Avon, for one, has built a $6 billion-plus business by selling beauty products to women. Gillette has found similar success with its Venus razor.[15]

VENUS RAZOR Gillette's Venus razor has become the most successful women's shaving line ever—holding more than 50 percent of the global women's shaving market—as a result of insightful consumer research and extensive market tests revealing product design, packaging, and advertising cues. The razor was a marked departure from earlier designs, which had essentially been colored or repackaged versions of men's razors. Venus was designed to uniquely meet women's needs, instead of men's. Extensive research identified unique shaving needs for women, including shaving a surface area 9X greater than the male face; in a wet environment and across the unique curves of the body. The resulting female design included an oval shaped cartridge to better fit in to tight areas like underarms and bikini and additional lubrication for better glide. Furthermore, after discovering that women change their grip on a razor about 30 times during each shaving session, Gillette designed Venus razor with a wide, sculpted rubberized handle offering superior grip and control. Design work did not stop with the differences between men and women's shaving needs, when Gillette later found four distinct segments of female shavers—perfect shave seekers (no missed hairs), skin pamperers, pragmatic functionalists, and EZ seekers—the company designed Venus products for each of them. It also commissioned Harris Interactive to conduct an online study among more than 6,500 women in 13 countries that found seven of 10 wanted so-called goddess skin, defined as smooth (68 percent), healthy (66 percent), and soft (61 percent), leading to the introduction of the new Gillette Venus & Olay razor.

Source: Procter & Gamble Company

Years of in-depth consumer research with women has been critical to the long-term success of Gillette's Venus razor.

INCOME Income segmentation is a long-standing practice in such categories as automobiles, clothing, cosmetics, financial services, and travel. However, income does not always predict the best customers for a given product. Blue-collar workers were among the first purchasers of color television sets; it was cheaper for them to buy a television than to go to movies and restaurants.

Many marketers are deliberately going after lower-income groups, in some cases discovering fewer competitive pressures or greater consumer loyalty. Procter & Gamble launched two discount-priced brand extensions in 2005—Bounty Basic and Charmin Basic—which have met with some success. Other marketers are finding success with premium-priced products. When Whirlpool launched a pricey Duet washer line, sales doubled their forecasts in a weak economy, due primarily to middle-class shoppers who traded up.

Increasingly, companies are finding their markets are hourglass-shaped, as middle-market U.S. consumers

Source: PR NEWSWIRE

The Signature by Levi Strauss & Co. line of jeans allows the company to effectively and efficiently reach more mass-market consumers than with its other existing jeans lines.

migrate toward both discount *and* premium products. Companies that miss out on this new market risk being "trapped in the middle" and seeing their market share steadily decline. Recognizing that its channel strategy emphasized retailers like Sears selling primarily to the middle class, Levi-Strauss has since introduced premium lines such as Levi's Made & Crafted to upscale retailers Bloomingdales and Saks Fifth Avenue and the less-expensive Signature by Levi Strauss & Co. line to mass-market retailers Walmart and Kmart.

GENERATION Each generation or *cohort* is profoundly influenced by the times in which it grows up—the music, movies, politics, and defining events of that period. Members share the same major cultural, political, and economic experiences and often have similar outlooks and values. Marketers may choose to advertise to a cohort by using the icons and images prominent in its experiences. They can also try to develop products and services that uniquely meet the particular interests or needs of a generational target.

Although the beginning and ending birth dates of any generation are always subjective—and generalizations can mask important differences within the group—here are some general observations about the four main generation cohorts of U.S. consumers, from youngest to oldest.[16]

Millennials (or Gen Y) Although different age splits are used to define Millennials, or Gen Y, the term usually means people born between 1977 and 1994. That's about 78 million people in the United States, with annual spending power approaching $200 billion. If you factor in career growth and household and family formation and multiply by another 53 years of life expectancy, trillions of dollars in consumer spending are at stake over their life spans. It's not surprising that marketers are racing to get a bead on Millennials' buying behavior. Here is how one bank has targeted these consumers.[17]

PNC'S VIRTUAL WALLET In early 2007, PNC Bank hired design consultants IDEO to study Gen Y—defined by PNC at that time as 18- to 34-year-olds—to help develop a marketing plan to appeal to them. IDEO's research found this cohort (1) didn't know how to manage money and (2) found bank Web sites clunky and awkward to use. PNC thus chose to introduce a new offering, Virtual Wallet, that combined three accounts—"Spend" (regular checking and bill payments), "Reserve" (backup interest-bearing checking for overdraft protection and emergencies), and "Grow" (long-term savings)—with a slick personal finance tool—the "Money Bar"—by which customers can drag money from account to account online by adjusting an on-screen slider. Instead of seeing a traditional ledger, customers can view balances on a calendar that displays estimated future cash flow based on when they get paid, when they pay their bills, and what their spending habits are. Customers also can set a "Savings Engine" tool to transfer money to savings when they receive a paycheck as well as get their account balances via text. PNC has added even more features to Virtual Wallet, such as transaction information for credit cards and a joint calendar view for joint account holders, which has expanded the service's appeal beyond its 1 million Gen Y customers. PNC also engages 80,000-plus of its Virtual Wallet customers in an "Inside the Wallet" blog, which the bank feels provides more detailed feedback than it can get with its Twitter and Facebook accounts.

Also known as the Echo Boomers, "digital native" Millennials have been wired almost from birth—playing computer games, navigating the Internet, downloading music, and connecting with friends via texting and social media. They are much more likely than other age groups to own multiple devices and multitask while online, moving across mobile, social, and PC platforms. They are also more likely to go online to broadcast their thoughts and experiences and to contribute user-generated content. They tend to trust friends more than corporate sources of information.[18]

Although they may have a sense of entitlement and abundance from growing up during the economic boom and being pampered by their boomer parents, Millennials are also often highly socially conscious, concerned about environmental issues, and receptive to cause marketing efforts. The recession hit them hard, and many have accumulated sizable debt. One implication is they are less likely to have bought their first homes and more likely to still live with their parents, influencing their purchases in what demographers are calling a "boom-boom" or boomerang effect. That is, the same products that appeal to 20-somethings also appeal to many of their youth-obsessed parents.

Because Gen Y members are often turned off by overt branding practices and "hard sell," marketers have tried many different approaches to reach and persuade them.[19] Consider these widely used experiential tactics.

1. *Student ambassadors*—Red Bull enlisted college students as Red Bull Student Brand Managers to distribute samples, research drinking trends, design on-campus marketing initiatives, and write stories for student newspapers. American Eagle, among other brands, has also developed an extensive campus ambassador program.
2. *Street teams*—Long a mainstay in the music business, street teams help to promote bands both big and small. Rock band Foo Fighters created a digital street team that sends targeted e-mail blasts to members who "get the latest news, exclusive audio/video sneak previews, tons of chances to win great Foo Fighters prizes, and become part of the Foo Fighters Family."
3. *Cool events*—Hurley, which defined itself as an authentic "Microphone for Youth" brand rooted in surf, skate, art, music, and beach cultures, has been a long-time sponsor of the U.S. Open of Surfing. The actual title sponsor for the 2013 event was Vans, whose shoes and clothing also have strong Millennial appeal. Vans has also been the title sponsor for almost 20 years of the Warped tour, which blends music with action (or extreme) sports.

Gen X Often lost in the demographic shuffle, the 50 million or so Gen X consumers, named for a 1991 novel by Douglas Coupland, were born between 1964 and 1978. The popularity of Kurt Cobain, rock band Nirvana, and the lifestyle portrayed in the critically lauded film *Slacker* led to the use of terms like *grunge* and *slacker* to characterize Gen X when they were teens and young adults. They bore an unflattering image of disaffection, short attention spans, and weak work ethic.

These stereotypes have slowly disappeared. Gen Xers were certainly raised in more challenging times, when working parents relied on day care or left "latchkey kids" on their own after school and corporate downsizing led to the threat of layoffs and economic uncertainty. At the same time, social and racial diversity were more widely accepted, and technology changed the way people lived and worked. Although Gen Xers raised standards in educational achievement, they were also the first generation to find surpassing their parents' standard of living a serious challenge.

These realities had a profound impact. Gen Xers prize self-sufficiency and the ability to handle any circumstance. Technology is an enabler for them, not a barrier. Unlike the more optimistic, team-oriented Gen Yers, Gen Xers are more pragmatic and individualistic. As consumers, they are wary of hype and pitches that seem inauthentic

Source: Getty Images

The Foo Fighters have used digital street teams to build stronger ties and a sense of community with their devoted fan base.

or patronizing. Direct appeals where value is clear often work best, especially as Gen Xers have become parents raising families.[20]

Baby Boomers Baby boomers are the approximately 76 million U.S. consumers born between 1946 and 1964. Though they represent a wealthy target, possessing $1.2 trillion in annual spending power and controlling three-quarters of the country's wealth, marketers often overlook them. In network television circles, because advertisers are primarily interested in 18- to 49-year-olds, viewers over 50 are referred to as "undesirables," though ironically the average age of the prime-time TV viewer is 51.

With many baby boomers approaching their 70s and even the last and youngest wave cresting 50, demand has exploded for products to turn back the hands of time. According to one survey, nearly one in five boomers was actively resisting the aging process, driven by the mantra "Fifty is the new thirty." As they search for the fountain of youth, sales of hair replacement and hair coloring aids, health club memberships, home gym equipment, skin-tightening creams, nutritional supplements, and organic foods have all soared.

Contrary to conventional marketing wisdom that brand preferences of consumers over 50 are fixed, one study of boomers ages 55 to 64 found a significant number are willing to change brands, spend on technology, use social networking sites, and purchase online.[21] Although they love to buy things, they hate being sold to, and as one marketer noted, "You have to earn your stripes every day." But abundant opportunity exists. Boomers are also less likely to associate retirement with "the beginning of the end" and see it instead as a new chapter in their lives with new activities, interests, careers, and even relationships.[22]

Silent Generation Those born between 1925 and 1945—the "Silent Generation"—are redefining what *old age* means. To start with, many people whose chronological age puts them in this category don't see themselves as old.[23] One survey found that 60 percent of respondents over 65 said they felt younger than their actual age. A third of those 65 to 74 said they felt 10 to 19 years younger, and one in six felt at least 20 years younger than their actual age.[24]

Consistent with what they say, many older consumers lead very active lives. As one expert noted, it is if they were having a second middle age before becoming elderly. Advertisers have learned that older consumers don't mind seeing other older consumers in ads targeting them, as long as they appear to be leading vibrant lives. But marketers have learned to avoid clichés like happy older couples riding bikes or strolling hand in hand on a beach at sunset.

Strategies emphasizing seniors' roles as grandparents are well received. Many older consumers not only happily spend time with their grandkids, they often provide for their basic needs and at least occasional gifts. The founders of eBeanstalk.com, which sells children's learning toys, thought their online business would be driven largely by young consumers starting families. They were surprised to find that as much as 40 percent of their customers were older, mainly grandparents. These customers are very demanding but also more willing to pay full price than their younger counterparts.[25]

But they also need their own products. To design better appliances for the elderly, GE holds empathy sessions to help designers understand the challenges of aging. They tape their knuckles to represent arthritic hands, put kernels of popcorn in their shoes to create imbalance, and weigh down pans to simulate the challenge of putting food into ovens. Researchers at the MIT AgeLab use a suit called AGNES (Age Gain Now Empathy System) to research

Researchers at the MIT AgeLab use special suits in their shopping experiments to mimic the physical limitations of being elderly.

Source: Nathan-Fried-Lipiski/MIT AgeLab

the changing needs of the elderly. The suit has a pelvic harness that connects to a headpiece, mimicking an aging spine and restricted mobility, range of motion, joint function, balance, and vision.[26]

Race and Culture *Multicultural marketing* is an approach recognizing that different ethnic and cultural segments have sufficiently different needs and wants to require targeted marketing activities and that a mass market approach is not refined enough for the diversity of the marketplace. Consider that McDonald's now does 40 percent of its U.S. business with ethnic minorities. Its highly successful "I'm Lovin' It" campaign was rooted in hip-hop culture but has had an appeal that transcended race and ethnicity.[27]

The Hispanic American, African American, and Asian American markets are all growing at two to three times the rate of nonmulticultural populations, with numerous submarkets, and their buying power is expanding. Multicultural consumers also vary in whether they are first, second, or a later generation and whether they are immigrants or born and raised in the United States.

Marketers need to factor the norms, language nuances, buying habits, and business practices of multicultural markets into the initial formulation of their marketing strategy, rather than adding these as an afterthought. All this diversity also has implications for marketing research; it takes careful sampling to adequately profile target markets.

Multicultural marketing can require different marketing messages, media, channels, and so on. Specialized media exist to reach virtually any cultural segment or minority group, though some companies have struggled to provide financial and management support for fully realized programs.

Fortunately, as countries become more culturally diverse, many marketing campaigns targeting a specific cultural group can spill over and positively influence others. Ford developed a TV ad featuring comedian Kevin Hart to launch its new Explorer model that initially targeted the African American market, but it became one of the key ads for the general market launch too.[28]

Next, we consider issues in the three largest multicultural markets—Hispanic Americans, African Americans, and Asian Americans. Table 9.4 lists some important facts and figures about them.[29]

Hispanic Americans Accounting for more than half the growth in the U.S. population from 2000 to 2010, Hispanic Americans have become the largest minority in the country. It's projected that by 2020, 17 percent of U.S. residents will be of Hispanic origin. With annual purchasing power of more than $1 trillion in 2010—and expected to rise to $1.5 trillion by 2015—Hispanic Americans would be the world's *ninth-largest* market if they were a separate nation.[30]

This segment is youthful. The median age of U.S. Hispanics is 27—right in the middle of the highly coveted 18-to-34 Millennial age range—compared with a median age of 42 for non-Hispanic whites. In fact, every 30 seconds, two non-Hispanics retire while a Hispanic turns 18.[31] Hispanic Millennials have been called "fusionistas" because

TABLE 9.4 Multicultural Market Profile

	Hispanic Americans	Asian Americans	African Americans
Estimated population—2012	52.4 million	15.7 million	41.1 million
Forecasted population—2060	128.8 million	34.4 million	61.8 million
Number of minority-owned businesses in 2007	2.3 million	1.5 million	1.9 million
Revenue generated by minority-owned businesses in 2007	$345.2 billion	$507.6 billion	$137.5 billion
Median household income in 2011	$38, 624	$65,129	$32,229
Poverty rate 2011	25.3%	12.3%	27.6%
Percentage of those ages >25 with at least a high school education in 2012	65%	88.8%	84.9%
Number of veterans of U.S. armed forces in 2011	1.2 million	264,695	2.3 million
Median age in 2011	27.0	36.0	31.7
Percent of population under 18 years old in 2011	35%	23%	28%

Sources: www.selig.uga.edu and www.census.gov.

they see themselves as both fully American and Latino.[32] As one marketing executive noted, "they eat tamales and burgers and watch football and *fútbol*."[33]

More than half the U.S. Hispanic population lives in just three states—California, Texas, and Florida—and more than 4 million Hispanics live in New York and Los Angeles. The Hispanic American market holds a wide variety of subsegments. Hispanics of Mexican origin are the dominant segment, followed by those of Puerto Rican and Cuban descent, though numbers of Salvadorans, Dominicans, Guatemalans, and Columbians are growing faster.[34]

To meet these divergent needs, Goya, the largest U.S. Hispanic food company with $1.3 billion in annual revenue, sells 1,600 products ranging from bags of rice to ready-to-eat, frozen empanadas and 38 varieties of beans alone. The company also has found much success selling key products directly to non-Hispanics. Its new philosophy: "We don't market to Latinos, we market as Latinos."[35]

Hispanic Americans often share strong family values—several generations may reside in one household—and strong ties to their country of origin. Even young Hispanics born in the United States tend to identify with the country their families are from. Hispanic Americans desire respect, are brand loyal, and take a keen interest in product quality. Procter & Gamble's research revealed that Hispanic consumers believe "*lo barato sale caro*" ("cheap can be expensive," or in the English equivalent, "you get what you pay for"). P&G found Hispanic consumers were so value-oriented they would even do their own product tests at home. One woman was using different brands of tissues and toilet paper in different rooms to see which her family liked best.[36]

U.S.-born Hispanic Americans also have different needs and tastes than their foreign-born counterparts and, though bilingual, often prefer to communicate in English. Though two-thirds of U.S. Hispanics are considered "bicultural" and comfortable with both Spanish- and English-speaking cultures, most firms choose to run Spanish-only ads on traditional Hispanic networks Univision and Telemundo. Univision is the long-time market-leader, which has found great success with its DVR-proof telenovelas (like daily soap operas), though new competition is emerging from Fox and other media companies.[37]

Clorox developed its Fraganzia line of cleaning products to appeal to those Hispanics who had strong preferences for hygiene and scent.

Marketers are reaching out to Hispanic Americans with targeted promotions, ads, and Web sites, but they need to capture the nuances of cultural and market trends.[38] Consider two companies that did so.

- Although Kleenex was the market-share leader in facial tissues among Hispanics, brand owner Kimberly-Clark felt there was much room to grow. Relying on research showing that more than twice as many Hispanics base their purchase decisions on package and design as in the general population, it launched the "Con Kleenex, Expresa Tu Hispanidad" campaign. Amateur artists were solicited to submit designs for customized packages sold during National Hispanic Heritage Month. Public voting chose three winners, and the campaign increased Kleenex sales at participating retailers by an impressive 476 percent.[39]
- The Clorox Company found its Hispanic American customers were relatively more likely to agree or over-index on "cleaning more to prevent family and friends from getting sick," especially in spring and summer months and when visitors came. Additional research also revealed the importance of packaging and a preference for scent as the final step in the cleaning process. Product development led to the launch of the FRANGAZIA line of cleaning products with lavender and other scents that had tested well. As support, Spanish-only ads were run on Hispanic media.[40]

General Motors, Southwestern Airlines, and Toyota have used a "Spanglish" approach in their ads, conversationally mixing some Spanish with English in dialogue among Hispanic families.[41] Continental Airlines, General Mills, and Sears have used mobile marketing to reach Hispanics.[42] With a mostly younger population that may have less access to Internet or landline service, Hispanics are much more active with mobile technology and social media than the general population. Staying connected to friends and family is important for them.[43]

Asian Americans According to the U.S. Census Bureau, "Asian" refers to people having origins in any of the original peoples of the Far East, Southeast Asia, or the Indian subcontinent. Six countries represent 79 percent of the Asian American population: China (21 percent), the Philippines (18 percent), India (11 percent), Vietnam (10 percent), Korea (10 percent), and Japan (9 percent).

The diversity of these national identities limits the effectiveness of pan-Asian marketing appeals. For example, in terms of general food trends, research has uncovered that Japanese eat much more raw food than Chinese; Koreans are more inclined to enjoy spicy foods and drink more alcohol than other Asians; and Filipinos tend to be the most Americanized and Vietnamese the least Americanized in terms of food choices.[44]

The Asian American market has been called the "invisible market" because, compared with the Hispanic Americans and African American markets, it has traditionally received a disproportionally small fraction of U.S. companies' total multicultural marketing expenditure.[45] Yet it is getting easier to reach this market, given Asian-language newspapers, magazines, cable TV channels, and radio stations targeting specific groups.[46]

Telecommunications and financial services are a few of the industries more actively targeting Asian Americans. Wells Fargo Bank has a long tradition of marketing to Asian Americans, aided by its deep historical roots in California where a heavy concentration exists. The bank has engaged its Asian American agency partner, Dae Partners, for years. Wells Fargo itself is diverse with an internal team of multicultural experts and a significant group of Asian American executives. It has developed products and programs specifically for the Asian American market and is highly engaged in volunteerism and community efforts.[47]

Asian Americans tend to be more brand-conscious than other minority groups yet are the least loyal to particular brands. They also tend to care more about what others think (for instance, whether their neighbors will approve of them) and share core values of safety and education. Comparatively affluent and well educated, they are an attractive target for luxury brands. The most computer-literate group, Asian Americans are more likely to use the Internet on a daily basis.[48]

African Americans African Americans are projected to have a combined spending power of $1.1 trillion by 2015. They have had a significant economic, social, and cultural impact on U.S. life, contributing inventions, art, music, sports achievements, fashion, and literature. Like many cultural segments, they are deeply rooted in the U.S. landscape while also proud of their heritage and respectful of family ties.[49]

Based on survey findings, African Americans are the most fashion-conscious of all racial and ethnic groups but are strongly motivated by quality and selection. They're also more likely to be influenced by their children when selecting a product and less likely to buy unfamiliar brands. African Americans watch television and listen to the radio more than other groups and are heavy users of mobile data. Nearly three-fourths have a profile on more than one social network, with Twitter being extremely popular.[50]

Media outlets directed at black audiences received only 2 percent of the $120 billion firms spent on advertising in 2011, however.[51] A Nielsen research study found that roughly half of African Americans say they are more likely to buy a product if its advertising portrays the black community in a positive manner. More than 90 percent said black media are more relevant to them than generic media outlets.[52] To encourage more marketing investment, the Cabletelevision Advertising Bureau trade organization even created an information-laden Web site, www.reachingblackconsumers.com.

Ad messages targeting African Americans must be seen as relevant. In a campaign for Lawry's Seasoned Salt targeting African Americans, images of soul food appeared; a campaign for Kentucky Fried Chicken showed an African American family gathered at a reunion—demonstrating an understanding of both the market's values and its lifestyle.[53] P&G's "My Black Is Beautiful" campaign was started by women inside the company who saw a lack of positive images of African American women in mainstream media. The campaign has a dedicated Web site, a national television show on BET network, and various promotional efforts featuring P&G's beauty, health, and personal care brands.[54]

Many companies have successfully tailored products to meet the needs of African Americans. Sara Lee Corporation's L'eggs discontinued its separate line of pantyhose for black women; now shades and styles popular among black women make up half the company's general-focus sub-brands. In some cases, campaigns have expanded beyond their African American target. State Farm's "50 Million Pound Challenge" weight-loss campaign began in the African American community but expanded to the general market.

Cigarette, liquor, and fast-food firms have been criticized for targeting urban African Americans. As one writer noted, with obesity a problem, it is disturbing that it is easier to find a fast-food restaurant than a grocery store in many black neighborhoods.[55]

Lesbian, Gay, Bisexual, and Transgender (LGBT) The lesbian, gay, bisexual, and transgender (LGBT) market is estimated to make up 5 percent to 10 percent of the population and have approximately $700 billion in buying power.[56] Many firms have recently created initiatives to target this market.[57]

American Airlines created a Rainbow Team with a dedicated LGBT staff and Web site that has emphasized community-relevant services such as a calendar of gay-themed national events. JCPenney hired openly gay Ellen DeGeneres as its spokesperson, featured both male and female same-sex couples in its catalogs, and sponsored a float in New York's Gay Pride parade. Wells Fargo, General Mills, and Kraft are also often identified as among the most gay-friendly businesses.[58]

Logo, MTV's television channel for a gay and lesbian audience, has 150 advertisers in a wide variety of product categories and is available in more than 52 million homes. Increasingly, advertisers are using digital efforts to reach the market. Hyatt's online appeals to the LGBT community target social sites and blogs where customers share their travel experiences.

Some firms worry about backlash from organizations that will criticize or even boycott firms supporting gay and lesbian causes. Although Pepsi, Campbell's, and Wells Fargo all experienced such boycotts in the past, they continue to advertise to the gay community.

PSYCHOGRAPHIC SEGMENTATION

Psychographics is the science of using psychology and demographics to better understand consumers. In *psychographic segmentation,* buyers are divided into groups on the basis of psychological/personality traits, lifestyle, or values. People within the same demographic group can exhibit very different psychographic profiles.

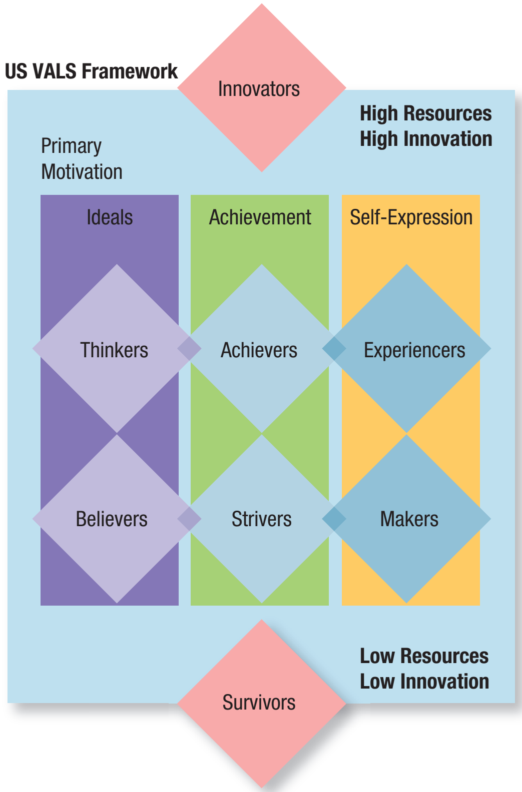
One of the most popular commercially available classification systems based on psychographic measurements is Strategic Business Insight's (SBI) VALS™ framework. VALS is based on psychological traits for people and classifies U.S. adults into eight primary groups based on responses to a questionnaire featuring four demographic and 35 attitudinal questions. The VALS system is continually updated with new data from more than 80,000 surveys per year (see Figure 9.1). You can find out which VALS type you are by going to the SBI Web site.[59]

The main dimensions of the VALS segmentation framework are consumer motivation (the horizontal dimension) and consumer resources (the vertical dimension). Consumers are inspired by one of three primary motivations: ideals, achievement, and self-expression. Those primarily motivated by ideals are guided by knowledge and principles. Those motivated by achievement look for products and services that demonstrate success to their peers. Consumers whose motivation is self-expression desire social or physical activity, variety, and risk. Personality traits such as energy, self-confidence, intellectualism, novelty seeking, innovativeness, impulsiveness, leadership, and

| Fig. 9.1 |

The VALS Segmentation System: An Eight-Part Typology

Source: www.strategicbusinessinsights.com/vals © 2014 by Strategic Business Insights. All rights reserved.



vanity—in conjunction with key demographics—determine an individual's resources. Different levels of resources enhance or constrain a person's expression of his or her primary motivation.

BEHAVIORAL SEGMENTATION

Although psychographic segmentation can provide a richer understanding of consumers, some marketers fault it for being somewhat removed from actual consumer behavior.[60] In *behavioral segmentation,* marketers divide buyers into groups on the basis of their knowledge of, attitude toward, use of, or response to a product.

NEEDS AND BENEFITS Not everyone who buys a product has the same needs or wants the same benefits from it. Needs-based or benefit-based segmentation identifies distinct market segments with clear marketing implications. For example, Constellation Brands identified six different benefit segments in the U.S. premium wine market ($5.50 a bottle and up).[61]

- ***Enthusiast*** *(12 percent of the market).* Skewing female, their average income is about $76,000 a year. About 3 percent are "luxury enthusiasts" who skew more male with a higher income.
- ***Image Seekers*** *(20 percent).* The only segment that skews male, with an average age of 35. They use wine basically as a badge to say who they are, and they're willing to pay more to make sure they're getting the right bottle.
- ***Savvy Shoppers*** *(15 percent).* They love to shop and believe they don't have to spend a lot to get a good bottle of wine. Happy to use the bargain bin.
- ***Traditionalist*** *(16 percent).* With very traditional values, they like to buy brands they've heard of and from wineries that have been around a long time. Their average age is 50, and they are 68 percent female.
- ***Satisfied Sippers****(14 percent).* Not knowing much about wine, they tend to buy the same brands. About half of what they drink is white zinfandel.
- ***Overwhelmed*** *(23 percent).* A potentially attractive target market, they find purchasing wine confusing.

DECISION ROLES It's easy to identify the buyer for many products. In the United States, men normally choose their shaving equipment and women choose their pantyhose, but even here marketers must be careful in making targeting decisions because buying roles change. When ICI, the giant British chemical company now called AkzoNobe, discovered that women made 60 percent of decisions on the brand of household paint, it decided to advertise its Dulux brand to women.

People play five roles in a buying decision: *Initiator, Influencer, Decider, Buyer,* and *User*. For example, assume a wife initiates a purchase by requesting a new treadmill for her birthday. The husband may then seek information from many sources, including his best friend who has a treadmill and is a key influencer in what models to consider. After presenting the alternative choices to his wife, he purchases her preferred model, which ends up being used by the entire family. Different people are playing different roles, but all are crucial in the decision process and ultimate consumer satisfaction.

USER AND USAGE-RELATED VARIABLES Many marketers believe variables related to users or their usage—occasions, user status, usage rate, buyer-readiness stage, and loyalty status—are good starting points for constructing market segments.

Occasions Occasions mark a time of day, week, month, year, or other well-defined temporal aspects of a consumer's life. We can distinguish buyers according to the occasions when they develop a need, purchase a product, or use a product. For example, air travel is triggered by occasions related to business, vacation, or family. Occasion segmentation can help expand product usage.

User Status Every product has its nonusers, ex-users, potential users, first-time users, and regular users. Blood banks cannot rely only on regular donors to supply blood; they must also recruit new first-time donors and contact ex-donors, each with a different marketing strategy. The key to attracting potential users, or even possibly nonusers, is understanding the reasons they are not using. Do they have deeply held attitudes, beliefs, or behaviors or just lack knowledge of the product or brand benefits?

Included in the potential-user group are consumers who will become users in connection with some life stage or event. Mothers-to-be are potential users who will turn into heavy users. Producers of infant products and services learn their names and shower them with products and ads to capture a share of their future purchases. Market-share leaders tend to focus on attracting potential users because they have the most to gain from them. Smaller firms focus on trying to attract current users away from the market leader.

Usage Rate We can segment markets into light, medium, and heavy product users. Heavy users are often a small slice but account for a high percentage of total consumption. Heavy beer drinkers account for

87 percent of beer consumption—almost seven times as much as light drinkers. Marketers would rather attract one heavy user than several light users. A potential problem, however, is that heavy users are often either extremely loyal to one brand or never loyal to any brand and always looking for the lowest price. They also may have less room to expand their purchase and consumption. Light users may be more responsive to new marketing appeals.[62]

Buyer-Readiness Stage Some people are unaware of the product, some are aware, some are informed, some are interested, some desire the product, and some intend to buy. To help characterize how many people are at different stages and how well they have converted people from one stage to another, recall from Chapter 5 that marketers can employ a *marketing funnel* to break the market into buyer-readiness stages.

The proportions of consumers at different stages make a big difference in designing the marketing program. Suppose a health agency wants to encourage women to have an annual Pap test to detect cervical cancer. At the beginning, most women may be unaware of the Pap test. The marketing effort should go into awareness-building advertising using a simple message. Later, the advertising should dramatize the benefits of the Pap test and the risks of not getting it. A special offer of a free health examination might motivate women to actually sign up for the test.

Figure 9.2 displays a funnel for two hypothetical brands. Compared with Brand B, Brand A performs poorly at converting one-time users to more recent users (only 46 percent convert for Brand A compared with 61 percent for Brand B). Depending on the reasons consumers didn't use again, a marketing campaign could introduce more relevant products, find more accessible retail outlets, or dispel rumors or incorrect beliefs consumers hold.

Loyalty Status Marketers usually envision four groups based on brand loyalty status:

1. ***Hard-core loyals***—Consumers who buy only one brand all the time
2. ***Split loyals***—Consumers who are loyal to two or three brands
3. ***Shifting loyals***—Consumers who shift loyalty from one brand to another
4. ***Switchers***—Consumers who show no loyalty to any brand[63]

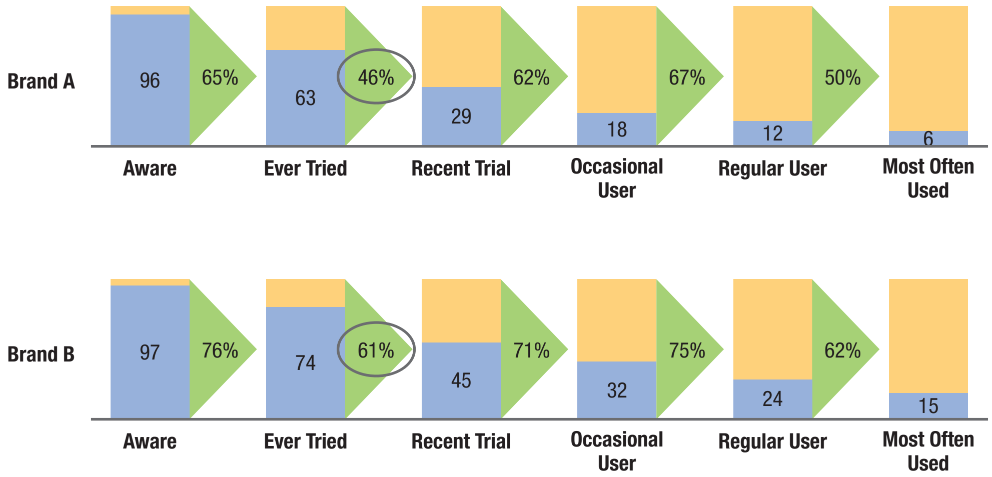
A company can learn a great deal by analyzing degrees of brand loyalty: Hard-core loyals can help identify the products' strengths; split loyals can show the firm which brands are most competitive with its own; and by looking at customers dropping its brand, the company can learn about its marketing weaknesses and attempt to correct them. One caution: What appear to be brand-loyal purchase patterns may reflect habit, indifference, a low price, a high switching cost, or the unavailability of other brands.

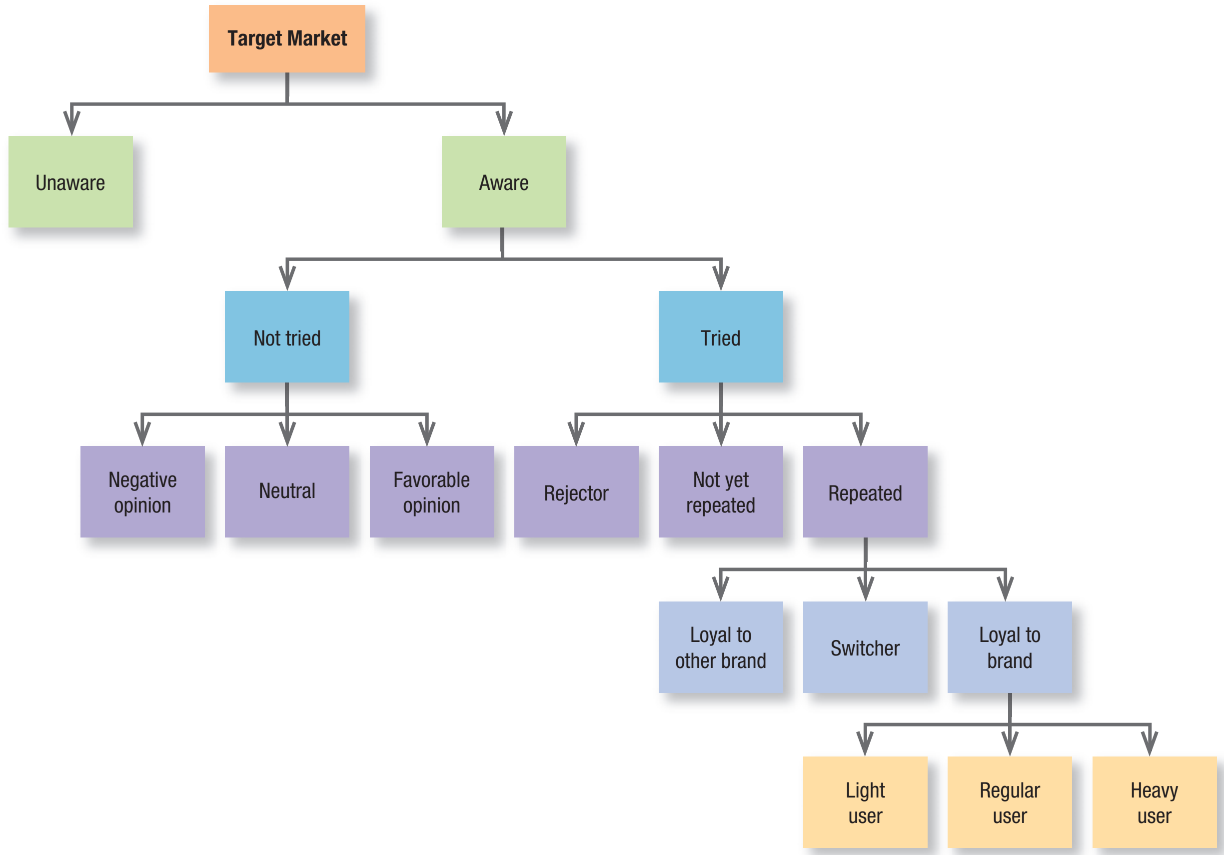
Attitude Five consumer attitudes about products are enthusiastic, positive, indifferent, negative, and hostile. Workers in a political campaign use attitude to determine how much time and effort to spend with each voter. They thank enthusiastic voters and remind them to vote, reinforce those who are positively disposed, try to win the votes of indifferent voters, and spend no time trying to change the attitudes of negative and hostile voters.

Multiple Bases Combining different behavioral bases can provide a more comprehensive and cohesive view of a market and its segments. Figure 9.3 depicts one possible way to break down a target market by various behavioral segmentation bases.

| Fig. 9.2 |

Example of Marketing Funnel





| Fig. 9.3 |

Behavioral Segmentation Breakdown

How Should Business Markets Be Segmented?

We can segment business markets with some of the same variables we use in consumer markets, such as geography, benefits sought, and usage rate, but business marketers also use other variables. Table 9.5 shows one set of these. The demographic variables are the most important, followed by the operating variables—down to the personal characteristics of the buyer.

The table lists major questions that business marketers should ask in determining which segments and customers to serve. A rubber-tire company can sell tires to manufacturers of automobiles, trucks, farm tractors, forklift trucks, or aircraft. Within a chosen target industry, it can further segment by company size and set up separate operations for selling to large and small customers.

A company can segment further by purchase criteria. Government laboratories need low prices and service contracts for scientific equipment, university laboratories need equipment that requires little service, and industrial labs need equipment that is highly reliable and accurate.

Business marketers generally identify segments through a sequential process. Consider an aluminum company: The company first undertook macrosegmentation. It looked at which end-use market to serve: automobile, residential, or beverage containers. It chose the residential market, and it needed to determine the most attractive product application: semifinished material, building components, or aluminum mobile homes. Deciding to focus on building components, it considered the best customer size and chose large. The second stage consisted of microsegmentation. The company distinguished among customers buying on price, service, and quality. Because it had a high-service profile, the firm decided to concentrate on the service-motivated segment of the market.

TABLE 9.5 Major Segmentation Variables for Business Markets

Demographic
1. *Industry:* Which industries should we serve?
2. *Company size:* What size companies should we serve?
3. *Location:* What geographical areas should we serve?
Operating Variables
4. *Technology:* What customer technologies should we focus on?
5. *User or nonuser status:* Should we serve heavy users, medium users, light users, or nonusers?
6. *Customer capabilities:* Should we serve customers needing many or few services?
Purchasing Approaches
7. *Purchasing-function organization:* Should we serve companies with a highly centralized or decentralized purchasing organization?
8. *Power structure:* Should we serve companies that are engineering dominated, financially dominated, and so on?
9. *Nature of existing relationship:* Should we serve companies with which we have strong relationships or simply go after the most desirable companies?
10. *General purchasing policies:* Should we serve companies that prefer leasing? Service contract? Systems purchases? Sealed bidding?
11. *Purchasing criteria:* Should we serve companies that are seeking quality? Service? Price?
Situational Factors
12. *Urgency:* Should we serve companies that need quick and sudden delivery or service?
13. *Specific application:* Should we focus on a certain application of our product rather than all applications?
14. *Size or order:* Should we focus on large or small orders?
Personal Characteristics
15. *Buyer-seller similarity:* Should we serve companies whose people and values are similar to ours?
16. *Attitude toward risk:* Should we serve risk-taking or risk-avoiding customers?
17. *Loyalty:* Should we serve companies that show high loyalty to their suppliers?

Source: Adapted from Thomas V. Bonoma and Benson P. Shapiro, *Segmenting the Industrial Market* (Lexington, MA: Lexington Books, 1983).

Business-to-business marketing experts James C. Anderson and James A. Narus have urged marketers to present flexible market offerings to all members of a segment.[64] A **flexible market offering** consists of two parts: a *naked solution* containing the product and service elements that all segment members value and *discretionary options* that some segment members value. Each option might carry an additional charge. Siemens Electrical Apparatus Division sells metal-clad boxes to small manufacturers at prices that include free delivery and a warranty, but it also offers installation, tests, and communication peripherals as extra-cost options.

Market Targeting

There are many statistical techniques for developing market segments.[65] Once the firm has identified its market-segment opportunities, it must decide how many and which ones to target. Marketers are increasingly combining several variables in an effort to identify smaller, better-defined target groups. Thus, a bank may not only identify a group of wealthy retired adults but within that group distinguish several segments depending on current income, assets, savings, and risk preferences. This has led some market researchers to advocate a *needs-based market segmentation approach*. Roger Best proposed the seven-step approach shown in Table 9.6.

TABLE 9.6 Steps in the Segmentation Process

	Description
1. Needs-Based Segmentation	Group customers into segments based on similar needs and benefits sought by customers in solving a particular consumption problem.
2. Segment Identification	For each needs-based segment, determine which demographics, lifestyles, and usage behaviors make the segment distinct and identifiable (actionable).
3. Segment Attractiveness	Using predetermined segment attractiveness criteria (such as market growth, competitive intensity, and market access), determine the overall attractiveness of each segment.
4. Segment Profitability	Determine segment profitability.
5. Segment Positioning	For each segment, create a "value proposition" and product-price positioning strategy based on that segment's unique customer needs and characteristics.
6. Segment "Acid Test"	Create "segment storyboard" to test the attractiveness of each segment's positioning strategy.
7. Marketing-Mix Strategy	Expand segment positioning strategy to include all aspects of the marketing mix: product, price, promotion, and place.

Source: Adapted from Roger J. Best, *Market-Based Management,* 6th ed. (Upper Saddle River NJ: Prentice Hall, 2013). © 2013. Printed and electronically reproduced by permission of Pearson Education, Inc. Upper Saddle River, New Jersey.

Effective Segmentation Criteria

Not all segmentation schemes are useful. We could divide buyers of table salt into blond and brunette customers, but hair color is undoubtedly irrelevant to the purchase of salt. Furthermore, if all salt buyers buy the same amount of salt each month, believe all salt is the same, and would pay only one price for salt, this market is minimally segmentable from a marketing point of view.

To be useful, market segments must rate favorably on five key criteria:

- ***Measurable.*** The size, purchasing power, and characteristics of the segments can be measured.
- ***Substantial.*** The segments are large and profitable enough to serve. A segment should be the largest possible homogeneous group worth going after with a tailored marketing program. It would not pay, for example, for an automobile manufacturer to develop cars for people who are under four feet tall.
- ***Accessible.*** The segments can be effectively reached and served.
- ***Differentiable.*** The segments are conceptually distinguishable and respond differently to different marketing-mix elements and programs. If married and single women respond similarly to a sale on perfume, they do not constitute separate segments.
- ***Actionable.*** Effective programs can be formulated for attracting and serving the segments.

Michael Porter has identified five forces that determine the intrinsic long-run attractiveness of a market or market segment: industry competitors, potential entrants, substitutes, buyers, and suppliers. The threats these forces pose are as follows.[66]

1. ***Threat of intense segment rivalry***—A segment is unattractive if it already contains numerous, strong, or aggressive competitors. It's even more unattractive if it's stable or declining, if plant capacity must be added in large increments, if fixed costs or exit barriers are high, or if competitors have high stakes in staying in the segment. These conditions will lead to frequent price wars, advertising battles, and new-product introductions and will make it expensive to compete. The mobile phone market has seen fierce competition due to segment rivalry.
2. ***Threat of new entrants***—The most attractive segment is one in which entry barriers are high and exit barriers are low. Few new firms can enter the industry, and poorly performing firms can easily exit. When both entry and exit barriers are high, profit potential is high, but firms face more risk because poorer-performing firms stay in and fight it out. When both entry and exit barriers are low, firms easily enter and leave the industry, and returns are stable but low. The worst case occurs when entry barriers are low and exit barriers are high: Here firms enter during good times but find it hard to leave during bad times. The result is chronic

overcapacity and depressed earnings for all. The airline industry has low entry barriers but high exit barriers, leaving all carriers struggling during economic downturns.

3. ***Threat of substitute products***—A segment is unattractive when there are actual or potential substitutes for the product. Substitutes place a limit on prices and on profits. If technology advances or competition increases in these substitute industries, prices and profits are likely to fall. Air travel has severely challenged profitability for Greyhound and Amtrak.
4. ***Threat of buyers' growing bargaining power***—A segment is unattractive if buyers possess strong or growing bargaining power. The rise of retail giants such as Walmart has led some analysts to conclude that the potential profitability of packaged-goods companies will become curtailed. Buyers' bargaining power grows when they become more concentrated or organized, when the product represents a significant fraction of their costs, when the product is undifferentiated, when buyers' switching costs are low, or when they can integrate upstream. To protect themselves, sellers might select buyers who have the least power to negotiate or switch suppliers. A better defense is developing superior offers that strong buyers cannot refuse.
5. ***Threat of suppliers' growing bargaining power***—A segment is unattractive if the company's suppliers are able to raise prices or reduce quantity supplied. Suppliers tend to be powerful when they are concentrated or organized, when they can integrate downstream, when there are few substitutes, when the supplied product is an important input, and when the costs of switching suppliers are high. The best defenses are to build win-win relationships with suppliers or use multiple supply sources.

EVALUATING AND SELECTING THE MARKET SEGMENTS

In evaluating market segments, the firm must look at two factors: the segment's overall attractiveness and the company's objectives and resources. How well does a potential segment score on the five criteria? Does it have characteristics that make it generally attractive, such as size, growth, profitability, scale economies, and low risk? Does investing in it make sense given the firm's objectives, competencies, and resources? Some attractive segments may not mesh with the company's long-run objectives, or the company may lack one or more competencies necessary to offer superior value.

Marketers have a range or continuum of possible levels of segmentation that can guide their target market decisions. As Figure 9.4 shows, at one end is a mass market of essentially one segment; at the other are individuals or segments of one person each. Between lie multiple segments and single segments. We describe approaches to each of the four levels next.

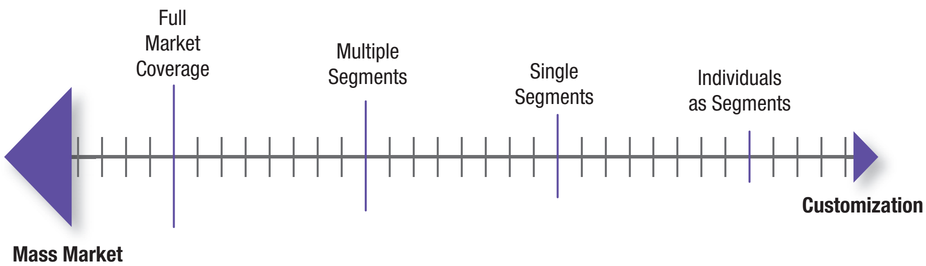
FULL MARKET COVERAGE With full market coverage, a firm attempts to serve all customer groups with all the products they might need. Only very large firms such as Microsoft (software market), General Motors (vehicle market), and Coca-Cola (nonalcoholic beverage market) can undertake a full market coverage strategy. Large firms can cover a whole market in two broad ways: through differentiated or undifferentiated marketing.

In *undifferentiated* or *mass marketing*, the firm ignores segment differences and goes after the whole market with one offer. It designs a marketing program for a product with a superior image that can be sold to the broadest number of buyers via mass distribution and mass communications. Undifferentiated marketing is appropriate when all consumers have roughly the same preferences and the market shows no natural segments. Henry Ford epitomized this strategy when he offered the Model-T Ford in one color, black.

The argument for mass marketing is that it creates the largest potential market, which leads to the lowest costs, which in turn can lead to lower prices or higher margins. The narrow product line keeps down the costs of research and development, production, inventory, transportation, marketing research, advertising, and product management. The undifferentiated communication program also reduces costs. However, many critics point to the increasing splintering of the market and the proliferation of marketing channels and communication, which make it difficult and increasingly expensive to reach a mass audience.

| Fig. 9.4 |

Possible Levels of Segmentation



When different groups of consumers have different needs and wants, marketers can define multiple segments. The company can often better design, price, disclose, and deliver the product or service and also fine-tune the marketing program and activities to better reflect competitors' marketing. In *differentiated marketing*, the firm sells different products to all the different segments of the market. Cosmetics firm Estée Lauder markets brands that appeal to women (and men) of different tastes: The flagship brand, the original Estée Lauder, appeals to older consumers; Clinique caters to middle-aged women; M.A.C. to youthful hipsters; Aveda to aromatherapy enthusiasts; and Origins to ecoconscious consumers who want cosmetics made from natural ingredients.[67] Perhaps no firm practices differentiated marketing like Hallmark Cards, which celebrated its 100th birthday in 2010.[68]

HALLMARK Hallmark's personal expression products are sold in more than 40,000 retail outlets nationwide and in 100 countries worldwide. Each year the company produces 10,000 new and redesigned greeting cards, as well as related products including party goods, gift wrap, and ornaments. Its success is due in part to its vigorous segmentation of the greeting card business. In addition to popular sub-branded card lines such as the humorous Shoebox Greetings, Hallmark has introduced lines targeting specific market segments. Fresh Ink targets 18- to 39-year-old women. The Simple Motherhood line targets moms with designs featuring fresh photography and simple, relatable sentiments. Hallmark's three ethnic lines—Mahogany, Sinceramente Hallmark, and Tree of Life—target African American, Hispanic, and Jewish consumers, respectively. Specific greeting cards also benefit charities such as (PRODUCT) RED™, UNICEF, and the Susan G. Komen Race for the Cure. Hallmark has also embraced technology. Musical greeting cards incorporate sound clips from popular movies, TV shows, and songs. Hallmark recently introduced its Magic Prints line of interactive products, with "magic mitt" technology that lets kids leave an imprint of their hand on an insert in a card or other keepsake for parents or grandparents. Online, Hallmark offers e-cards as well as personalized printed greeting cards that it mails for consumers. For business needs, Hallmark Business Expressions offers personalized corporate holiday cards and greeting cards for all occasions and events.

Differentiated marketing typically creates more total sales than undifferentiated marketing. However, it also increases the costs of doing business. Because differentiated marketing leads to both higher sales and higher costs, no generalizations about its profitability are valid.

MULTIPLE SEGMENT SPECIALIZATION With *selective specialization*, a firm selects a subset of all the possible segments, each objectively attractive and appropriate. There may be little or no synergy among the segments, but each promises to be a moneymaker. When Procter & Gamble launched Crest Whitestrips, initial target segments included newly engaged women and brides-to-be as well as gay males. The multisegment strategy also has the advantage of diversifying the firm's risk.

Keeping synergies in mind, companies can try to operate in supersegments rather than in isolated segments. A **supersegment** is a set of segments sharing some exploitable similarity. For example, many symphony orchestras target people who have broad cultural interests, rather than only those who regularly attend concerts. A firm can also attempt to achieve some synergy with product or market specialization.

Source: © Jeff Greenberg 1 of 6/Alamy

Hallmark has thoroughly segmented the greeting card market according to occasion, personality, race, and other factors.

- With *product specialization*, the firm sells a certain product to several different market segments. A microscope manufacturer, for instance, sells to university, government, and commercial laboratories, making different instruments for each and building a strong reputation in the specific product area. The downside risk is that the product may be supplanted by an entirely new technology.
- With *market specialization*, the firm concentrates on serving many needs of a particular customer group, such as by selling an assortment of products only to university laboratories. The firm gains a strong reputation among this customer group and becomes a channel for additional products its members can use. The downside risk is that the customer group may suffer budget cuts or shrink in size.

SINGLE-SEGMENT CONCENTRATION With single-segment concentration, the firm markets to only one particular segment. Porsche concentrates on the sports car enthusiast and Volkswagen on the small-car market—its foray into the large-car market with the Phaeton was a failure in the United States. Through concentrated marketing, the firm gains deep knowledge of the segment's needs and achieves a strong market presence. It also enjoys operating economies by specializing its production, distribution, and promotion. If it captures segment leadership, the firm can earn a high return on its investment.

A *niche* is a more narrowly defined customer group seeking a distinctive mix of benefits within a segment. Marketers usually identify niches by dividing a segment into subsegments. Whereas Hertz, Avis, Alamo, and others specialize in airport rental cars for business and leisure travelers, Enterprise has attacked the low-budget, insurance-replacement market by primarily renting to customers whose cars have been wrecked or stolen. By creating unique associations to low cost and convenience in an overlooked niche market, Enterprise has been highly profitable. Another up-and-coming niche marketer is Allegiant Air.[69]

ALLEGIANT AIR The recent prolonged recession wreaked havoc on the financial performance of all the major U.S. domestic airlines. Up-and-comer Allegiant Air, however, managed to turn a profit quarter after quarter. Founded in Eugene, OR, in 2007, Allegiant has developed a highly successful niche strategy by providing leisure travelers affordable nonstop flights from smaller markets such as Great Falls, MT; Grand Forks, ND; Knoxville, TN; and Plattsburgh, NY; to popular vacation spots in Florida, California, and Hawaii and to Las Vegas, Phoenix, and Myrtle Beach. By staying off the beaten track, it avoids competition on all but a handful of its 100-plus routes. Much of its passenger traffic is additive and incremental, attracting tourist travel that might not have otherwise even happened. If a market doesn't seem to be taking hold, Allegiant quickly drops it. The carrier carefully balances revenues and costs. It charges for services—like in-flight beverages and overhead storage space—that are free on other airlines. It also generates additional revenue by cross-selling vacation products and packages. Allegiant owns its 64 used MD-80 planes and also cuts costs by flying only a few times a week instead of a few times a day like most airlines. It even fixes its seats at a pitch halfway between fully upright and fully reclined—adjustable seats add weight, burn fuel, and are a "maintenance nightmare." The formula seems to be working. Passengers in its local markets love the convenience, keeping Allegiant's planes full and the company profitable.

Allegiant Air has found a niche flying leisure travelers from smaller markets.

Source: © Michael Matthews/Alamy

What does an attractive niche look like? Niche customers have a distinct set of needs; they will pay a premium to the firm that best satisfies them; the niche is fairly small but has size, profit, and growth potential and is unlikely to attract many competitors; and it gains certain economies through specialization. As marketing efficiency increases, niches that seemed too small may become more profitable. See "Marketing Insight: Chasing the Long Tail."

INDIVIDUAL MARKETING The ultimate level of segmentation leads to "segments of one," "customized marketing," or "one-to-one marketing."[70] As companies have grown proficient at gathering information about individual customers and business partners (suppliers, distributors, retailers), and as their factories are being designed more flexibly, they have increased their ability to individualize market offerings, messages, and media. **Mass customization** is the ability of a company to meet each customer's requirements—to prepare on a mass basis individually designed products, services, programs, and communications.[71]

marketing insight

Chasing the Long Tail

The advent of online commerce, made possible by technology and epitomized by Amazon.com, eBay, iTunes, and Netflix, has led to a shift in consumer buying patterns, according to Chris Anderson, editor-in-chief of *Wired* magazine and author of *The Long Tail*.

In most markets, the distribution of product sales conforms to a curve weighted heavily to one side—the "head"—where the bulk of sales are generated by a few products. The curve falls rapidly toward zero and hovers just above it far along the X-axis—the "long tail"—where the vast majority of products generate very little sales. The mass market traditionally focused on generating "hit" products that occupy the head, disdaining the low-revenue market niches comprising the tail. The Pareto principle–based "80–20" rule—that 80 percent of a firm's revenue is generated by 20 percent of a firm's products—epitomizes this thinking.

Anderson asserts that as a result of consumers' enthusiastic adoption of the Internet as a shopping medium, the long tail holds significantly more value than before. In fact, he argues, the Internet has directly contributed to the shifting of demand "down the tail, from hits to niches" in a number of product categories including music, books, clothing, and movies. According to this view, the rule that now prevails is more like "50–50," with lower-selling products adding up to half a firm's revenue.

Anderson's long-tail theory is based on three premises: (1) Lower costs of distribution make it economically easier to sell products without precise predictions of demand; (2) The more products available for sale, the greater the likelihood of tapping into latent demand for niche tastes unreachable through traditional retail channels; and (3) If enough niche tastes are aggregated, a big new market can result.

Anderson identifies two aspects of Internet shopping that support these premises. First, the increased inventory and variety afforded online permit greater choice. Second, the search costs for relevant new products are lowered due to the wealth of information online, the filtering of product recommendations based on user preferences that vendors can provide, and the word-of-mouth network of Internet users.

Some critics challenge the notion that old business paradigms have changed as much as Anderson suggests. Especially in entertainment, they say, the "head" where hits are concentrated is valuable also to consumers, not only to the content creators. One critique argued that "most hits are popular because they are of high quality," and another noted that the majority of products and services making up the long tail originate from a small concentration of online "long-tail aggregators."

Although some academic research supports the long-tail theory, other research is more challenging, finding that poor recommendation systems render many very low share products in the tail so obscure and hard to find they disappear before they can be purchased frequently enough to justify their existence. For companies selling physical products, inventory, stocking, and handling costs can outweigh any financial benefits of such products.

Harvard's Anita Elberse provides an especially detailed analysis of various media and entertainment options via sources such as sales data from Nielsen Soundscan and online music service Rhapsody, with some provocative findings. Blockbusters are capturing even more of the market than they used to, which Elberse attributes to humans' social nature and desire to share experiences. Consumers in the tail tend to be heavier users in the category but actually don't like niche products as much as they like the hit products.

Elberse concluded that consumer behavior online and offline in the media and entertainment industries was highly similar and favored hit products in both cases. She notes that niche products at the tail end of a distribution can have value, but keeping costs low is critical. The debate over the importance of the long tail is likely to continue; perhaps the answer is that it is not so much either/or, but how hit and niche products can best be created and marketed.

Sources: Chris Anderson, *The Long Tail* (New York: Hyperion, 2006); "Reading the Tail," interview with Chris Anderson, *Wired*, July 8, 2006, p. 30; "Wag the Dog: What the Long Tail Will Do," *The Economist*, July 8, 2006, p. 77; John Cassidy, "Going Long," *New Yorker*, July 10, 2006; Erik Brynjolfsson, Yu "Jeffrey" Hu, and Michael D. Smith, "From Niches to Riches: Anatomy of a Long Tail," *MIT Sloan Management Review* (Summer 2006), p. 67; Anita Elberse, "Should You Invest in the Long Tail," *Harvard Business Review,* July–August 2008, pp. 88–96 (with online commentary); Lee Gomes, "Study Refutes Niche Theory Spawned by Web," Wall Street Journal, July 2, 2008; Erick Schonfeld, "Poking Holes in the Long Tail Theory," www.techcrunch.com, July 2, 2008; "Rethinking the Long Tail Theory: How to Define 'Hits' and 'Niches,'" *Knowledge@Wharton*, September 16, 2009.

Consumers increasingly value self-expression and the ability to capitalize on user-generated products (UGP) as much as user-generated content (UGC).[72] MINI Cooper's online "configurator" allows prospective buyers to virtually select and try out many options for a new MINI. Coke's Freestyle vending machine allows users to choose from more than 100 Coke brands or custom flavors or to create their own.[73]

Consumers can buy customized jeans, cowboy boots, and bicycles that cost thousands of dollars.[74] Peter Wagner started Wagner Custom Skis in Telluride, Colorado, in 2006. His company now makes about 1,000 snowboards and pairs of skis a year, with prices that start at $1,750. Each ski or snowboard is unique and precisely fitted to the preferences and riding style of its owner. Strategies like using NASA-like materials and making adjustments of thousands of an inch send a strong performance message, matched by the attractive aesthetic of the skis.[75]

Services are also a natural setting to apply customized marketing; airlines, hotels, and rental car agencies are attempting to offer more individualized experiences. Even political candidates are embracing customized marketing. On Facebook, politicians can find an individual's preferences by observing the groups or causes he or she joins, and then, using Facebook's ad platform, the campaign team can test hundreds of ad messages designed to reflect the theme of these other interests. Hikers may get an environmentally themed message; members of particular religious groups may get a Christian-themed message.[76]

Early pioneers in individual marketing Don Peppers and Martha Rogers outlined a four-step framework for what they called *one-to-one marketing* as follows:[77]

1. ***Identify your prospects and customers.*** Don't go after everyone. Build, maintain, and mine a rich customer database with information from all the channels and customer touch points.
2. ***Differentiate customers in terms of (1) their needs and (2) their value to your company.*** Spend proportionately more effort on the most valuable customers (MVCs). Apply activity-based costing and calculate customer lifetime value. Estimate net present value of all future profits from purchases, margin levels, and referrals, less customer-specific servicing costs.
3. ***Interact with individual customers to improve your knowledge about their individual needs and to build stronger relationships.*** Formulate customized offerings you can communicate in a personalized way.
4. ***Customize products, services, and messages to each customer.*** Facilitate customer interaction through the company contact center and Web site.

One-to-one marketing is not for every company. It works best for firms that normally collect a great deal of individual customer information and carry a lot of products that can be cross-sold, need periodic replacement or upgrading, and offer high value. For others, the required investment in information collection, hardware, and software may exceed the payout. The cost of goods is raised beyond what the customer is willing to pay.

Customers must know how to express their personal product preferences, however, or be given assistance to best customize a product.[78] Some customers don't know what they want until they see actual products, but they also cannot cancel the order after the company has started to work on it. The product may be hard to repair and have little resale value. In spite of this, customization has worked well for some products.

LEGAL AND ETHICAL ISSUES WITH MARKET TARGETS Marketers must target carefully to avoid consumer backlash. Some consumers resist being labeled.[79] Singles may reject single-serve food packaging if they don't want to be reminded they are eating alone. Elderly consumers who don't feel their age may not appreciate products that label them "old."

Market targeting also can generate public controversy when marketers take unfair advantage of vulnerable groups (such as children) or disadvantaged groups (such as inner-city residents) or promote potentially harmful products. The cereal industry has been criticized through the years for marketing efforts directed toward children. Critics worry that high-powered appeals presented by lovable animated characters will overwhelm children's defenses and lead them to want sugared cereals or poorly balanced breakfasts. Toy marketers have been similarly criticized. A key area of concern for many consumer protection advocates is the millions of kids who are online, as discussed in "Marketing Memo: Protecting Kids Online."

Not all attempts to target children, minorities, or other special segments draw criticism. Colgate-Palmolive's Colgate Junior toothpaste has special features designed to get children to brush longer and more often. Thus, the issue is not who is targeted, but how and for what purpose. Socially responsible marketing calls for targeting that serves not only the company's interests but also the interests of those targeted.

This is the case many companies make in marketing to the nation's preschoolers. With nearly one in four youngsters under the age of five attending some kind of organized child care, they feel the potential market—including kids and parents—is too great to pass up.[80] So in addition to standards such as art easels, gerbil cages,

marketing memo — Protecting Kids Online

With the explosion of cell phones, tablets, software apps, and social networking sites, an important concern is protecting unknowing or unsuspecting children in an increasingly complex technological world. The 8-to-12 tween market today is highly mobile and happy to share locations via an app and communicate with others by phone, leading one trendspotting expert to characterize them as "SoLoMo" (Social Local Mobile). Only one in five parents, however, uses basic content control features on smart phones, tablets, and game consoles. Thus, establishing ethical and legal boundaries in marketing to children online—and offline—continues to be a hot topic.

The Children's Online Privacy Protection Act (COPPA) was designed to better control the online collection of personal information from children under 13. It became law in July 2000 and helped ensure that Web sites targeted to children could not inappropriately collect names, e-mail addresses, and other sensitive information. Updates to the law in 2010 reflect the rapid technological developments that allowed marketers to collect so much more information from kids.

COPPA spells out "what a Web site operator must include in a privacy policy, when and how to seek verifiable consent from a parent and what responsibilities an operator has to protect children's privacy and safety online." The act forbids the collection of certain information about children unless a parent first gives permission. That information includes photos, videos, and audio files containing a human image or voice, as well as location data generated by a cell phone. "Personal identifiers" that allow a person to be tracked over time and across Web sites were deemed personal information and covered by the law. The updated law also outlined how parental consent could be verified through electronically scanned consent forms, video conferencing, and e-mail.

Some software developers were opposed to the amended COPPA, complaining that the cost of compliance and the risk of violations were too great. Penalties can be stiff. In 2008, Sony BMG Music Entertainment agreed to pay $1 million as part of a settlement with the FTC after being charged with improperly collecting information from 30,000 children under 13 on its Web sites. Mrs. Fields Cookies and Hershey Foods were fined early on.

Despite the restrictions of COPPA and other regulations, businesses continue to eye the potentially rewarding youth market. eBay has explored allowing consumers under 18 to set up accounts with parental authorization and shop, with some safeguards to prevent access to adult content and products. Facebook's stated interest in allowing children 12 and under to join its site has met with criticism from consumer, privacy, and child advocacy groups.

Sources: Anton Troianovski, "New Rules on Kids' Web Ads," *Wall Street Journal*, August 1, 2012; www.ftc.gov/ogc/coppa1.htm; "How to Comply with the Children's Online Privacy Protection Rule, www.business.ftc.gov/documents/; Richard Lardner, "Government Issues New Online Child Privacy Rules," www.news.terra.com, December 19, 2012; Greg Bensinger, "EBay to Target Under-18 Set," *Wall Street Journal*, July 26, 2012; Tim Peterson, "Tweenage Wasteland," *Adweek*, June 25, 2012, p.11; Sharon M. Goldman, "The Social Tween," *Adweek*, June 25, 2012, p. T1; Heather Chaet, "The Tween Machine," *Adweek*, June 25, 2012; Bruce Levinson, "Does Technology Change the Ethics of Marketing to Children," *Fast Company*, April 11, 2013.

and blocks, the nation's preschools are likely to have Care Bear worksheets, Pizza Hut reading programs, and Nickelodeon magazines.

Teachers and parents are divided about the ethics of this increasingly heavy preschool marketing push. Some side with groups such as Campaign for a Commercial-Free Childhood, whose members feel preschoolers are incredibly susceptible to advertising and that schools' endorsements of products make children believe the product is good for them—no matter what it is. Yet many preschools and day care centers operating on tight budgets welcome the free resources marketers offer.[81]

Summary

1. Target marketing includes three activities: market segmentation, market targeting, and market positioning. Market segments are large, identifiable, distinct groups within a market.
2. The major segmentation variables for consumer markets are geographic, demographic, psychographic, and behavioral. Marketers use them singly or in combination.
3. Business marketers use all these variables along with operating variables, purchasing approaches, and situational factors.
4. To be useful, market segments must be measurable, substantial, accessible, differentiable, and actionable.
5. We can target markets at four main levels: mass, multiple segments, single (or niche) segment, and individuals.

6. A mass market targeting approach is adopted only by the biggest companies. Many companies target multiple segments defined in various ways such as various demographic groups who seek the same product benefit.
7. A niche is a more narrowly defined group. Globalization and the Internet have made niche marketing more feasible for many.
8. More companies now practice individual and mass customization. The future is likely to see more individual consumers take the initiative in designing products and brands.
9. Marketers must choose target markets in a socially responsible manner at all times.

MyMarketingLab

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Applications

Marketing Debate

Is Mass Marketing Dead?

With marketers increasingly adopting more and more refined market segmentation schemes—fueled by the Internet and other customization efforts—some claim mass marketing is dead. Others counter there will always be room for large brands employing marketing programs to target the mass market.

Take a position: Mass marketing is dead versus Mass marketing is still a viable way to build a profitable brand.

Marketing Discussion

Marketing Segmentation Schemes

✪ Think of various product categories. In each segmentation scheme, to which segment do you feel you belong? How would marketing be more or less effective for you depending on the segment? How would you contrast demographic and behavioral segment schemes? Which one(s) do you think would be most effective for marketers trying to sell to you?

Marketing Excellence

>> HSBC

HSBC, originally known as the Hong Kong and Shanghai Banking Corporation Limited, was established in 1865 to finance the growing trade between China and the United Kingdom. Over the years, the bank has pioneered many modern banking practices in different countries. For example, it was the first bank in Thailand and printed the country's first banknotes. During the early 20th century, HSBC issued significant loans to several national governments, including China, which helped finance projects such as its railway development. The bank was also a key player in reestablishing Hong Kong's economy after World War II. By the end of the 20th century, it had acquired numerous companies in hopes of implementing a "three-legged stool" strategy; the three legs represented a foothold in the United Kingdom, the United States, and Asia. HSBC continued to grow around the world for many years, and by the early 21st century, it was the second-largest bank in the world.

HSBC has successfully grown its business under a single global brand and for years kept the tagline "The World's Local Bank." The aim was to link its huge international size with the close relationships it nurtures in each of the countries in which it operates. Sir John Bond, HSBC's former chairman, said, "Our position as the world's local bank enables us to approach each country uniquely, blending local knowledge with a worldwide operating platform."

HSBC launched one global campaign titled "Different Values," which embraced this exact notion of understanding multiple viewpoints and different interpretations. Print ads showed the same picture three times with a different interpretation in each. For example, an old classic car appeared with the words *freedom*, *status symbol*, and *polluter*. Next to the picture the copy read, "The more you look at the world, the more you realize that what one person values may be different from the next." In another set of print ads, the word *accomplishment* is first shown on a picture of a woman winning a beauty pageant, then an astronaut walking on the moon, and a young child tying his sneaker. The copy read, "The more you look at the world, the more you realize what really matters to people." Tracy Britton, head of marketing for HSBC Bank, USA, explained the strategy behind the campaign: "It encapsulates our global outlook that acknowledges and respects that people value things in very different ways. HSBC's global footprint gives us the insight and the opportunity not only to be comfortable, but confident in helping people with different values achieve what's really important to them."

HSBC revised its business strategy in 2011, consolidating in underperforming markets and investing in growth markets and businesses. As a result, it made a strategic shift in its branding efforts, moving away from the familiar "World's Local Bank" message and introducing "HSBC helps you unlock the world's potential." HSBC hoped to communicate how it connects local businesses to the world economy and, ultimately, how it focuses on the business elements that affect the world of the future. Chris Clark, HSBC's marketing director, explained that the new ads and campaign "are symptomatic of a shift from pure brand-led advertising to a more product-driven approach."

In one television ad, a young girl and her father set up a lemonade stand advertising lemonade for 50 cents. As customers passing by scramble to find a few quarters, the girl explains (in a different language) that she accepts other global currencies, including Hong Kong dollars and Brazilian reals. The voiceover says, "At HSBC we believe that in the future even the smallest business will be multinational." The ads were meant to make consumers feel reassured about banking with HSBC. In a corresponding print ad, a lemonade stand sign displayed the cost of a glass as 50¢, €0.4, and ¥3. The copy read, "Whether you trade in dollars, euros or renminbi, global markets are opening up to everyone. At HSBC we can connect your business to new opportunities on six continents—in more than 90 currencies."

HSBC has traditionally focused much of its advertising in airports but also sponsors more than 250 cultural and sporting events, with a special concentration on helping youth, growing education, and embracing communities. These sponsorships allow the company to learn from different people and cultures around the world.

The bank has gained insight into how to target consumer niches with unique products and services. For example, it found a little-known product area growing at 125 percent a year: pet insurance. HSBC now distributes nationwide pet insurance to its depositors through its HSBC Insurance agency. In Malaysia, it offered a "smart card" and no-frills credit cards to the underserved student segment and targeted high-value customers with special "Premium Center" bank branches.

Today, HSBC remains one of the largest banks in the world, with four global businesses: retail banking and wealth management, commercial banking, global banking and markets, and global private banking. It serves 60 million customers through 6,600 branches in 80 countries and earned \$22.6 billion in profit in 2013, with a brand value of \$11.4 billion, according to Interbrand/*BusinessWeek* global brand rankings.

Questions

1. What were the risks and benefits of HSBC's positioning itself as the "World's Local Bank"?
2. Evaluate HSBC's recent business and marketing shift. How do you think its current ad campaign and tagline, "HSBC helps you unlock the world's potential," resonate with its key consumers?

Sources: Carrick Mollenkamp, "HSBC Stumbles in Bid to Become Global Deal Maker," *Wall Street Journal*, October 5, 2006; Kate Nicholson, "HSBC Aims to Appear Global yet Approachable," *Campaign*, December 2, 2005, p. 15; Deborah Orr, "New Ledger," *Forbes*, March 1, 2004, pp. 72–73; "HSBC's Global Marketing Head Explains Review Decision," *Adweek*, January 19, 2004; "Now Your Customers Can Afford to Take Fido to the Vet," *Bank Marketing*, December 2003; Kenneth Hein, "HSBC Bank Rides the Coattails of Chatty Cabbies," *Brandweek*, December 1, 2003, p. 30; Sir John Bond and Stephen Green, "HSBC Strategic Overview," presentation to investors, November 27, 2003; "Lafferty Retail Banking Awards 2003," *Retail Banker International*, November 27, 2003, pp. 4–5; "Ideas That Work," *Bank Marketing*, November 2003; "HSBC Enters the Global Branding Big League," *Bank Marketing International*, August 2003; Normandy Madden, "HSBC Rolls Out Post-SARS Effort," *Advertising Age*, June 16, 2003, p. 12; Douglas Quenqua, "HSBC Dominates Ad Pages in New York Magazine Issue," *New York Times*, October 20, 2008, pg. B.6; Kimia M. Ansari, "A Different Point of View: HSBC." *Unbound Edition*, July 10, 2009; "The Evolution of "Your Point of View," press release, October 20, 2008; *Fortune*, Global 500; Alex Brownsell, "HSBC's Chris Clark on a New Era for the Bank's Marketing," *Marketingmagazine.co.uk*, May 31, 2012; "Best Global Brands 2012," *Interbrand;* HSBC.com; 2013 HSBC Annual Report.

Marketing Excellence

>> BMW

BMW is the ultimate driving machine. Manufactured by the German company Bayerische Motoren Werke AG, BMW stands for both performance and luxury. The company was founded in 1916 as an aircraft-engine manufacturer and produced engines during World Wars I and II. It evolved into a motorcycle and automobile maker by the mid-20th century, and today it is an internationally respected company and brand with $106 billion in sales in 2012.*

BMW's logo is one of the most distinctive and globally recognized symbols ever created. The signature BMW roundel looks like a spinning propeller blade set against a blue sky background—originally thought to be a tribute to the company's founding days as an aircraft-engine manufacturer. Recently, however, a *New York Times* reporter revealed that the logo, which features the letters *BMW* at the top of the outer ring and a blue-and-white checkered design in the inner ring, was trademarked in 1917 and meant to show the colors of the Free State of Bavaria, where the company is headquartered.

BMW's growth exploded in the 1980s and 1990s, when it successfully targeted the growing market of baby boomers and professional yuppies who put work first and wanted a car that spoke of their success. BMW gave them sporty sedans with exceptional performance and a brand that stood for prestige and achievement. The cars, which came in a 3, 5, or 7 Series, were basically the same design in three sizes. It was at this time that yuppies made Beemer and Bimmer the slang terms for BMW's cars and motorcycles, popular names still used today.

At the turn of the century, consumers' attitudes toward cars changed. Research showed that they cared less about the bragging rights of the BMW brand and instead desired a variety of design, size, price, and style choices. As a result, the company took several steps to grow its product line by targeting specific market segments. This resulted in unique premium-priced cars such as SUVs, convertibles, and roadsters, as well as less expensive compact cars like the 1 Series. In addition, BMW redesigned its 3, 5, and 7 Series cars, making them unique in appearance yet maintaining their exceptional performance. BMW's full range of cars now includes the 1 Series, 3 Series, 5 Series, 6 Series, 7 Series, X Series, Z4 Roadster, M Series, Hybrids, and BMWi.

BMW created the lower-priced 1 Series and X1 SUV to target the "modern mainstream," a group who are also family-focused and active but had previously avoided BMWs because of their premium cost. The 1 Series reached this group with its lower price point, sporty design, and luxury brand. The X1 and X3 also hit home with a smaller, less expensive SUV design.

The redesign of the 7 Series, BMW's most luxurious car, targeted a group called "upper conservatives." These wealthy, traditional consumers don't usually like sportier cars, so BMW added electronic components such as multiple options to control the windows, seats, airflow, and lights, a push-button ignition, and night vision, all controlled by a point-and-click system called iDrive. These enhancements added comfort and luxury, attracting drivers away from competitors like Jaguar and Mercedes.

BMW successfully launched the X Series by targeting "upper liberals" who had achieved success in the 1990s and gone on to have children and take up extracurricular activities such as biking, golf, and skiing. These consumers needed a bigger car for their active lifestyles and growing families, so BMW created a high-performance luxury SUV. BMW refers to its SUVs as sport *activity* vehicles in order to appeal even more to these active consumers.

BMW introduced convertibles and roadsters to target "post-moderns," a high-income group that continues to attract attention with more showy, flamboyant cars.

*BMW Group includes BMW, MINI, and Rolls-Royce brands.

BMW's 6 Series, a flashier version of the high-end 7 Series, also targeted this group.

BMW uses a wide range of advertising tactics to reach each of its target markets. However, the company's U.S. tagline, "The Ultimate Driving Machine," has remained consistent since it first launched there in 1974. During that time, sales have grown to more than 300,000 units in the United States in 2013. In recent years, BMW has returned to emphasizing performance over status, stating, "We only make one thing, the ultimate driving machine."

BMW owners are very loyal to the brand, and enthusiasts host an annual Bimmerfest each year to celebrate their cars. The company nurtures these loyal consumers and continues to research, innovate, and reach out to specific segment groups year after year.

Questions

1. How does BMW segment its consumers? Why does this work for BMW?
2. What does BMW do well to market to each segment group? Where could it improve its marketing strategy?
3. Should BMW ever change its tagline, "The Ultimate Driving Machine"? Why or why not?

Sources: Mark Clothier, "Mercedes Outlasts BMW's Late Surge to Capture U.S. Luxury Crown," www.bloomberg.com, January 4, 2014; Stephen Williams, "BMW Roundel: Not Born from Planes," *New York Times,* January 7, 2010; Gail Edmondson, "BMW: Crashing the Compact Market," *BusinessWeek,* June 28, 2004; Neil Boudette, "BMW's Push to Broaden Line Hits Some Bumps in the Road," *Wall Street Journal,* January 10, 2005; Boston Chapter BMW Club Car of America, http://boston-bmwcca.org; Rupal Parekh, "BMW Changes Gears with New Campaign from KBS&P," *Advertising Age,* January 6, 2012; BMW.com; BMWgroup.com; BMW 2013 Annual Report, Company History.

DirecTV has established a unique position in the marketplace as the world's leading provider of digital television entertainment services.

Source: Courtesy of DIRECTV

In This Chapter, We Will Address the Following **Questions**

1. How can a firm develop and establish an effective positioning in the market? (p. 297)
2. How do marketers identify and analyze competition? (p. 298)
3. How are brands successfully differentiated? (p. 300)
4. How do firms communicate their positioning? (p. 308)
5. What are some alternative approaches to positioning? (p. 313)
6. What are the differences in positioning and branding for a small business? (p. 314)