Chapter 7

CUSTOMER-DRIVEN MARKETING STRATEGY: CREATING VALUE FOR TARGET CUSTOMERS

## Marketing Starter: Chapter 7

**DUNKIN’ DONUTS: Targeting the Average Joe**

**Synopsis**Dunkin’ Donuts has expanded into a national coffee powerhouse, competitive with Starbucks, the nation’s largest coffee chain. However, Dunkin’ does not intend to attract customers from Starbucks. It recognizes that the characteristics of Dunkin’ customers are very different from those of Starbucks’ customers. In a bit of a nod to the competitive factors, though, Dunkin’ has added a few non-breakfast items to its menu and refreshed the look and feel of its stores. At the same time, Dunkin’ is being careful to not alienate its core customer base. Apparently, the changes have led to success because Dunkin’ has topped the coffee category in a leading customer loyalty and engagement survey for the past nine years. It consistently meets or exceeds customer expectations with respect to taste, quality, and customer service. So, while Dunkin’ Donuts has a relatively limited menu, and is not fancy, it meets the needs of its customers.

### Discussion Objective

A focused discussion of the opening Dunkin’ Donuts story will illustrate the basics of segmentation, targeting, differentiation, and positioning. Dunkin’ Donuts knows that it can’t make all of its customers happy all of the time. Instead, it has segmented its market carefully and concentrated on serving as many of its customers as possible. The discussion should emphasize that Dunkin’ not only knows which customers it *wants*— it also knows what those customers want.

### Starting the Discussion

To get a feel for the breadth of Dunkin’ Donuts product offerings, go to the Dunkin’ Web site (<https://www.dunkindonuts.com/dunkindonuts/en.html>) and the corporate Dunkin’ Brands website, as Dunkin’ Donuts is a subsidiary (http://www.dunkinbrands.com/). Begin by looking at the Responsibility tab. After noticing the focus on consumers, explore the About Us pages. Look at the categories in which Dunkin’ leads. Notice how focused its products are.

### Discussion Questions

1. How would you describe Dunkin’ Donuts’ approach to market segmentation? (As with most marketers, Dunkin’ uses a combination of different segmentation variables. Discuss how the company might draw upon geographic, demographic, psychographic, and behavioral variables in determining its market structure. Ask students to provide examples of each type. As a class, try to determine which variables appear to be most important to Dunkin’ in targeting its customers. Look at its expansion plan. What variables will play into its expansion as it has a long-term goal of 17,000 U.S. locations, double the current number?
2. Look at the typical Dunkin’ menu. Many quick-service restaurants have a more extensive menu. Are there positive aspects to a relatively limited menu? What are they? Are there any negatives to consumers? Why does Dunkin’ believe it makes sense to structure its menu this way?
3. How does the chapter-opening Dunkin’ Donuts story relate to the segmentation and positioning concepts that follow in Chapter 7? (Dunkin’ Donuts knows that it can’t serve every kind of customer, or every customer in the same way. It doesn’t even want to try to appeal to all possible customers. It succeeds by segmenting its market, targeting the best segments for it, and differentiating and positioning itself to best serve the needs of target consumers. That’s pretty much what this chapter is all about.)

## Chapter Overview

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This chapter looks further into key customer-driven marketing strategy decisions—how to divide markets into meaningful customer groups (*segmentation*), choose which customer groups to serve (*targeting*), create market offerings that best serve targeted customers (*differentiation*), and position the offerings in the minds of consumers (*positioning*).

Then, the chapters that follow explore the tactical marketing tools—the*Four Ps*—by which marketers bring these strategies to life.

## Chapter OBJECTIVES

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1. Define the major steps in designing a customer value-driven marketing strategy: market segmentation, targeting, differentiation, and positioning.
2. List and discuss the major bases for segmenting consumer and business markets.
3. Explain how companies identify attractive market segments and choose a market- targeting strategy.
4. Discuss how companies differentiate and position their products for maximum competitive advantage.

## Chapter Outline

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| --- | --- | --- |
| p. 186 | **INTRODUCTION**  Dunkin’ Donuts is a fast-growing coffee powerhouse. To appeal to customers, it offers a specific look, feel, and menu. It knows who its customers are and what they want from Dunkin’.  It requires careful market segmentation and positioning to succeed with this strategy and to offer something valuable to consumers in each important preference group.  Dunkin’ Donuts has figured out what it takes to not just hold its own against Starbucks and the other competitors in an increasingly competitive coffee market, but to grow and be the best in important categories such as customer loyalty. | p. 187  Photo: Dunkin’ Donuts |
|  | * **Opening Vignette Questions**  1. Where do you go for your coffee fix? Starbucks? Dunkin’ Donuts? McDonald’s? An independent coffeehouse? Why? What keeps you coming back? 2. Do people check around and try the coffee or food at the various coffeehouses and fast-food restaurants? What makes them choose their favorite, the one that keeps them coming back? 3. Dunkin’ Donuts has expanded its product line so that its coffee can be purchased in grocery stores in K-cups and other packages. What are the benefits and risks of broadening the use of the brand name? |  |
| PPT 7-3  p. 188  PPT 7-4 | **Define the major steps in designing a customer value-driven marketing strategy: market segmentation, targeting, differentiation, and positioning.**  Most companies have moved away from mass marketing and toward *target marketing*—identifying market segments, selecting one or more of them, and developing products and marketing programs tailored to each.  **Marketing Strategy**  Figure 7.1 shows the four major steps in designing a customer value-driven marketing strategy.  **Market segmentation** involves dividing a market into smaller groups of buyers with distinct needs, characteristics, or behaviors that might require separate marketing strategies or mixes.  **Market targeting** (or **targeting**) consists of evaluating each market segment’s attractiveness and selecting one or more market segments to enter.  **Differentiation** involves actually differentiating the firm’s market offering to create superior customer value.  **Positioning** consists of arranging for a market offering to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers.  **Review Learning Objective 1:** Define the major steps in designing a customer value-driven marketing strategy: market segmentation, targeting, differentiation, and positioning. | Learning Objective 1  p. 188  Key Terms: Market segmentation, Market targeting (targeting), Differentiation  p. 188  Figure 7.1  Designing a Customer-Driven Marketing Strategy  p. 189  Key Term: Positioning |
|  | * **Assignments, Resources**   Use *Discussion Question 7-1* here  Use *Think-Pair-Share 1* here |  |
| PPT 7-5  p. 189  PPT 7-6  PPT 7-7  p. 189  PPT 7-8  PPT 7-9  p. 190  PPT 7-10  PPT 7-11  p. 191  p. 191  PPT 7-12  p. 192  PPT 7-13  PPT 7-14  p. 193  PPT 7-15  p. 196  PPT 7-16  p. 196  PPT 7-17  PPT 7-18 | **List and discuss the major bases for segmenting consumer and business markets.**    **MARKET SEGMENTATION**  Through market segmentation, companies divide large, heterogeneous markets into smaller segments that can be reached more efficiently and effectively with products and services that match their unique needs. They may require separate marketing strategies or mixes.   * Segmenting consumer markets * Segmenting business markets * Segmenting international markets * Requirements for effective segmentation   Segmenting Consumer Markets  Table 7.1 outlines the major variables that might be used in segmenting consumer markets.  Geographic Segmentation  **Geographic segmentation** calls for dividing the market into different geographical units such as nations, regions, states, counties, cities, or even neighborhoods.    Demographic Segmentation  **Demographic segmentation** divides the market into groups based on variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race, generation, and nationality.  Demographic factors are the most popular bases for segmenting customer groups.  Age and life‑cycle segmentation means offering different products or using different marketing approaches for different age and life‑cycle groups.  **Gender segmentation** has long been used in clothing, cosmetics, toiletries, and magazines.  **Income segmentation** has long been used by the marketers of products and services such as automobiles, clothing, cosmetics, financial services, and travel.  Psychographic Segmentation  **Psychographic segmentation** divides buyers into different groups based on social class, lifestyle, or personality characteristics.  Marketers also use *personality* variables to segment markets.  Behavioral Segmentation  **Behavioral segmentation** divides buyers into groups based on their knowledge, attitudes, uses, or responses to a product.  **Occasion segmentation**means grouping buyers according to occasions when they get the idea to buy, actually make their purchase, or use the purchased item.  Benefit segmentationmeans grouping buyers according to the different *benefits* that they seek from the product.  User status involves segmenting markets into nonusers, ex-users, potential users, first-time users, and regular users of a product.  Usage rate means grouping markets into light, medium, and heavy product users.  Loyalty status means dividing buyers into groups according to their degree of loyalty.  Using Multiple Segmentation Bases  Marketers rarely limit their segmentation analysis to only one or a few variables.  Experian’s Mosaic USA is a leading segmentation system that classifies every American household based on a host of demographic factors.    Segmenting Business Markets  Consumer and business marketers use many of the same vari­ables to segment markets.  Business marketers also use some additional variables, such as customer *operating characteristics*, *purchasing approaches*, *situational factors*, and *personal character­istics*.  Segmenting International Markets  Companies can segment international markets using one or a combination of several variables.   * *Geographic location:* Nations close to one another will have many common traits and behaviors. * *Economic factors:* Countries may be grouped by population income levels, or by their overall level of economic development. * *Political and legal factors:* Type and stability of government, receptivity to foreign firms, monetary regulations, and the amount of bureaucracy. * *Cultural factors:* Grouping markets according to common languages, religions, values and attitudes, customs, and behavioral patterns.   **Intermarket segmentation** involves segmenting consumers with similar needs and buying behavior even though they are located in different countries. | Learning Objective 2  p. 189  Table 7.1: Major Segmentation Variables for Consumer Markets  p. 189  Key Term: Geographic segmentation  p. 190  Key Terms: Demographic segmentation, Age and life-cycle segmentation,  Gender segmentation  p. 190  Ad: Dick’s Sporting Goods  p. 191  Key Term: Income segmentation  p. 191  Ad: Panera  p. 191  Key Term: Psychographic segmentation  p. 192  Key Terms: Behavioral segmentation, Occasion segmentation, Benefit segmentation  p. 192  Photo: Fitbit  p. 193  Photo: Hardee’s and Carl’s Jr.  p. 194  Photo: Mountain Dew  p. 195  Photo: Market segmentation  p. 196  Key Term: Intermarket (Cross-market) segmentation  p. 197  Ad: Coca-Cola |
|  | * **Assignments, Resources**   Use *Real Marketing 7.1* here  Use *Discussion Questions 7-2* and *7-3* here  Use *Critical Thinking Exercise 7-6* here  Use *Additional Projects 1, 2* and *3* here  Use *Small Group Assignment 1* here  Use *Outside Example 2* here  **Troubleshooting Tip**   * Understanding the concept of a market segment can be difficult for students. Breaking down a market, such as their own university, into separate groups can help tremendously, as can drawing a big box on the board, and then breaking the box down into separate sections to represent pieces of a larger market. |  |
| p. 197  PPT 7-19 | Requirements for Effective Segmentation  To be useful, market segments must be:   * **Measurable**: The size, purchasing power, and profiles of the segments can be measured. * **Accessible**: The market segments can be effectively reached and served. * **Substantial**: The market segments are large or profitable enough to serve. * **Differentiable**: The segments are conceptually distinguishable and respond differently to different marketing mix elements and programs. * **Actionable**: Effective programs can be designed for attracting and serving the segments.   **Review Learning Objective 2:** List and discuss the major bases for segmenting consumer and business markets |  |
|  | * **Assignments, Resources**   Use *Critical Thinking Exercise 7-8* here  Use *Individual Assignment 1* here  Use *Think-Pair-Share 2, 3,* and *4* here  Use *Outside Example 1* here |  |
| PPT 7-20  p. 197  PPT 7-21  p. 198  p. 198  PPT 7-22  PPT 7-23  PPT 7-24  PPT 7-25  p. 199  PPT 7-26  p. 200  PPT 7-27  p. 200  PPT 7-28  p. 202  PPT 7-29  p. 203  PPT 7-30 | Explain how companies identify attractive market segments and choose a market-targeting strategy.  **MARKET TARGETING**  Evaluating Market Segments  In evaluating different market segments, a firm must look at three factors:   1. Segment size and growth 2. Segment structu­ral attractiveness 3. Company objectives and resources   The largest, fastest-growing segments are not always the most attractive ones for every company.  The company also needs to examine major structural factors that affect long-run segment attractiveness.   * A segment is less attractive if it already contains many strong and aggressive *competitors*. * The existence of many actual or potential *substitute products* may limit prices and the profits. * The relative*power of buyers* also affects segment attractiveness.   A segment may be less attractive if it contains*powerful suppliers* who can control prices.  Selecting Target Market Segments  A **target market** consists of a set of buyers who share common needs or characteristics that the company decides to serve.  Figure 7.2: Market-targeting strategies  Undifferentiated Marketing  Using an **undifferentiated marketing** (or **mass-marketing**) strategy, a firm might decide to ignore market segment differences and target the whole market with one offer.  This mass-marketing strategy focuses on what is *common* in the needs of consumers rather than on what is *different*.  Differentiated Marketing  Using a **differentiated marketing** (or **segmented market­ing**) strategy, a firm decides to target several market segments and designs separate offers for each.  It hopes for higher sales and a stronger position within each market segment. But it also increases the cost of doing business.  Concentrated Marketing  Using a **concentrated marketing** (or **niche marketing**) strategy, instead of going after a small share of a large market, the firm goes after a large share of one or a few smaller segments or niches.  It can market more *effectively* by fine-tuning its products, prices, and programs to the needs of carefully defined segments.  It can market more *efficiently*, targeting its products or services, channels, and communications programs toward only consumers that it can serve best and most profitably.  Micromarketing  **Micromarketing** is the practice of tailoring products and marketing programs to suit the tastes of specific individuals and locations.  Micromarketing includes *local marketing* and *individual marketing*.  **Local marketing** involves tailoring brands and promotions to the needs and wants of local customer groups—cities, neighborhoods, and even specific stores.  Local marketing has drawbacks.   * It can drive up manufacturing and marketing costs by reducing economies of scale. * It can create logistics problems.   Individual marketing is the tailoring of products and marketing programs to the needs and preferences of individual customers.  Individual marketing has also been labeled *one-to-one marketing*, *mass customization,* and *markets-of-one marketing*.  Choosing a Targeting Strategy  Which strategy is best depends on:   * Company resources * Product variability * Product’s life-cycle stage * Market variability * Competitors’ marketing strategies | Learning Objective 3  p. 198  Figure 7.2: Market-Targeting Strategies  p. 198  Key Terms: Target market, Undifferentiated (mass) marketing, Differentiated (segmented) marketing  p. 199  Photo: P&G  p. 199  Key Term: Concentrated (niche) marketing  p. 199  Photo: Stance Socks  p. 200  Photo: Stitch Fix  p. 200  Key Terms: Micromarketing, Local marketing  p. 201  Photo: Local Marketing, Marriott  p. 202  Key Term: Individual Marketing  p. 202  Photos: Rolls-Royce |
|  | * **Assignments, Resources**   Use *Discussion Questions 7-4* here  Use *Online, Mobile, and Social Media Marketing* here  Use *Small Group Assignment 2* here  Use *Individual Assignment 2* here  **Troubleshooting Tip**   * It may be difficult for students to understand the concept that there is no one, single way to segment a market. Students will often point out that companies segment on a single variable frequently, not understanding that the concept is much broader than that. Using a simple pen as an example, you can point out the various segmentation variables, such as income, occasion (such as graduation), and lifestyle that a pen manufacturer could study to determine effective segments. Although Mont Blanc might segment based on income and occasion factors, Bic might consider lifestyle or age. |  |
| p. 203 | Socially Responsible Target Marketing  Target marketing sometimes generates controversy and concern. Issues usually involve the targeting of vulnerable or disadvantaged consumers with controversial or potentially harmful products.  Marketers in a wide range of industries have been criticized for their marketing efforts directed toward children.  Problems arise when marketing adult products to kids, whether intentionally or unintentionally.  The growth of the Internet and other carefully targeted direct media has raised new concerns about potential targeting abuses.  The issue is not so much *who* is targeted, but *how* and for *what.* Controversies arise when marketers attempt to profit by unfairly targeting vulnerable segments or targeting them with questionable products or tactics.  Socially responsible marketing calls for segmentation and targeting that serves not just the interests of the company, but also the interests of those targeted.  **Review Learning Objective 3:** Explain how companies identify attractive market segments and choose a market-targeting strategy. | p. 204  Photo: Hypertargeting |
|  | * **Assignments, Resources**   Use *Real Marketing 7.1* here  Use *Marketing Ethics* here |  |
| PPT 7-31  p. 204  PPT 7-32  p. 205  PPT 7-33  p. 206  PPT 7-34  PPT 7-35  PPT 7-36  p. 207  p. 207  PPT 7-37  PPT 7-38  p. 208  p. 209  p. 211  PPT 7-39  PPT 7-40  p. 211-212  PPT 7-41 | **Discuss how companies differentiate and position their products for maximum competitive advantage.**  **DIFFERENTIATION AND POSITIONING**  *Value proposition:* How a company will create differentiated value for targeted segments and what positions it wants to occupy in those segments.  A **product position** is the way the product is *defined by consumers* on important attributes.  Positioning Maps  **Perceptual positioning maps**show consumer perceptions of their brands versus competing products on important buying dimensions.  Choosing a Differentiation and Positioning Strategy  The differentiation and positioning task consists of three steps:   1. Identifying a set of possible competitive advantages upon which to build a position 2. Choosing the right competitive advantages 3. Selecting an overall positioning strategy   Identifying Possible Value Differences and Competitive Advantages  To the extent that a company can differentiate and position itself as providing superior customer value, it gains **competitive advantage**.  It can differentiate along the lines of *product*, *service*, *channel, people*, or *image*.  Choosing the Right Competitive Advantages  How Many Differences to Promote  Ad man Rosser Reeves believes a company should develop a *unique selling proposition* (USP) for each brand and stick to it.  Other marketers think that companies should position themselves on more than one differentiator.  Which Differences to Promote  A competitive advantage should be:  *Important:* The difference delivers a highly valued benefit to target buyers.  *Distinctive:* Competitors do not offer the difference, or the company can offer it in a more distinctive way.  *Superior:* The difference is superior to other ways that customers might obtain the same benefit.  *Communicable:* The difference is communicable and visible to buyers.  *Preemptive:* Competitors cannot easily copy the difference.  *Affordable:* Buyers can afford to pay for the difference.  *Profitable:* The company can introduce the difference profitably.  Selecting an Overall Positioning Strategy  The full positioning of a brand is called the brand’s **value proposition**. (see Figure 7.4)  More for more positioning involves providing the most upscale product or service and charging a higher price to cover the higher costs.  More for the same positioning involves introducing a brand offering comparable quality but at a lower price.  The same for less positioning can be a powerful value proposition—everyone likes a good deal.  Less for much less positioning involves offering products that offer less and therefore cost less. This involves meeting consumers’ lower performance or quality requirements at a much lower price.  More for less positioning is the winning value proposition.  In the long run, companies will find it very difficult to sustain such best-of-both positioning.  Developing a Positioning Statement  Company and brand positioning should be summed up in a **positioning statement**.  The statement should follow the form: *To (target segment and need) our (brand) is (concept) that (point of difference).*  Communicating and Delivering the Chosen Position  Once it has chosen a position, the company must take strong steps to deliver and communicate the desired position to target consumers. All the company’s marketing mix efforts must support the positioning strategy. Once a company has built the desired position, it must take care to maintain the position through consistent performance and communication.  **Review Learning Objective 4:** Discuss how companies differentiate and position their products for maximum competitive advantage. | Learning Objective 4  p. 204  Key Term: Product position  p. 205  Ad: IKEA  p. 205  Figure 7.3: Positioning Map  p. 206  Key Term: Competitive advantage  p. 206  Ad: Jimmy John’s  p. 208  Key Term: Value proposition  p. 208  Figure 7.4: Possible Value Propositions  p. 209  Ad: Hearts On Fire  p. 210  Photo: ALDI  p. 211  Key Term: Positioning statement  p. 211  Ad: Evernote |
|  | * Assignments, Resources   Use *Real Marketing 7.2* here  Use *Discussion Questions 7-4* and *7-5* here  Use *Company Case* here  Use *Critical Thinking Exercise 7-7* and *7-8* here  Use *Marketing by the Numbers* here  Use *Additional Project 4* here  Use *Video Case* here |  |

**END OF CHAPTER MATERIAL**

**Discussion Questions**

**✪** 7-1 Why have companies moved away from mass marketing and toward target marketing? Outline the steps in a customer value-driven strategy. (AACSB: Communication)

*Answer:* Student answers will vary based on their personal response. Refer to the MyLab for an opportunity to assign this question, and all starred MyLab questions, to a student discussion board.

7-2 How is demographic segmentation used in consumer markets? Provide an example where marketers have used demographic segmentation. (AACSB: Communication; Reflective Thinking)

*Answer:*

Demographic segmentation divides the market into segments based on variables such as age, life-cycle stage, gender, income, occupation, education, religion, ethnicity, and generation. Demographic factors are the most popular bases for segmenting customer groups. One reason is that consumer needs, wants, and usage rates often vary closely with demographic variables. Another is that demographic variables are easier to measure than most other types of variables. Even when marketers first define segments using other bases, such as benefits sought or behavior, they must know a segment’s demographic characteristics to assess the size of the target market and reach it efficiently.

Students' examples will vary. Examples may include Dove developing a line for men. Dove’s MenCare brand provides a full line of body washes, body bars, antiperspirants, face care, and hair care products. Another example is Dick’s Sporting Goods launch of its first-ever ads aimed directly at fitness-minded women as part of its broader “Who Will You Be?” campaign. Recognizing that women now make up half of all sporting good shoppers, the ads feature women who must juggle their busy lives to meet their fitness goals.

7-3 Discuss the challenges marketers face with international market segmentation. (AACSB: Communication)

*Answer:*

Different countries, even those that are close together, can vary greatly in their economic, cultural, and political makeup. Companies can segment international markets using one or a combination of several variables. They can segment by *geographic location*, grouping countries by regions such as Western Europe, the Pacific Rim, South Asia, or Africa. Geographic segmentation assumes that nations close to one another will have many common traits and behaviors. Although this is sometimes the case, there are many exceptions. World markets can also be segmented based on *economic factors*. Countries might be grouped by population income levels or by their overall level of economic development. A country’s economic structure shapes its population’s product and service needs and therefore the marketing opportunities it offers. Countries can also be segmented by *political and legal factors* such as the type and stability of government, receptivity to foreign firms, monetary regulations, and amount of bureaucracy. *Cultural factors* can also be used, grouping markets according to common languages, religions, values and attitudes, customs, and behavioral patterns. Segmenting international markets based on geographic, economic, political, cultural, and other factors presumes that segments should consist of clusters of countries. However, as new communications technologies, such as satellite TV and online and social media, connect consumers around the world, marketers can define and reach segments of like-minded consumers no matter where in the world they are. Using intermarket segmentation (also called cross-market segmentation), they form segments of consumers who have similar needs and buying behaviors even though they are located in different countries.

**✪** 7-4 There are many ways to segment a market, but not all segmentations are effective. Explain the five requirements for effective market segmentation. (AACSB: Communication)

*Answer:* Student answers will vary based on their personal response. Refer to the MyLab for an opportunity to assign this question, and all starred MyLab questions, to a student discussion board.

7-5 Describe micromarketing, local marketing, and individual marketing. When should marketers consider using these segmentation strategies? (AACSB: Communication; Reflective Thinking)

*Answer:*

Micromarketing is the practice of tailoring products and marketing programs to suit the tastes of specific individuals and local customer segments. Rather than seeing a customer in every individual, micromarketers see the individual in every customer. Local marketing involves tailoring brands and promotions to the needs and wants of local customers, including cities, neighborhoods, and even specific stores. Individual marketing involves tailoring products and marketing programs to the needs and preferences of individual customers. It is also known as one-to-one marketing, mass customization, and markets-of-one marketing. With new technologies, including detailed databases, robotic production, and flexible manufacturing, mass customization is practical. It allows firms to interact one to one with masses of customers to design products, services, and marketing programs tailor-made to individual needs. It is being used for everything from food (M&Ms) to Nike shoes to earphones and Rolls-Royces. It can also be used for customizing marketing messages. In either case, the focus is on meeting individual needs and creating value for individuals.

Differentiated and concentrated marketers tailor their offers and marketing programs to meet the needs of various market segments and niches. They do not customize their offers to each individual customer. Although there are cost and logistics challenges with tailored marketing programs, the benefits can outweigh the drawbacks. Today, new technologies are permitting many companies to return to customized marketing. Companies need to consider many factors when choosing a market-targeting strategy. Which strategy is best depends on the company’s resources, product variability, market variability and competitor’ marketing strategies.

**✪** 7-6 How can a company gain competitive advantage through differentiation? Describe an example of a company that illustrates each type of differentiation discussed in the chapter. (AACSB: Communication)

*Answer:* Student answers will vary based on their personal response. Refer to the MyLab for an opportunity to assign this question, and all starred MyLab questions, to a student discussion board.

**Critical Thinking Exercises**

7-7 Identify a product you use every day. Assume you are the marketer of the product and want to convey the ways your product differs from competing products in the marketplace. Create a differentiation strategy to promote your product and create a competitive advantage. (AACSB: Communication; Reflective Thinking)

*Answer:*

Students’ examples will vary. The strategy needs to address the points of differentiation, which can include product, service, channel, people, and image. How many and which differences to promote are decisions to be made. Not all differences are meaningful. The criteria for evaluating differences are importance, distinctiveness, superiority, communicability, preemptive ability, affordability, and profitability.

One example is Blue Buffalo pet foods. Pet owners purchase Blue Buffalo products because they contain superior quality ingredients. The company is very clear in communicating to customers how the product is distinctive from other dog foods. See www.bluebuffalo.com/true-blue-test/compare-dog-food/ for an example of how Blue Buffalo distinguishes itself from other brands. According to its Web site, Blue Buffalo has found this strategy to be advantageous and showcasing these differences has solidified the company as a billion dollar brand. Blue Buffalo is currently the number one brand in the Wholesome Natural pet food market segment. (ir.bluebuffalo.com/)

7-8 *Manfluencers* is a terms that describes a new marketing trend. To what does this term refer? Describe two examples of how marketers have responded to the *manfluencers* trend. (AACSB: Communication; Reflective Thinking)

*Answer:*

Students’ examples will vary. The term refers to males who shop and prepare meals at least half of the time. (Source: <https://www.consumeraffairs.com/news/marketing-to-men-by-appealing-to-manfluencers-102513.html>; <http://midanmarketing.com/beta/wp-content/uploads/2014/12/Manfluence-infographic-081413.pdf>; <http://midanmarketing.com/consumers-case/man-fluence/>)

*Manfluencers* is a term that describes the almost 50 percent of men who now do most of the grocery shopping and cooking at home. See John Johnson, “New Marketing Trend: Meet the ‘Manfluencers’” *USAToday*, October 27, 2013, at www.usatoday.com/story/news/nation/2013/10/27/newser-marketing-men/3280773/. Another article describes several examples – see Anne Marie Chaker, “Groceries Become a Guy Thing,” *Wall Street Journal*, (October 17, 2013), p. D1. Food giants Kraft and General Mills are going after *manfluencers*. Some changes are merely cosmetic, such as larger portions and darker color schemes on packages. Powerful Yogurt focuses on protein content, and frozen yogurt, Pro Yo, is geared specifically for men and is marketed as tasting like premium ice cream and high in protein and nicknamed “brogurt.” General Mills sponsored a Real Men Cook event for fathers in Chicago, and representatives in a red truck gave samples of Crunchy Taco and Ultimate Three Cheese Marinara. They gave samples at NASCAR races, too. “Ultimate” is a male-friendly buzzword. For an interesting infographic, see www.theshelbyreport.com/2013/08/21/study-examines-how-manfluencers-shop-for-prepare-consume-meat-products/.

For more examples see Sarah Halzack, “Major Food Brands Go After a Once-Ignored Customer: Men,” *The Washington Post*, September 25, 2014, at www.washingtonpost.com/business/economy/major-food-brands-go-after-a-once-ignored-customer-men/2014/09/25/6c0ebb6c-337b-11e4-9e92-0899b306bbea\_story.html.

7-9 In a small group, create an idea for a new business. Using the steps described in the chapter, develop a customer value–driven marketing strategy. Describe your strategy and conclude with a positioning statement for this business. (AACSB: Communication; Reflective Thinking)

*Answer:*

The four major steps in designing a customer value-driven marketing strategy are *market segmentation*, *market targeting* (or *targeting*), *differentiation,* and *positioning.* Students should identify the target market for their business and identify the competitive advantage. That is, what does their business offer that others do not? A difference is worth establishing and promoting to the extent that it is important, distinctive, superior, communicable, preemptive, affordable, and profitable. Once value differences and competitive advantages are identified, the positioning statement should follow the form: *To (target segment and need) our (brand—business in this case) is (concept) that (point of difference)*.

**APPLICATIONS AND CASES**

**Online, Mobile, and Social Media Marketing: Get Your Groupon**

Local marketing is an effective tool used by marketers to reach intended market segments. Groupon has capitalized on this concept by tailoring brands and marketing to the needs and wants of local customer segments—cities, neighborhoods, and even specific stores. According to its website, Groupon “offers a vast mobile and online marketplace where people discover and save on amazing things to do, see, eat, and buy. By enabling real-time commerce across local businesses, travel destinations, consumer products, and live events, shoppers can find the best a city has to offer. Groupon is redefining how small businesses attract and retain customers by providing them with customizable and scalable marketing tools and services to profitably grow their businesses.” This concept lies at the heart of Groupon’s mission: “to connect local commerce, increasing consumer buying power while driving more business to local merchants through price and discovery.” To help consumers make those connections, Groupon offers a mobile app, online marketplace, and social media touchpoints where customers can readily access information on its daily deals.

<CORE>7-10 </CORE><ALT1>10.</ALT1>How does Groupon use target marketing? Provide examples. Discuss the ways in which small businesses can utilize local social media marketing in your community. (AACSB: Communication; Use of IT; Reflective Thinking)

*Answer:*

Groupon targets local consumers offering deals and discounts on products, services, and activities by location. For example, local nail salons offer 25 percent off services, or a local restaurant offers $10 off a $25 purchase. Each location has its own distinct offerings. In addition, Groupon has a set of products and services offered to a wider market not based on location. For example, a set of spinner luggage offered at an 85 percent discount or an oceanfront hotel in Daytona Beach with a 24 percent discount. These deals are available to all Groupon customers. Due to the cost-prohibitive nature of building and maintaining an app, small businesses can reach local markets using a blend of social media platforms, such as Twitter, Instagram, Facebook, Pinterest, Yelp, Foursquare, and Groupon.

<CORE>7-11 </CORE><ALT1>11.</ALT1>Do you use Groupon? Is it effective in helping local businesses to meet the challenges of local marketing? Why or why not? (AACSB: Communication; Reflective Thinking)

*Answer:*

Students’ answers will vary but many students will be familiar with Groupon. Groupon may or may not be effective. Local marketing efforts such as Groupon allow businesses to potentially reach new customers. But are those new customers going to continue to support the business? This is the challenge. The cost of promoting a business using Groupon is significant to a small business. This cost may or may not be recouped. And existing customers who would visit the business without using the Groupon deal will be able to take advantage of it as well. This may be a wonderful way to reward the loyal customer.

**Marketing Ethics: Targeting to Teens**

Discretionary income. It’s the amount of money we have left over after paying for life’s necessities. And many teens have plenty of it. According to a recent Nielsen survey, 29 percent of teens live in homes where household income is $100,000 or higher. These teens aren’t just buying for themselves, either. In addition to having discretionary income, teens have a strong influence on the purchasing decisions of their parents. According to Mary Leigh Bliss, trends editor at youth-focused market research firm YPulse, “Teens are now passing technology down to their parents, not the other way around.” This presents significant opportunities for marketers. However, some critics worry that teens may be especially vulnerable to targeted marketing messages and offers from high-powered or unscrupulous marketers.

<CORE>7-12 </CORE><ALT1>12.</ALT1>Discuss how companies can reach their teen markets using socially responsible target marketing. Cite an example of a company being responsible in targeting teens and another example where a company is not responsible.

*Answer:*

The issue is not really who is targeted but rather how and for what. Controversies arise when marketers attempt to profit at the expense of targeted segments—when they unfairly target vulnerable segments or target them with questionable products or tactics. Socially responsible marketing calls for segmentation and targeting that serves not just the interests of the company but also the interests of those targeted.

Some examples—good and bad—of companies targeting teens: PepsiCo unveiled an expanded, revamped lineup for its Aquafina FlavorSplash brand with an eye toward attracting 13-to-19-year-olds to the billion-dollar Aquafina brand. Victoria’s Secret increased its marketing directed at teenagers and created a PINK line that has been popular with this demographic group. Axe ran an ad campaign aimed at younger males with the tagline “How Dirty Boys Get Clean.” Few examples are either all good or all bad, leaving plenty of room for discussion.

Sex sells. But most students will agree that marketers who “sex-up” their brands to sell to tweens and teens are not being responsible. The following link illustrates 12 brands that have used sex to sell to young consumers:

[www.businessinsider.com/sexy-brands-that-market-to-teens-2013-3?op=1](http://www.businessinsider.com/sexy-brands-that-market-to-teens-2013-3?op=1).

<CORE>7-13</CORE><ALT1>13.</ALT1> The bombardment of commercial messages is turning teens into some of the most sophisticated and skeptical consumers in the world, increasing their resistance to conventional advertising tactics. As this highly sought-after teen target market ages, how can marketers prepare to tap into the consumers of the future?

*Answer:*

Previous generations might have bought into a brand’s undelivered promises. But for this teen generation, a brand has to deliver on every promise it makes. Marketers must conduct continual market research and experiment with what efforts match up with this lucrative market segment. They will need to pay special attention to *demographic segmentation*, including *age and life-cycle segmentation, gender, income, occupation, religion, and ethnicity*. Further, *psychographic segmentation* will be crucial- based on *social class, lifestyle*, or *personality characteristics*.

Many teens are resistant to mass advertising campaigns and sensitive to manipulation attempts, but still want “cool” products. This activity has changed the way teenagers relate to brands. Teens are prepared to give their loyalty to brands that seem authentic and work to develop a personal, meaningful connection. Also, efforts that are new and experimental seem to work with teens.

Through targeted efforts, marketers hope that teens will develop deep loyalty to products even before they are able to purchase them. Teens are marketed to more now than ever before, so they are learning about, forming connections with, and making decisions about brands at an earlier age. Marketers also recognize that even if teens can’t make purchases themselves, they influence the decisions their parents make.

**Marketing by the Numbers: USAA**

USAA is a financial services company formed in 1922 by 25 Army officers who came together to insure each other’s automobiles because they were deemed too high-risk to insure. USAA now has almost 25,000 employees and more than 9 million member customers. It consistently ranks in the top 10 automobile insurance companies and offers other types of insurance as well as banking, investment, retirement, and financial planning services. USAA practices a niche marketing strategy—it targets only active and former military personnel and their immediate families. Members earn the right to be customers by serving in the military and can pass that on to their spouses and children. The company was originally even more restrictive, targeting only military officers. However, in 1996, eligibility was extended to enlisted personnel and is now extended to anyone who served and was honorably discharged from the military and his or her immediate family members.

<CORE>7-14 </CORE><ALT1>14.</ALT1>Discuss the factors used to evaluate the usefulness of the military segment. (AACSB: Communication; Reflective Thinking)

*Answer:*

To be useful, market segments must be:

* + *Measurable:* The size, purchasing power, and profiles of the segments can be measured. The number of military personnel is measured and can be obtained through public information.
  + *Accessible:* The market segments can be effectively reached and served. There are several veterans’ organizations toward military personnel and retirees, and USAA can utilize all of these channels for reaching veterans and enlisted personnel. Product information is available online, so is it easy to serve this market.
  + *Substantial:* The market segments are large or profitable enough to serve. A segment should be the largest possible homogenous group worth pursuing with a tailored marketing program. There are millions of veterans and active personnel.
  + *Differentiable:* The segments are conceptually distinguishable and respond differently to different marketing mix elements and programs. With their military background and service, these segments may be more aware than their peers (by age) about the need for the financial services USAA offers. They likely have families.
  + *Actionable:* Effective programs can be designed for attracting and serving the segments. It is possible to design programs specifically for this segment of people in need of financial services. For example, USAA runs television ads touting the fact that its services are earned through active military and passed along within families.

<CORE>7-15 </CORE><ALT1>1.</ALT1> <CORE>Using the chain ratio method described in <OLINK>Appendix 2: Marketing by the Numbers</OLINK>, estimate</CORE><ALT1>Estimate</ALT1> the market potential in the military (active duty and veterans) market. Be sure to state any assumptions you make. (AACSB: Communication; Use of IT; Analytical Reasoning)

*Answer:*

Students’ assumptions and estimates will vary, and instructors can use this exercise as an illustration that estimating market potential is not an exact science. The aim of this exercise is not to come up with the “correct answer” per se—there is no single correct answer. There are several acceptable answers. Students will have to research and justify the numbers they use.

The chain-ratio method described in Appendix 2 for estimating total market demand uses three variables:

* + - 1. number of prospective buyers
      2. quantity purchased by an average buyer per year
      3. price of an average unit

Market demand can be determined as follows:

*Q* = *n*  *q*  *p*

where

*Q* = total market demand

*n* = number of buyers in the market

*q* = quantity purchased by an average buyer per year

*p* = price of an average unit

For example, the U.S. Census Bureau reports there are 19,300,000 veterans in the United States as of 2014. Additionally, the number of active duty personnel as of May 2016 is 1,330,356 (<http://www.governing.com/gov-data/military-civilian-active-duty-employee-workforce-numbers-by-state.html>, accessed October 16, 2016). However, this number must be discounted because some military personnel and veterans already have life insurance (focusing on that specific service for this example). One way to discount this number is to multiply it by the percentage of the U.S. population that does not have life insurance. LIMRA’s 2014 Insurance Barometer Study indicates that 62% of all people in the United States were covered by some type of life insurance in 2013 (www.iii.org/fact-statistic/life-insurance). The discount factor would be 38% (that is, 1 – 0.62). Thus, one estimate of the number of potential military clients, active or veterans, is 20,630,356 × 0.38 = 7,839,535 military. Another factor that could discount this number is when the veterans served. For example, 35% of all veterans served during the Vietnam-era (1964-1975) and are likely already covered by insurance, so the total number could be discounted by a factor of 0.65 (that is, 1 – 0.35): 7,839,535 × 0.65 = 5,095,698. Depending on assumptions students make, an estimate could be made as simply as using the number of veterans who served from 1990-present, which is 5.5 million, or the number of veterans who are younger than 35, which is 1.7 million (see [www.infoplease.com/spot/veteranscensus1.html](file:///C:\Users\Julie%20Boyles\AppData\Local\Temp\www.infoplease.com\spot\veteranscensus1.html), accessed October 16, 2016). The number of current active duty personnel should increase each of these numbers by 1,330,356 military members.

To determine the other elements of the chain ratio method, students will have to state their assumptions. For example, if using the cost of a policy as the “average price per unit,” then the “quantity purchased” would be 1 because most veterans and active duty personnel will likely purchase only one life insurance policy, for example. However, if the “average price per unit” is the cost for a policy for more than one family member, then the “quantity purchased” will be the number of policies. To determine costs, students should research the USAA Web site (<https://www.usaa.com/inet/ent_logon/Logon?redirectjsp=true>).

**Company Case Notes**

**Virgin America: Flight Service for the Tech Savvy**

**Synopsis**

There are far more failures among airline startups than there are successes. In the past few decades, the most notable successes have pursued a low-cost/low-fare model (Southwest, Allegiant, Spirit, Frontier, etc.). This case shows there is room in the market for an airline that doesn’t try to beat the competition by offering the lowest price, but by offering the best service and the most appealing amenities. Virgin America is succeeding by doing these things and by targeting the right customer.

**Teaching Objectives**

The teaching objectives for this case are to:

1. Provide a practical application for possible ways that companies can segment markets.
2. Underscore the difference between segmentation and targeting.
3. Show the importance of establishing a positioning for a brand that is consistent with a targeting strategy.
4. Illustrate that established brands can reinvent themselves through modifications to a targeting strategy.

**Discussion Questions**

7-19 Using the full spectrum of segmentation variables, describe how Virgin America segments and targets the market for airline services.   
*While there are numerous segmentation variables that can factor in to Virgin’s strategy, start with the ones that make the most sense. Then, describe the profile based on others. For example:*

*Occupation – Professional and technical (specifically in the high-tech industry). Within this occupational path, the segment is described as young (age), savvy (personality), and influential (lifestyle).*

*Geographic – Silicon Valley. While this is obvious, it doesn’t pan out well, as there is no way that any airline could succeed by only serving the people from one market. Rather, Virgin started in this area and now targets a specific kind of customer who fits the profile commonly found in the professional field of that geographic area. However, folks who fit that profile are employed in every region of the U.S. and beyond.*

*Lifestyle – There are numerous lifestyle schemas (VALS, Experian, etc.). Each has a lifestyle type that is typified by the characteristics of the Virgin America customer.*

7-20 Which market targeting strategy is Virgin America following? Justify your answer.  
*Based on the information in the case, it seems that Virgin America is focused on a single segment, which qualifies as concentrated strategy. While the airline certainly picks up customers from other segments, these are not part of Virgin’s targeting strategy. Until Virgin expands and adds at least one other target group to its efforts, it really does not qualify as a differentiated strategy.*

7-21 Write a positioning statement for Virgin America.

*Follow the basic template set forth by the textbook: To (target segment and need) our (brand) is (concept) that (point of difference). Filling in the blanks, this is one alternative: To tech-savvy professionals, Virgin America is a flight service that provides more amenities than any other airline and offers service that is second to none.*

7-22 What are the potential issues for Virgin America following the Alaska Airlines acquisition? Will Virgin America continue to appeal to the same types of customers? Why or why not?   
*Both airlines have a strong record for customer service. The acquisition also makes sense from the perspective of creating an airline with a strong presence on the West Coast. So, in certain respects, this is a great merger.   
  
But clearly, the biggest issue is whether or not Virgin America will continue to maintain its unique culture and image. Virgin America is truly unique in its positioning and targeting within the airline industry. If by absorbing Virgin, Alaska Airlines rebrands and becomes one big Alaska Airlines, Virgin’s existing loyal customers have little if any reason to continue their loyalty toward Alaska.*

*In the long-term, if Alaska maintains Virgin as a separate brand, it can continue to court the existing Virgin base. The fact that Virgin America has recently turned a profit for an entire year is a good sign. This is especially true considering all the barriers to entry as well as the fact that Virgin’s model is not a low-cost/low-fare approach. But maintaining two separate brands is more costly and has issues with regards to unifying a single customer base.*

**Teaching Suggestions**

Ask students to consider their most recent airline experience. Ask them what they loved about it (not just what the airline did well, but what they *loved* about it). The list will likely be pretty short. Then, ask students what aspects of the experience were negative. List both sets of responses on the board. After they have read the case, make a list of all the amenities on Virgin America that are unique. Finally, ask the class if they would be willing to pay more for that kind of experience. Finish by asking how much more.

Go to mymktlab.com for the answers to the following Assisted-graded writing questions:

7-23 Describe how marketers segment international markets. What is intermarket segmentation?

7-24 Describe how marketers manage service differentiation, other than through pricing, and describe an example of a service provider that has successfully differentiated its offering from its competitors.

**ADDITIONAL PROJECTS, ASSIGNMENTS, AND EXAMPLES**

**Projects**

1. Go to iTunes ([www.apple.com](http://www.apple.com)) or Napster ([www.napster.com](http://www.napster.com)). What unique market segments appear to be the target of specific genres of music? How did you determine the segments? (Objective 2)
2. You’ve agreed to help a friend with a home furnishings business segment her market. Suggest a way to segment the market for her. Select a target market to go after, keeping in mind segment size and growth, structural attractiveness, and probable company resources. What target marketing strategy would you use? Explain your answers. (Objective 2)
3. There are many ways to segment a market. Using the four segmentation variables discussed in the chapter, discuss which variables would be *most important*for segmenting (a) candidates for cataract surgery and (b) possible enrollees in a culinary school. Explain your choices. (Objective 2)
4. Collect advertisements that demonstrate the positioning of different watch brands. Sort the various brands into categories of brands with similar positions. (Objective 4)

**Small Group Assignments**

1. Form students into groups of three to five. Each group should read Real Marketing 7.1: Mountain Dew: “Doin’ the Dew” with Brand Superfans. Then have them answer the following questions and share their answers with the class. (Objective 2 and 4)
   1. How would you describe Mountain Dew’s approach to market segmentation?
   2. Picture a typical member of “Dew Nation.” How does he/she dress? In what type of neighborhood does he/she live? What kind of job might he/she have? What kind of vehicle does he/she drive? What might be his/her attitude toward spending money? Now, do the same thing for a typical cola drinker. What key differences can you find, and how are they important to Mountain Dew?
   3. How does the Mountain Dew story relate to the segmentation and positioning concepts that follow in Chapter 7?
2. The Federal Trade Commission (FTC) and citizen action groups have accused tobacco and beer companies of targeting underage smokers and drinkers. For instance, in recent Super Bowls, Bud Light and Budweiser ads ranked first through fourth in popularity among viewers under the age of 17. Also, underage listeners hear more than a third of radio ads for alcoholic beverages. Considering the foregoing, answer the following questions. (Objective 3)
   1. Do you believe the criticism that tobacco and alcohol companies have received is justified? Why or why not?
   2. What do you believe to be the most effective manner to advertise these products without exposing underage consumers?

**Individual Assignments**

1. You have been asked by your college/university to help develop a market segmentation strategy for them. What market segments would you encourage them to pursue and why? (Objective 2)
2. Consider the following comments by a reporter regarding Victoria’s Secret Pink line. “The message we’re telling our girls is a simple one. You’ll have a great life if people find you sexually attractive… Do we really need to start worrying about it at 11?” Do you believe this criticism is justified? Why or why not? (Objective 3)

**Think-Pair-Share**

Consider the following questions, formulate an answer, pair with the student on your right, share your thoughts with one another, and respond to questions from the instructor.

1. How would you define market segmentation? (Objective 1)
2. How do geographic segmentation and demographic segmentation differ? (Objective 2)
3. Which one segmentation form do you consider the most valuable? Why? (Objective 2)
4. What is benefit segmentation? Give a good example. (Objective 2)

**Outside Examples**

* + 1. Review the requirements for effective market segmentation. Now, log on to Napster ([www.napster.com/](http://www.napster.com/)). How are they attempting to segment their markets? Rate Napster on each of the five requirements for effective segmentation. Do you believe they are doing a good job on each? What suggestions for improvement would you recommend? (Objective 2)

*Possible Solution:*

Napster uses a differentiated marketing strategy. More specifically, they are using demographic, psychographic, and (to a lesser extent) behavioral-based segmentation variables. The requirements for effective segmentation and how well Napster is doing in meeting each are:

* Measurable—the size, purchasing power, and profiles of the segments can be measured. Napster has a good idea as to the size of each of its targeted segments.
* Accessible—the market segments can be effectively reached and served. Each of the targeted segments is reachable; however, some of the older and/or less computer-savvy users may not be adequately reached.
* Substantial—the market segments are large or profitable enough to serve. Given that the costs of accessing each segment are minimal, the segments do seem sustainable.
* Differentiable—the segments are conceptually distinguishable and respond differently to different marketing mix elements and programs. Here Napster appears to be having a bit of a problem. Through a review of their website, it appears Napster uses basically the same marketing program to reach each segment.
* Actionable—effective programs can be designed for attracting and serving the segments. As a follow-up to point above, Napster does not appear to be effectively designing unique program to attract each segment.

Napster should concentrate more on designing marketing programs to reach under-served portions of its market. Additionally, if the segments are unique and viable, separate and unique, programs should be designed to reach each.

* + 1. Lifestyle segmentation has many potential advantages. Your text discusses how lifestyle segmentation has been used by the cruise industry by citing Royal Caribbean and Regent Seven Seas as examples. Go to the home pages of three additional cruise lines and discuss how each uses lifestyle segmentation (Objective 2).

*Possible Solution:*

Students may come up with any number of examples.

* Carnival Cruise Line ([www.carnival.com/](http://www.carnival.com/)) appeals to the value-oriented consumer as well as the cruiser looking for fun. Carnival states “Fun for All and All for Fun.”
* Norwegian Cruise Line ([www.ncl.com/nclweb/home.html](http://www.ncl.com/nclweb/home.html)) promotes “Freestyle Cruising,” which allows their guest to dine “with whom they want and when they want.” This appeals to the individualist, by allowing them the power to choose the “design” of their own individual dining options.
* Holland America Cruise Line ([www.hollandamerica.com](http://www.hollandamerica.com)) appeals to a more refined or “well-heeled” traveler through the use of the line “A Signature of Excellence.”
* Seabourn Cruises ([www.seabourn.com/](http://www.seabourn.com/)) refers to their ships as “yachts,” thus giving their adventures an air of exclusivity appealing to those searching for elegance and relaxation.