

6

Customer Value–Driven Marketing Strategy

Creating Value for Target Customers

Objectives Outline

- ▶ **OBJECTIVE 6-1** Define the major steps in designing a customer value–driven marketing strategy: market segmentation, targeting, differentiation, and positioning.
- ▶ **OBJECTIVE 6-2** List and discuss the major bases for segmenting consumer and business markets.
- ▶ **OBJECTIVE 6-3** Explain how companies identify attractive market segments and choose a market-targeting strategy.
- ▶ **OBJECTIVE 6-4** Discuss how companies differentiate and position their products for maximum competitive advantage.

Previewing the Concepts

So far, you’ve learned what marketing is and about the importance of understanding consumers and the marketplace. We now delve deeper into marketing strategy and tactics. This chapter looks further into key customer value–driven marketing strategy decisions—dividing markets into meaningful customer groups (*segmentation*), choosing which customer groups to serve (*targeting*), creating market offerings that best serve targeted customers (*differentiation*), and positioning the offerings in the minds of consumers (*positioning*). The chapters that follow explore the tactical marketing tools—the four Ps—by which marketers bring these strategies to life.

To open our discussion of segmentation, targeting, differentiation, and positioning, let’s look at master marketer Procter & Gamble (P&G). For more than 185 years, P&G has led the way in brand management and marketing. The consumer products giant now claims 22 brands with revenues exceeding \$1 billion annually, double the number of billion-dollar brands of its nearest competitor. Interestingly, many of P&G’s blockbuster brands compete directly with one another on store shelves. How does that make sense? Because of careful segmentation and targeting—each brand offers a unique value proposition to a distinct segment of customers.

First Stop

P&G: Competing with Itself—and Winning

Procter & Gamble is the world's premier consumer products company. P&G invented brand management, and few companies do it better. The company markets more than 60 top-selling brands—most of them household names—to customers in more than 180 countries around the world. You'll find at least one P&G product used in almost any U.S. household. And its brands now serve nearly 5 billion of the planet's nearly 8 billion people worldwide.

P&G builds *big* brands. The consumer package goods giant markets 22 brands with annual revenues between \$1 billion and \$10 billion, nearly all of which hold the number one or two position in their category. An additional 14 P&G brands generate revenues between \$500 million and \$1 billion annually. P&G's Pampers mega-brand alone accounts for more than 13 percent of the company's \$71 billion in annual sales.

P&G brands flat-out dominate in many household and personal care categories. For example, in the United States, P&G sells a laundry room full of bestselling detergent and laundry care brands (including Tide, Gain, Cheer, Era, Dreft, Bounce, and Downy), alongside multiple brands of familiar household cleaning and homecare products (Mr. Clean, Swiffer, Febreze), dishwashing detergents (Dawn, Gain, Joy, and Cascade), hand soaps and sanitizers (Safeguard, Olay, Ivory), and hair care brands (Head & Shoulders, Pantene, Herbal Essences, Old Spice, and Aussie). The list of iconic brands goes on and on, with megabrands in oral care (Crest, Oral-B, Scope), deodorants (Secret, Old Spice), shaving and grooming (Gillette, Braun, Venus, The Art of Shaving, joy+glee), skin care (Olay, SK-II, Native), disposable diapers and baby care (Luvs, Pampers, All Good), and tissues and towels (Bounty, Charmin, Puffs).

Interestingly, many of these P&G brands compete directly with one another on the same supermarket shelves. But why would P&G introduce several brands in one category instead of concentrating its resources on a single leading brand? The answer lies in the concepts of segmentation and positioning and the fact that different people want different sets of benefits from the products they buy.

Take laundry detergents, for example. People use laundry detergents to get their clothes clean. But they also seek other benefits from their detergents—such as strength or mildness, stain removing, fabric softening, fresh scent, economy, and convenience. We all want *some* of every one of these detergent benefits, but we may have different *priorities* for each benefit. To some people, cleaning and bleaching power are most important; to others, fabric softening matters most. Still others want a mild, fresh-scented detergent. Thus, each segment of laundry detergent buyers seeks a special combination of benefits.

P&G has identified several important laundry detergent segments, along with numerous subsegments, and has developed distinct brands with value propositions to meet the needs of each. P&G's major U.S. detergent brands are positioned for different segments as follows:



» By offering brands and sub-brands that target specific segments of detergent preferences, here Tide Free & Gentle, Tide offers a unique value proposition to each distinct customer segment.

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- *Tide* is “a washing miracle.” It’s the original all-purpose, heavy-duty family detergent that gets out grime and tough stains. As we’ll see shortly, Tide has branched into a dozen or more sub-brands that home in on specific sets of laundry and fabric care needs.
- *Gain* leaves clothes smelling “irresistibly fresh. It’s like sending your nose on a roller coaster and buying it a treat afterward.”
- *Cheer* helps users “stay colorful.” It “helps keep your pinks playful and blues beautiful.”
- *Era* is “tough for less.” It’s an economical concentrated liquid detergent that “makes quick work of tough stains without breaking the bank.”
- *Dreft* is “specially formulated to be gentle on baby’s skin and tough on stains.” Pediatrician-recommended and trusted by moms for more than 80 years, Dreft now offers a full line of laundry and household products with something for every stage of babyhood.

P&G’s many brands often compete head-to-head on crowded supermarket shelves. But thanks to smart segmentation and positioning, when P&G competes against itself—it wins.

Such positionings are more than just brand-speak. Each brand is specially formulated to deliver the promised set of benefits.

Within each segment, P&G has identified even narrower niches. For example, you can buy Tide in any of more than 50 different formulations. Here's just a sampling:

- *Tide Original* is the leading U.S. detergent that delivers “an amazing clean you know and love,” promising to keep clothes “smelling as great as they look.” Like many other Tide versions, you can buy it in powder, liquid, pod, and high-efficiency liquid forms.
- *Tide Plus Coldwater Clean* is specially formulated to deliver a “brilliant clean you know and love plus brilliant color protection even in a cold water wash,” saving you energy and money when you wash in cold water.
- *Tide Ultra Stain Release* is “supercharged with specially formulated ingredients to help remove up to 99 percent of everyday stains, including greasy food stains.”
- *Tide Free & Gentle* keeps “your clothes brilliantly clean and your family’s skin safe”—it’s hypoallergenic and free of dyes and perfumes.
- *Tide Plus Bleach Alternative* revives dingy fabrics, protects colors, and “helps your fabrics look brighter and whiter after just one wash.”
- *Tide Plus a Touch of Downy* infuses the famous “April Fresh” smell into Tide’s original formula while adding a touch of softness so users can “cozy up to a fresher clean.”

- *Tide Plus Febreze* offers the signature “brilliant clean you know and love” plus a freshness that releases as you move through the day. *Tide Plus Febreze Sport* is specially designed to eliminate sports apparel odors and fight tough stains such as grass, dirt, and blood.
- Most Tide varieties are available in *Tide Pods* (small, convenient, single-use packets) and *Tide HE* (formulated for use in increasingly popular high-efficiency washing machines) forms.
- Leveraging the strength of the Tide brand, P&G has launched several additional Tide-branded laundry products, such as *Tide To Go* stain removal pens and pads, *Tide Antibacterial Fabric Spray*, *Tide Boost* detergent boosters to “give your laundry an edge,” and *Tide Washing Machine Cleaner*.

P&G’s brands and sub-brands do compete head-to-head in the crowded detergents market. But thanks to careful market segmentation and positioning, P&G has something special to offer consumers in each important preference group. Combined, its many detergent brands capture much more market share than any single brand could achieve on its own. As a result, even as private-label detergents from Walmart, Costco, and other major retailers have picked up steam in recent years, P&G is still cleaning up in the \$13 billion U.S. laundry detergent market, with 54 percent market share. P&G’s dominance has forced major competitors such as Unilever and Colgate to throw in the towel and sell off their U.S. laundry detergent brands. So by competing with itself, P&G wins.¹

Companies today recognize that they cannot appeal to all buyers in the marketplace—or at least not to all buyers in the same way. Buyers are too numerous, widely scattered, and varied in their needs and buying practices. And companies themselves vary widely in their abilities to serve different market segments. Instead, like P&G, companies must identify the parts of the market they can serve best and most profitably. They must design customer-driven marketing strategies that build the right relationships with the right customers.

Moreover, today’s new technologies—from big data analytics to digital and social media platforms—have greatly expanded marketers’ capacity to understand and reach consumers on an individualized basis. Thus, 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

OBJECTIVE 6-1 Define the major steps in designing a customer value-driven marketing strategy: market segmentation, targeting, differentiation, and positioning.

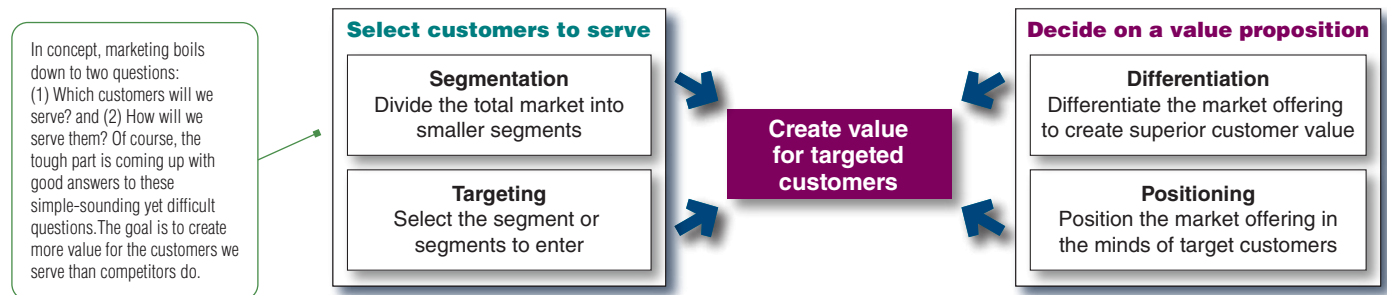
➤ **Figure 6.1** shows the four major steps in designing a customer value-driven marketing strategy. In the first two steps, the company selects the customers that it will serve. **Market segmentation** involves dividing a market into distinct groups of buyers who have different needs, characteristics, or behaviors and who might require separate marketing strategies or mixes. The company identifies different ways to segment the market and develops profiles of the resulting market segments. **Market targeting (or targeting)** consists of evaluating each market segment’s attractiveness and selecting one or more market segments to enter.

Market segmentation

Dividing a market into distinct groups of buyers who have different needs, characteristics, or behaviors and who might require separate marketing strategies or mixes.

Market targeting (targeting)

Evaluating each market segment’s attractiveness and selecting one or more segments to serve.



» Figure 6.1 Designing a Customer Value–Driven Marketing Strategy

Differentiation

Actually differentiating the market offering to create superior customer value.

Positioning

Arranging for a market offering to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers.

In the final two steps, the company decides on a value proposition—how it will create value for target customers. **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. We discuss each of these four steps in turn.

Author Comment

Market segmentation addresses the first simple-sounding marketing question: What customers will we serve?

Market Segmentation

OBJECTIVE 6-2 List and discuss the major bases for segmenting consumer and business markets.

Buyers in any market differ in their wants, resources, locations, buying attitudes, and buying practices. Through market segmentation, companies divide large, diverse markets into smaller segments that can be reached more efficiently and effectively with products and services that match their unique needs. In this section, we discuss four important segmentation topics: segmenting consumer markets, segmenting business markets, segmenting international markets, and the requirements for effective segmentation.

Segmenting Consumer Markets

There is no single way to segment a market. A marketer has to try different segmentation variables, alone and in combination, to find the best way to view market structure.

» Table 6.1 outlines variables that might be used in segmenting consumer markets. Here we look at the major *geographic*, *demographic*, *psychographic*, and *behavioral* variables.

Geographic Segmentation

Geographic segmentation calls for dividing the market into different geographical units, such as nations, regions, states, counties, cities, or even neighborhoods. A company may

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Table 6.1

Major Segmentation Variables for Consumer Markets

Segmentation Variable	Examples
Geographic	Nations, regions, states, counties, cities, neighborhoods, population density (urban, suburban, rural), climate
Demographic	Age, life-cycle stage, gender, income, occupation, education, religion, ethnicity, generation
Psychographic	Lifestyle, personality
Behavioral	Occasions, benefits, user status, usage rate, loyalty status