Chapter **8**

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

1. What are the different levels of market segmentation?

2. In what ways can a company divide a market into segments?

3. What are the requirements for effective segmentation?

4. How should business markets be segmented?

5. How should a company choose the most attractive target markets?

Club Med has gone upscale to target new market segments.

Identifying Market Segments and Targets

Companies cannot connect with all customers in large, broad, or diverse markets. But they can divide such markets into groups of consumers or segments with distinct needs and wants. A company then needs to identify which market segments it can serve effectively. This decision requires a keen understanding of consumer behavior and careful strategic thinking. To develop the best marketing plans, managers need to understand what makes each segment unique and different. Identifying and satisfying the right market segments is often the key to marketing success.

One of the most famous leisure travel brands in the world, France's Club Méditerranée, better known as Club Med, has targeted several different customer groups through the years. Started in 1950 and long a pioneer in the concept of the all-inclusive resort, Club Med originally used exotic locations, bare-bones accommodations, and the advertising theme "The antidote to civilization" to target singles, young couples, and others seeking sea, sand, and a good time. Rooms did not have phones, TVs, fans, or locks on the doors. To transcend its hedonistic image and broaden its clientele, Club Med decided to add family-friendly resort locations and services in the 1970s. Depending on location, the resorts, known as villages, offer a wide range of activities, from flying-trapeze clinics to body building to snow skiing. Club Med staff are called "GOs," or Gentil Organisateurs ("gracious/nice organizers"); clients are called "GMs," or Gentils Membres ("gracious/nice guests/members"). An informal atmosphere has GOs and GMs dining, drinking, dancing, and playing together.

An attempt to move outside the leisure-travel business to become a broader services company proved ill-fated; a series of urban bar/restaurants flopped. Combined with a post-9/11 economic recession and increased competition, the failure left Club Med reeling in 2001–2002. Under the new leadership of Henri Giscard d'Estaing (son of the former president of France), the company invested hundreds of millions of dollars to move upscale and attract wealthier customers by crafting a more sophisticated image. For the firm's 60th anniversary in 2010, advertising proclaimed that Club Med was "Where Happiness Means the World," which was backed by an extensive online marketing effort.[1]

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 and communicate the distinctive benefit(s) of the company's market offering (market positioning).

This chapter will focus on the first two steps. After reviewing some important branding concepts in Chapter 9, Chapter 10 discusses the third step, market positioning.

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 try to define segments by looking at descriptive characteristics: geographic, demographic, and psychographic. Then they examine whether these customer 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 try to define segments by looking at behavioral considerations, such as consumer responses to benefits, usage occasions, or brands. The researcher then sees 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 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 8.1.

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,* such activities concentrate on getting as close and personally relevant to individual customers as possible.

Much of Nike's initial success comes 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. Citibank provides different mixes of banking services in its branches depending on neighborhood demographics. Curves, an exercise chain aimed at middle-aged women, places paper bags where consumers can place a form asking for more information about Curves in local businesses such as ice cream shops, pizza parlors, and other places where guilt can strike the weight-conscious shopper. Retail firms such as Starbucks, Costco, Trader Joe's, and REI have all found great success emphasizing local marketing initiatives, but other types of firms have also jumped into action.[2]

Bed Bath & Beyond   **Bed Bath & Beyond**   Home furnishing retailer Bed Bath & Beyond's ability to cater to local tastes has fueled its phenomenal growth. The firm's managers pick 70 percent of their own merchandise, and this fierce local focus has helped the chain evolve from bed linens to the "beyond" part—products from picture frames and pot holders to imported olive oil and designer doormats. In Manhattan stores, for instance, managers are beginning to stock wall paint. You won't find paint in suburban stores, where customers can go to Home Depot or Lowe's. One manager says several customers have been surprised to find out the store is part of a national chain and not a mom-and-pop operation. For Bed Bath & Beyond, that's the ultimate compliment.[3] 🔲

More and more, regional marketing means marketing right down to a specific zip code.[4] 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.

TABLE 8.1	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
Religion	Catholic, Protestant, Jewish, Muslim, Hindu, other
Race	White, Black, Asian, Hispanic
Generation	Silent Generation, Baby boomers, Gen X, 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

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 over half a million U.S. residential neighborhoods into 14 distinct groups and 66 distinct lifestyle segments called PRIZM Clusters.[5] 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 8.2 has examples of four PRIZM clusters.

Marketers can use PRIZM to answer questions such as: Which geographic areas (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? Geoclustering captures the increasing diversity of the U.S. population.

TABLE 8.2 🖵 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 home owners, 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.
• **Old Milltowns.** Once-thriving mining and manufacturing towns have aged—as have the residents in Old Milltowns communities. Today, the majority of residents are retired singles and couples, living on downscaled incomes in pre-1960 homes and apartments. For leisure, they enjoy gardening, sewing, socializing at veterans clubs, and eating out at casual restaurants.

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

A number of organizations have applied this service to their marketing. The U.S. Army uses a custom Claritas system to help in recruiting. Sodexho Marriott uses a system to select menu offerings for its nationwide college food program. Wendy's and PETCO rely on Claritas to help decide where to put new stores. When Ace Hardware launched a customer loyalty program called the Helpful Hardware Club a few years ago, it assigned a Claritas cluster code to every one of the 7 million members. When Ace found that 12 clusters generated most of its business, it targeted them with specific promotions.[6]

Marketing to microsegments has become possible even for small organizations as database costs decline, software becomes easier to use, and data integration increases.[7] 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 different in different localities.

Demographic Segmentation

In demographic segmentation, we divide the market on variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality, and social class. One reason demographic variables 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 aged 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 decisions.[8]

Nevertheless, age and life cycle can be tricky variables.[9] 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 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.

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, deciding to buy a new home, and so on. These life stages present opportunities for marketers who can help people cope with their major concerns.

GENDER   Men and women have different attitudes and behave differently, based partly on genetic makeup and partly on socialization.[10] Women tend to be more communal-minded and men more self-expressive and goal-directed; women tend 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 examining how men and women shop 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.[11]

According to some studies, women in the United States and the United Kingdom control or influence over 80 percent of consumer goods and services, make 75 percent of the decisions about buying new homes, and purchase outright 60 percent of new cars. Gender differentiation has long been applied in clothing, hairstyling, cosmetics, and magazines. Avon, for one, has built a $6 billion–plus business selling beauty products to women. 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, Fuel, and Spike TV channels and through magazines such as *Maxim* and *Men's Health*.[12]

Some traditionally more male-oriented markets, such as the automobile industry, are beginning to recognize gender segmentation and changing the way they design and sell cars.[13] Women shop differently for cars than men; they are more interested in environmental impact, care more about interior than exterior styling, and view safety in terms of features that help drivers survive an accident rather than help avoid one.[14]

Avon's marketing is laser-focused on women.

Lessons learned from its European customers have helped Victoria's Secret to successfully target women in North America and other markets.

Victoria's Secret

Victoria's Secret, purchased by Limited Brands in 1982, has become one of the most identifiable brands in retailing through skillful marketing of women's clothing, lingerie, and beauty products. Most U.S. women a generation ago did their underwear shopping in department stores and owned few items that could be considered "lingerie." After witnessing women buying expensive lingerie as fashion items from small boutiques in Europe, Limited Brands founder Leslie Wexner felt a similar store model could work on a mass scale in the United States, though it was unlike anything the average shopper would have encountered amid the bland racks at department stores. Wexner, however, had reason to believe U.S. women would relish the opportunity to have a European-style lingerie shopping experience. "Women need underwear, but women want lingerie," he observed. Wexner's assumption proved correct: A little more than a decade after he bought the business, Victoria's Secret's average customer bought 8 to 10 bras per year, compared with the national average

of two. To enhance its upscale reputation and glamorous appeal, the brand is endorsed by high-profile supermodels in ads and fashion shows. Through the years, Victoria's Secret has often delivered 25 percent or more annual sales growth, selling through its stores, catalogs, and company Web site, and posted $5.1 billion in revenues in 2008.[15]

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 these sets 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.[16] Procter & Gamble launched two discount-priced brand extensions in 2005—Bounty Basic and Charmin Basic—whose success led to the introduction in 2009 of Tide Basic, although this extension was later withdrawn from the market. At the same time 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 migrate toward both discount *and* premium products.[17] 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 introduced premium lines such as Levi's Capital E to upscale retailers Bloomingdales and Nordstrom, and the less-expensive Signature by Levi Strauss & Co. line to mass market retailers Walmart and Target. "Marketing Insight: Trading Up, Down, and Over" describes the factors creating this trend and what it means to marketers.

Marketing Insight

Trading Up, Down, and Over

Michael Silverstein and Neil Fiske, the authors of *Trading Up*, observed an increasing number of middle-market consumers periodically trading up to what they call "New Luxury" products and services "that possess higher levels of quality, taste, and aspiration than other goods in the category but are not so expensive as to be out of reach." For example, consumers might trade up to such brands as Starbucks coffee, Aveda shampoo, or Viking ranges, depending in part on the emotional benefits they gain in the trade.

Thanks to the trading-up trend, New Luxury goods sell at higher volumes than traditional luxury goods, although priced higher than conventional middle-market items. The authors identify three main types of New Luxury products:

- *Accessible superpremium products*, such as Victoria's Secret underwear and Kettle gourmet potato chips, carry a significant premium over middle-market brands, yet consumers can readily trade up to them because they are relatively low-ticket items in affordable categories.

- *Old Luxury brand extensions* extend historically high-priced brands down-market while retaining their cachet, such as the Mercedes-Benz C-class and the American Express Blue card.

- *Masstige goods*, such as Kiehl's skin care and Kendall-Jackson wines, are priced between average middle-market brands and superpremium Old Luxury brands. They are "always based on emotions, and consumers have a much stronger emotional engagement with them than with other goods."

To trade up to brands that offer these emotional benefits, consumers often "trade down" by shopping at discounters such as Walmart and Costco for staple items or goods that confer no emotional benefit but still deliver quality and functionality. As one consumer explained in rationalizing why her kitchen boasted a Sub-Zero refrigerator, a state-of-the-art Fisher & Paykel dishwasher, and a $900 warming drawer but a giant 12-pack of Bounty paper towels from a warehouse discounter: "When it comes to this house, I didn't give in on anything. But when it comes to food shopping or cleaning products, if it's not on sale, I won't buy it."

In a subsequent book titled *Treasure Hunt*, Silverstein notes that 82 percent of U.S. consumers trade down in five or more categories (what he calls "treasure hunting"), whereas 62 percent focus on trading up in the two categories that provide the most emotional benefits. This makes the new consumer "part martyr and part hedonist," willingly sacrificing on a number of purchases in order to experience enhanced benefits from a handful of others.

Silverstein believes successful firms will offer one of two kinds of value: New Luxury or Treasure Hunting. Brands that offer opportunities to trade up, such as Coach, Victoria's Secret, Grey Goose, and Bath &

Body Works, or to trade down, such as Best Value Inn, Kohl's, Dollar General, and IKEA, are optimally positioned to deliver the value modern consumers seek. The remaining firms, occupying the middle market and lacking the economic, functional, and emotional value modern consumers are searching for, will see their market share shrink as they get "trapped in the middle." Traditional grocers and department stores are already suffering, with market share declines of 30 percent and 50 percent, respectively.

Market research firm Mintel observes that consumers have also been "trading over" by switching spending from one category to another, buying a new home theater system, say, instead of a new car. In the recent economic downturn, consumers were "making substitutions that work for recession-minded lifestyles" while still preserving a desired experience. Mintel cites as examples Starbucks VIA Ready Brew coffee, a new, home-based Starbucks experience that's more affordable than coffee at one of the company's outlets, and Tide TOTALCARE, which enables users to obtain certain dry-cleaning-type results at home with prices below those of professional dry cleaners.

Sources: Michael J. Silverstein, *Treasure Hunt: Inside the Mind of the New Consumer* (New York: Portfolio, 2006); Jeff Cioletti, "Movin' on Up," *Beverage World* (June 2006), p. 20; Michael J. Silverstein and Neil Fiske, *Trading Up: The New American Luxury* (New York: Portfolio, 2003); Linda Tischler, "The Price Is Right," *Fast Company*, November 2003; Sarah Mahoney, "Top Consumer Trends: Trust, Control, . . . Playfulness," *Marketing Daily*, September 4, 2009; David Orgel, "Quality Trumps Quantity in New Product Releases," *Supermarket News*, May 25, 2009.

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 have similar outlooks and values. Marketers often advertise to a cohort by using the icons and images prominent in its experiences. They also try to develop products and services that uniquely meet the particular interests or needs of a generational target. Here is how one bank targeted Gen Y consumers.

PNC's Virtual Wallet

PNC's Virtual Wallet In early 2007, PNC bank hired design consultants IDEO to study Gen Y—defined by PNC as 18- to 34-year-olds—and 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), "Reserve" (backup checking that garners interest), and "Grow" (savings)—with a slick personal finance tool. Customers can drag money from account to account on one screen. Instead of seeing a traditional ledger, they view balances on a calendar that displays estimated future cash flow based on when they are paid, when they pay bills, and their spending habits. Customers also can set a "Savings Engine" tool to transfer money to savings when they receive a paycheck and get their account balances by text messages. Despite offering subscribers financial returns that were nothing out of the ordinary, PNC was able to sign up 20,000 mostly Gen Y consumers within the first few months.[18]

Consumers have been "trading over" to Tide TOTALCARE to obtain dry-cleaning type results at home.

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 consumers, from youngest to oldest.[19]

Millennials (or Gen Y) Born between 1979 and 1994, Millennials, also called Gen Y, number 78 million with annual spending power estimated at $187 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 market researchers and advertisers are racing to get a bead on Gen Y's buying behavior.

Also known as the Echo Boomers, these consumers have been "wired" almost from birth—playing computer games, navigating the Web, downloading music, connecting with friends via instant messaging and mobile phones. They have a sense of entitlement and abundance from growing up during the economic boom and being pampered by their boomer parents. Yet they are highly socially conscious and concerned about environmental issues. They are selective, confident, and impatient.

TABLE 8.3 Profiling U.S. Generation Cohorts			
Generational Cohort	**Birth Range**	**Approximate Size**	**Defining Features**
Millennials (Gen Y)	1979–1994	78 million	Raised with relative affluence, technologically plugged in and concerned with the environment and social issues, they also have a strong sense of independence and a perceived immunity from marketing.
Gen X	1964–1978	50 million	Sometimes seen as falling between the generational cracks, they bridge the technological savvy of Gen Y with the adult realities of the baby boomers.
Baby Boomers	1946–1964	76 million	Still largely in the prime of their consumption cycle, they embrace products and lifestyles that allow them to turn back the hands of time.
Silent Generation	1925–1945	42 million	Defying their advancing age, they maintain active lives and products and marketing that help them to achieve that.

Sources: Kenneth Gronbach, "The 6 Markets You Need to Know Now," *Advertising Age*, June 2, 2008, p. 21; Geoffrey E. Meredith and Charles D. Schewe, *Managing by Defining Moments: America's 7 Generational Cohorts, Their Workplace Values, and Why Managers Should Care* (New York: Hungry Minds, 2002).

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.[20]

1. *Online buzz*—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."
2. *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.
3. *Unconventional sports*—Chick-fil-A sponsored the National Amateur Dodgeball Association, "a recreational pursuit for nontraditional sport enthusiasts."
4. *Cool events*—Hurley, which defined itself as an authentic "Microphone for Youth" brand rooted in surf, skate, art, music, and beach cultures, became the title sponsor of the U.S. Open of Surfing. Other sponsors included Casio, Converse, Corona, Paul Mitchell, and Southwest Airlines.

Hurley reinforces its strong identification with Gen Y consumers through its sponsorship of the U.S. Open of Surfing.

5. *Computer games*—Product placement is not restricted to movies or TV: Mountain Dew, Oakley, and Harley-Davidson all made deals to put logos on Tony Hawk's *Pro Skater 3* from Activision.
6. *Videos*—Burton ensures its snowboards and riders are clearly visible in any videos that are shot.
7. *Street teams*—As part of an antismoking crusade, the American Legacy Foundation hires teens as the "Truth Squad" to hand out T-shirts, bandanas, and dog tags at teen-targeted events.

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 teens and young adults. It was an unflattering image of a disaffected group with short attention spans and little work ethic.

These stereotypes slowly disappeared. Gen X was 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 accepted and technology rapidly changed the way people lived and worked. Although Gen Xers created new norms 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 feel self-sufficiency and the ability to handle any circumstance are key. 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 or patronizing. Direct appeals where value is clear often works best, especially as Gen Xers become parents raising families.[21]

Although some saw rock band Nirvana as a defining symbol of Gen X, subsequent portrayals reveal a more complex picture of this cohort.

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."

With many baby boomers moving into their 60s and even the last and youngest wave bearing down on 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.

Interestingly, because so many members of the Gen Y "Echo Boomers" are living with their boomer parents, parents are being influenced by what demographers are calling a "boom-boom effect." The same products that appeal to 21-year-olds are appealing to youth-obsessed baby boomers. The multiseason success of MTV's reality show *The Osbournes,* starring heavy-metal rocker Ozzy Osbourne and his family, was fueled as much by boomer parents as by their MTV-loving kids.

Contrary to conventional marketing wisdom that brand preferences of consumers over 50 are fixed, one study found 52 percent of boomers are willing to change brands, in line with the total population. 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, or 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. One survey found that 60 percent of respondents over 65 said they felt younger than their actual age. A third aged 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.[23]
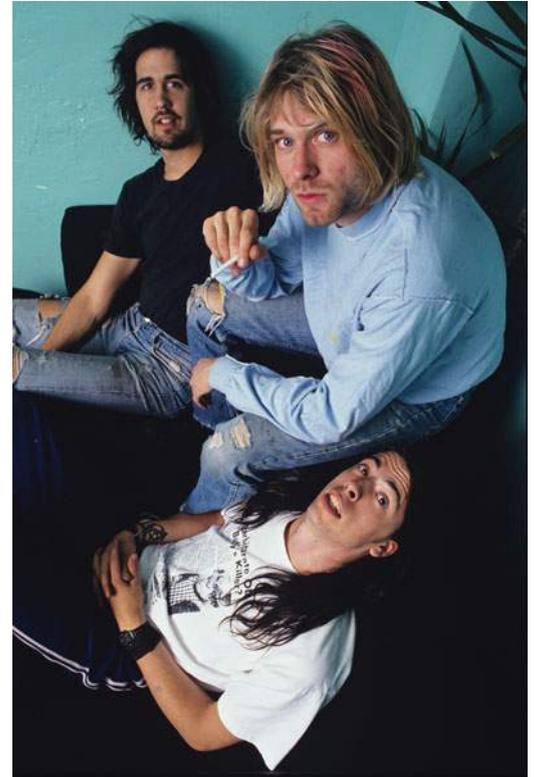
The hit reality show *The Osbournes* tapped into baby boomers' rock-and-roll sensibilities and their parental responsibilities.

Members of the oldest generation, the Silent Generation, take much pride in their roles as grandparents.

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.

Emphasizing their roles as grandparents is universally well-received. Many older consumers not only happily spend time with their grandkids, they often provide for their basic needs or at least occasional gifts. The founders of eBeanstalk.com, which sells children's learning toys online, thought their business would be largely driven by young consumers starting families. They were surprised to find that up to 40 percent of their customers were older consumers, mainly grandparents. These customers are very demanding, but also more willing to pay full price than their younger counterparts.[24]

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.[25]

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 markets also vary in whether they are first and second (or more) generation, and whether they are immigrants or born and raised in the United States.

The norms, language nuances, buying habits, and business practices of multicultural markets need to be factored into the initial formulation of a marketing strategy, rather than added as an afterthought. All this diversity also has implications for marketing research; it takes careful sampling to adequately profile target markets.[26]

Multicultural marketing can result in different marketing messages, media, channels, and so on. Specialized media exists 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. An ad for Tide in which an African American man wearing a wedding ring was drying his son off after a bath was well regarded by both African Americans and the market as a whole.[27] Boost Mobile has leveraged a shared interest in youth culture to create a diverse customer base of young adults made up of 35 percent African Americans, 27 percent Hispanic Americans, and 32 percent Caucasians.[28]

Next, we consider issues in the three largest multicultural markets—Hispanic Americans, African Americans, and Asian Americans. Table 8.4 lists some important facts and figures about them.[29]

Hispanic Americans Hispanic Americans have become the largest minority in the country with annual purchasing power estimated to be more than $1 trillion in 2010. By 2020, 17 percent of Americans are projected to be of Hispanic origin.

The Hispanic American market holds a wide variety of subsegments, with roughly two dozen nationalities including Cuban, Mexican, Puerto Rican, Dominican, and other Central and South American groups, and a mix of cultures, physical types, racial backgrounds, and aspirations.[30] To meet these divergent needs, Goya, the United States' largest Hispanic food company, sells 1,600 products ranging from bags of rice to ready-to-eat, frozen empanadas. The company sells 38 varieties of beans alone.[31]

Although Hispanics suffered from greater unemployment and diminished disposable income in the recession, they were still an attractive target because they had lower mortgage and credit card debt, two or more income earners, and a greater propensity to buy advertised brands.[32] Companies such as Johnson & Johnson,

TABLE 8.4	Multicultural Market Profile		
	Hispanic Americans	**Asian Americans**	**African Americans**
Estimated population—2007	46.9 million	15.2 million	40.7 million
Estimated population—2050	132.8 million	40.6 million	65.7 million
Number of minority-owned businesses in 2002	1.6 million	1.1 million	1.2 million
Revenue generated by minority-owned businesses in 2002	$222 billion	$326 billion	$89 billion
Median household income in 2007	$38,679	$66,103	$33,916
Poverty rate in 2007	21.5%	10.20%	24.50%
Percentage of those aged >25 with at least a high school education in 2008	62%	86%	82%
Number of veterans of U.S. armed forces	1,100,000	277,751	2,400,000
Median age in 2008	27.7	35.4	30.3
Percent of population under 18 years old in 2008	34%	26%	30%
Buying power—2008	$863 billion	$847 billion	$509 billion

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

Verizon, and General Mills all significantly increased their advertising investment in the Hispanic market during the last recession.

State Farm   After trailing its main competitor for years, State Farm decided to make its Hispanic American marketing a priority in 2008. The firm sponsored local Latino community events, soccer matches, the Latin Music Awards, and Univision's highly rated Saturday night variety show, *Sabádo Gigante*. Perhaps State Farm's most original marketing activity, however, was the support and sponsorship of a new band. Los Felinos de la Noche (The Felines of the Night), as the six men (primarily Hispanic immigrants) are called, play the percussion heavy pop-rock sound of Norteño or Northern Mexico regional music. With State Farm's support, the band recorded singles, shot music videos, and played live concerts to make a name for themselves. State Farm, however, chose a subtle approach to its sponsorship. Although the band's Web site did not display the State Farm logo or contain marketing messages, the band did praise the company for the opportunity it gave them in many of the posted interviews. The color red in the band's uniforms was meant to tie in State Farm's familiar color. Targeting first-generation Hispanics with an emotional appeal showed that State Farm understood the needs of the Hispanic community. Positively received, the campaign has been credited with helping to change opinions of that market.[33]

State Farm's musical sponsorship of the band Los Felinos de la Noche reflects the company's increased emphasis on Hispanic marketing.

Hispanic Americans often share strong family values—several generations may reside in one household—and strong roots to their original country of origin. They have a need for respect, brand loyalty, and 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 and bathrooms to see which her family liked best.[34]

Marketers are reaching out to Hispanic Americans with targeted promotions, ads, and Web sites but need to be careful to capture the nuances of cultural and market trends.[35] The California Milk Processor Board (CMPB) had to change its famed "got milk?" ad campaign when targeting the Hispanic market.

Got Milk?

Got Milk? In 2001, Hispanics represented 32.5 percent of California's total population, a number that was growing every year. They were also heavy milk drinkers, spending more on milk than any other demographic segment. Initial consumer testing of the "got milk?" ads revealed, however, that Spanish-speaking households did not find the commercials funny when translated directly to Spanish. As CMPB Executive Director Jeff Manning explained, "We found out that not having milk or rice in Hispanic households is not funny: running out of milk means you failed your family." In addition, "got milk?" translated in Spanish roughly means "Are you lactating?"

As a result, the CMPB and its Hispanic ad agency, Anita Santiago Advertising, created a series of ads focused on milk as a sacred ingredient, often using the tagline "Familia, Amor y Leche" (Family, Love, and Milk). When the campaign did use the "Got Milk?" tagline, it was left untranslated. Awareness rose among the Hispanic population, and in 2002 the CMPB tested its first Spanish-language television spot, featuring La Llorona, a mythical Hispanic character. Hispanic consumers were thrilled that the commercial understood their culture and targeted them specifically.[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. With two-thirds of U.S. Hispanics considered "bicultural" and comfortable with both Spanish- and English-speaking cultures, most firms choose not to risk alienating the English-speaking audience on national TV and to run Spanish-only ads just on Hispanic networks Univision, Telemundo, and Telefutura.

Some marketers such as General Motors and Toyota have used a "Spanglish" approach in their ads, mixing some Spanish naturally in with English in conversations among Hispanic families.[37] Companies such as Continental Airlines, General Mills, and Sears have recently been using mobile marketing to reach Hispanics.[38] With a mostly younger population and less access to Internet or landline service, Hispanics are much more likely to consume content on their cell phones than the general market.

African Americans African Americans have had a significant economic, social, and cultural impact on U.S. life, influencing inventions, art, music, sports, 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.[39]

Based on survey findings, African Americans are the most fashion-conscious of all racial and ethnic groups but strongly motivated by quality and selection. They're also more likely to be influenced by their children when selecting a product for purchase, and less likely to buy unfamiliar brands. African Americans watch television and listen to the radio more than other groups, and they buy more DVDs than any other multicultural segment except Hispanics.[40]

Many companies have successfully tailored products to meet the needs of African Americans. In 1987, Hallmark Cards launched its African American–targeted Mahogany line with only 16 greeting cards; today it offers 800 cards and a line of stationery. 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.

Ad messages must also 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.[41]

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.[42]

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.

The Asian American market has been called the "invisible market" because, compared to Hispanic Americans and African Americans, it has traditionally received a disproportionally small fraction of U.S. companies' total multicultural marketing expenditure.[43] Yet it is getting easier and easier to reach this market. The number of media outlets targeting Asian Americans has grown from 200 in the 1980s to between 700 and 800 by 2007.

Philadelphia-based Sovereign Bank has been successful targeting Boston's Chinese American community with a 100 percent Chinese American–staffed branch. Not only do employees speak Cantonese, they know that in financial planning for Chinese Americans it is appropriate to acknowledge the need to care for elderly parents.[44] Traditional packaged-good firms have also been getting in the act. Here is how Kraft got its start.

Kraft Kraft's initial Asian American marketing efforts began in 2005 with an integrated marketing campaign featuring in-language ads, in-store product demos/tastings, and a Web site with recipes and tips for healthy living. Kraft's research revealed that Asian American shoppers did not want more Asian-style products from Kraft. Rather, they wanted to learn how to prepare Western-style meals using Kraft products. Kraft's marketing communications used Mandarin and Cantonese, two of the more commonly spoken dialects of Asian immigrants, and targeted immigrant moms as the cultural gatekeepers of their families at home, striking a balance between Western and Eastern cultures. One print ad used the Chinese proverb "Life has a hundred flavors" to show an array of Kraft products brightly arranged on a platter. To further connect with shoppers, Kraft deployed Chinese-speaking representatives to supermarkets. The reps conducted cooking demos of Western recipes using Kraft products, handed out product samples, and offered suggestions for convenient kid-friendly school lunches. Kraft also launched a Web site (www.krafthealthyliving.com) to promote tips for healthy eating, such as "sip your tea" for better health benefits.[45]

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.[46]

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.[47] Many firms have recently created initiatives to target this market. American Airlines created a Rainbow Team with a dedicated LGBT staff and Web site that has emphasized community-relevant services such as an event calendar of gay-themed national events. According to one survey of the gay and lesbian community, Absolut, Apple, Levi's, and Bravo and Showtime television networks are seen as among the most gay-friendly businesses.[48]

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 40 million homes. Increasingly, advertisers are using digital efforts to reach the market. Hyatt's online appeals to the LGBT community targets social sites and blogs where customers share their travel experiences.

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

**Kraft has actively targeted Asian Americans with its brands and products.**

Psychographic Segmentation

Psychographics is the science of using psychology and demographics to better understand consumers. In *psychographic segmentation,* buyers are divided into different groups on the basis of

|Fig. 8.1| ▲

The VALS
Segmentation System:
An Eight-Part
Typology

Source: VALS™ © Strategic Business Insights (SBI),
www.strategicbusinessinsights.com/VALS. Used with
permission.
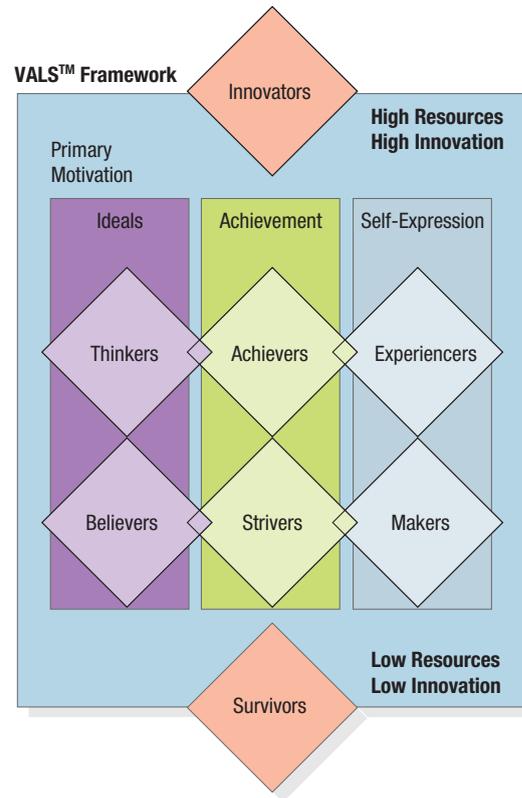
psychological/personality traits, lifestyle, or values. People within the same demographic group
can exhibit very different psychographic profiles.

One of the most popular commercially available classification systems based on psychographic
measurements is Strategic Business Insight's (SBI) VALS™ framework. VALS, signifying values and
lifestyles, classifies U.S. adults into eight primary groups based on responses to a questionnaire fea-
turing 4 demographic and 35 attitudinal questions. The VALS system is continually updated with
new data from more than 80,000 surveys per year (see ▲ Figure 8.1). You can find out which
VALS type you are by going to the SBI Web site.[49]

The main dimensions of the VALS segmentation framework are consumer motivation (the
horizontal dimension) and consumer resources (the vertical dimension). Consumers are in-
spired 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, impulsive-
ness, leadership, and 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.

The four groups with higher resources are:

1. *Innovators*—Successful, sophisticated, active, "take-charge" people with high self-esteem.
   Purchases often reflect cultivated tastes for relatively upscale, niche-oriented products
   and services.
2. *Thinkers*—Mature, satisfied, and reflective people motivated by ideals and who value order,
   knowledge, and responsibility. They seek durability, functionality, and value in products.
3. *Achievers*—Successful, goal-oriented people who focus on career and family. They favor
   premium products that demonstrate success to their peers.
4. *Experiencers*—Young, enthusiastic, impulsive people who seek variety and excitement.
   They spend a comparatively high proportion of income on fashion, entertainment, and
   socializing.

The four groups with lower resources are:

1. *Believers*—Conservative, conventional, and traditional people with concrete beliefs. They prefer familiar, U.S.-made products and are loyal to established brands.
2. *Strivers*—Trendy and fun-loving people who are resource-constrained. They favor stylish products that emulate the purchases of those with greater material wealth.
3. *Makers*—Practical, down-to-earth, self-sufficient people who like to work with their hands. They seek U.S.-made products with a practical or functional purpose.
4. *Survivors*—Elderly, passive people concerned about change and loyal to their favorite brands.

Marketers can apply their understanding of VALS segments to marketing planning. For example, Transport Canada, the agency that operates major Canadian airports, found that Actualizers, who desire to express independence and taste, made up a disproportionate percentage of air travelers. Given that segment's profile, stores such as Sharper Image and Nature Company were expected to do well in the firm's airports.

Psychographic segmentation schemes are often customized by culture. The Japanese version of VALS, Japan VALS™, divides society into 10 consumer segments on the basis of two key concepts: life orientation (traditional ways, occupations, innovation, and self-expression) and attitudes to social change (sustaining, pragmatic, adapting, and innovating).

Behavioral Segmentation

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 is a widely used approach because it identifies distinct market segments with clear marketing implications. Constellation Brands identified six different benefit segments in the U.S. premium wine market ($5.50 a bottle and up).[50]

- *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.

Constellation Brands has adopted a needs-based market segmentation plan to sell its premium wines.

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, 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—REAL USER AND USAGE-RELATED VARIABLES Many marketers believe variables related to various aspects of 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 and usage?

Included in the potential-user group are consumers who will become users in connection with some life stage or life 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. 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.

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, marketers can employ a *marketing funnel* to break down the market into different 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 8.2 displays a funnel for two hypothetical brands. Compared to Brand B, Brand A performs poorly at converting one-time users to more recent users (only 46 percent convert for Brand A compared to 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[51]

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
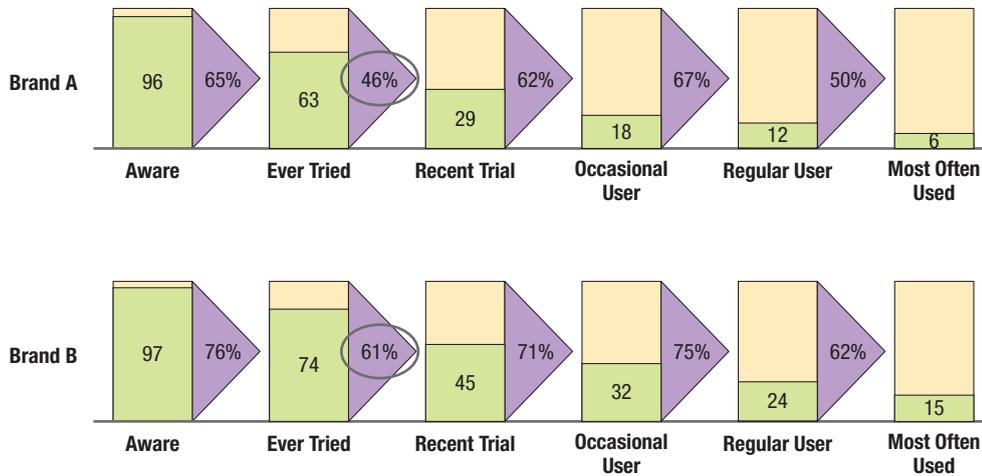
|Fig. 8.2| △

Example of Marketing Funnel

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. Door-to-door workers in a political campaign use attitude to determine how much time 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 8.3 depicts one possible way to break down a target market by various behavioral segmentation bases.
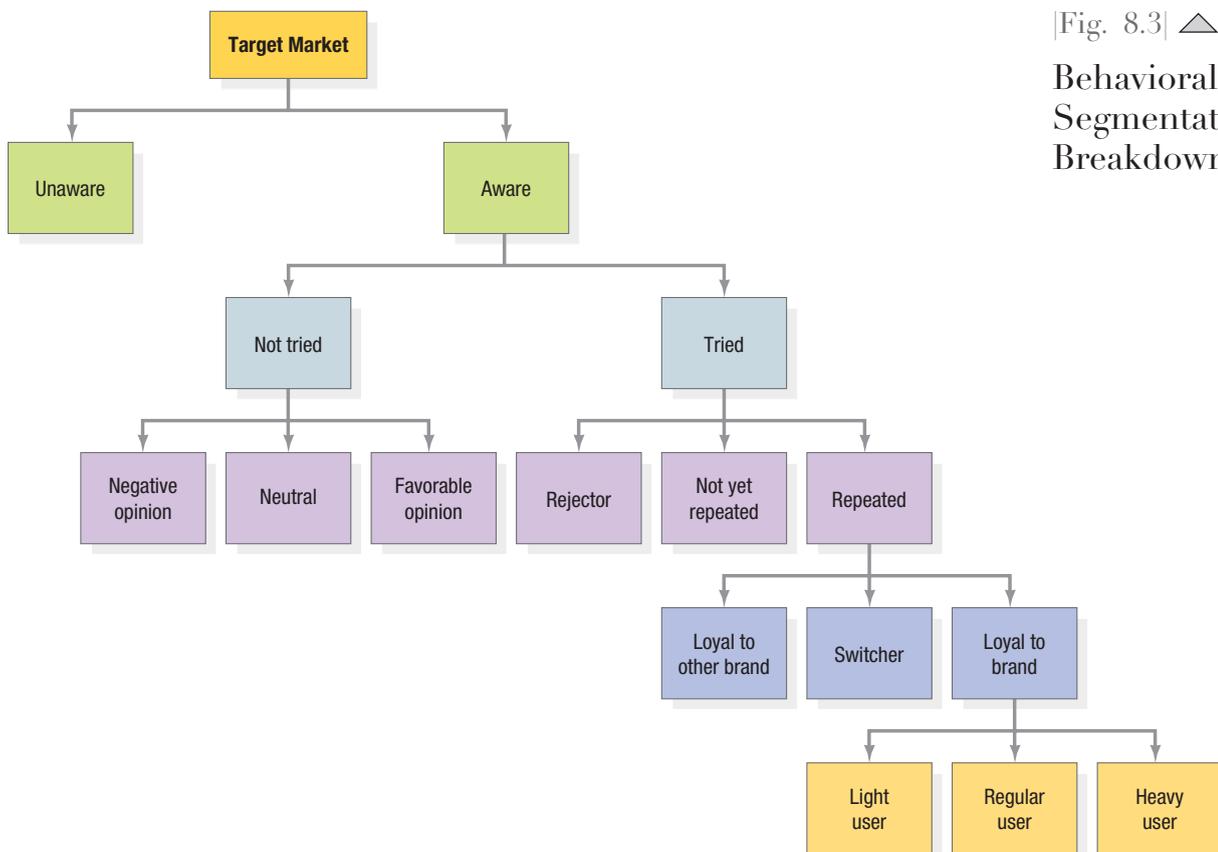

|Fig. 8.3| △

Behavioral Segmentation Breakdown

Bases for Segmenting Business Markets

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 8.5 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 customers. The second stage consisted of microsegmentation. The

TABLE 8.5   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).

company distinguished among customers buying on price, service, or quality. Because it had a high-service profile, the firm decided to concentrate on the service-motivated segment of the market.

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.[52] 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. Delta Airlines offers all economy passengers a seat, small snack and soft drinks and charges extra for alcoholic beverages and meals.

Delta Airlines uses flexible market offerings; it offers some products on board for free, such as soft drinks and small snacks, but charges for other items, such as meals.

Market Targeting

There are many statistical techniques for developing market segments.[53] 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*, as introduced previously. Roger Best proposed the seven-step approach shown in ▭ Table 8.6.

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 less than four feet tall.
- *Accessible.* The segments can be effectively reached and served.

TABLE 8.6 ▭ 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,* 5th ed. (Upper Saddle River NJ: Prentice Hall, 2009). ©2009. Printed and electronically reproduced by permission of Pearson Education, Inc. Upper Saddle River, New Jersey.

- *Differentiable.* The segments are conceptually distinguishable and respond differently to different marketing-mix elements and programs. If married and unmarried 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:

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 cellular 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.[54] 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 is 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, when buyers are price-sensitive because of low profits, 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 different 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 the segment 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 necessary competencies to offer superior value.

Marketers have a range or continuum of possible levels of segmentation that can guide their target market decisions. As ◭ Figure 8.4 shows, at one end is a mass market of essentially one segment; at the other are individuals or segments of one person. Between lie multiple segments and single segments. We describe each of the four approaches 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
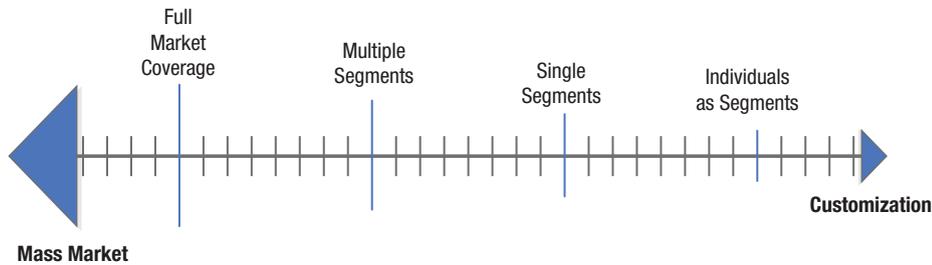
|Fig. 8.4| △

Possible Levels of Segmentation

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.

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.[55] Perhaps no firm practices differentiated marketing like Hallmark Cards, which celebrated its 100th birthday in 2010.

Hallmark   Hallmark's personal expression products are sold in more than 41,500 retail outlets nationwide and account for almost one of every two greeting cards purchased in the United States. Each year Hallmark produces 19,000 new and redesigned greeting cards and 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. Hallmark Warm Wishes offers hundreds of 99-cent cards. Hallmark's three ethnic lines—Mahogany, Sinceramente Hallmark, and Tree of Life—target African American, Hispanic, and Jewish consumers, respectively. Hallmark's newer Journeys line of encouragement cards focused on such challenges as fighting cancer, coming out, and battling depression. 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. 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.[56] ▢

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.

Although P&G initially targeted very specific segments with its Crest Whitestrips tooth-whitening product, it later expanded both its product offerings and its target markets.

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.

- 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 market 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.

Niche marketers aim to understand their customers' needs so well that customers willingly pay a premium. Tom's of Maine was acquired by Colgate-Palmolive for $100 million in part because its all-natural personal care products and charitable donation programs appeal to consumers turned off by big businesses. The brand commands a 30 percent price premium as a result.[57]

What does an attractive niche look like? 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 the niche gains certain economies through specialization. As marketing efficiency increases, niches that were seemingly too small may become more profitable.[58] 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."[59] Today, customers are taking more individual initiative in determining what and how to buy. They log onto the Internet; look up information and evaluations of product or service offerings; conduct dialogue with suppliers, users, and product critics; and in many cases design the product they want.

Jerry Wind and Arvind Rangaswamy see a movement toward "customerizing" the firm.[60] **Customerization** combines operationally driven mass customization with customized marketing in a way that empowers consumers to design the product and service offering of their choice. The firm no longer requires prior information about the customer, nor does it need to own manufacturing. It provides a platform and tools and "rents"

Tom's of Maine has developed a very successful niche with its all-natural personal care products.

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, Anderson 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 smaller-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.

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; 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; John Cassidy, "Going Long," *New Yorker*, July 10, 2006; www.longtail.com; "Rethinking the Long Tail Theory: How to Define 'Hits' and 'Niches,'" *Knowledge@Wharton*, September 16, 2009.

to customers the means to design their own products. A company is customerized when it is able to respond to individual customers by customizing its products, services, and messages on a one-to-one basis.[61]

Customization is certainly not for every company.[62] It may be very difficult to implement for complex products such as automobiles. It can also raise the cost of goods by more than the customer is willing to pay. 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 sales value. In spite of this, customization has worked well for some products.

ETHICAL CHOICE OF MARKET TARGETS Marketers must target carefully to avoid consumer backlash. Some consumers resist being labeled. Singles may reject single-serve food packaging because 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 poor people) or promote potentially harmful products.[63] The cereal industry has been heavily criticized for marketing efforts directed toward children. Critics worry that high-powered appeals presented through the mouths of 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.

Another area of concern is the millions of kids under the age of 17 who are online. Marketers have jumped online with them, offering freebies in exchange for personal information. Many have come under fire for this practice and for not clearly differentiating ads from games or entertainment. Establishing ethical and legal boundaries in marketing to children online and offline continues to be a hot topic as consumer advocates decry the commercialism they believe such marketing engenders.

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. Other companies are responding to the special needs of minority segments. Black-owned ICE theaters noticed that although moviegoing by blacks has surged, there were few inner-city theaters. Starting in Chicago, ICE partnered with the black communities in which it operates theaters, using local radio stations to promote films and featuring favorite food items at concession stands.[64] Thus, the issue is not who is targeted, but how and for what. 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 4 million youngsters attending some kind of organized child care, the potential market—including kids and parents—is too great to pass up. So in addition to standards such as art easels, gerbil cages, 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 increasing preschool marketing push. Some side with groups such as Stop Commercial Exploitation of Children, 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.[65]

Summary

1. Target marketing includes three activities: market segmentation, market targeting, and market positioning. Market segments are large, identifiable groups within a market.

2. Two bases for segmenting consumer markets are consumer characteristics and consumer responses. 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 to 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.

Applications

Marketing Debate
Is Mass Marketing Dead?

With marketers increasingly adopting more and more re-fined 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 wants to be known as the "world's local bank." This tagline reflects HSBC's positioning as a globe-spanning financial institution with a unique focus on serving local markets. Originally the Hong Kong and Shanghai Banking Corporation Limited, HSBC was established in 1865 to finance the growing trade between China and the United Kingdom. It's now the second-largest bank in the world.

Despite serving over 100 million customers through 9,500 branches in 85 countries, the bank works hard to maintain a local presence and local knowledge in each area. Its fundamental operating strategy is to remain close to its customers. As HSBC's former chairman, Sir John Bond, stated, "Our position as the world's local bank enables us to approach each country uniquely, blending local knowledge with a worldwide operating platform."

Ads for the "World's Local Bank" campaign have depicted the way different cultures or people interpret the same objects or events. One TV spot showed a U.S. businessman hitting a hole-in-one during a round in Japan with his Japanese counterparts. He is surprised to find that rather than paying for a round of drinks in the clubhouse, as in the United States, by Japanese custom he must buy expensive gifts for his playing partners. In another international TV spot, a group of Chinese businessmen take a British businessman out to an elaborate dinner where live eels are presented to the diners and then served sliced and cooked. Clearly disgusted by the meal, the British businessman finishes the dish as the voice-over explains, "The English believe it's a slur on your hosts' food if you don't clear your plate." His Chinese host then orders another live eel for him as the voice-over explained, "Whereas the Chinese feel that it's questioning their generosity if you do."

HSBC demonstrated its local knowledge with marketing efforts dedicated to specific locations. In 2005 it set out to prove to jaded New Yorkers that the London-based financial behemoth was a bank with local knowledge. The company held a "New York City's Most Knowledgeable Cabbie" contest, in which the winning cabbie got paid to drive an HSBC-branded BankCab full-time for a year. HSBC customers could win, too. Any customer showing an HSBC bank card, checkbook, or bank statement was able to get a free ride in the BankCab. HSBC also ran an integrated campaign highlighting the diversity of New Yorkers, which appeared throughout the city.

More than 8,000 miles away, HSBC undertook a two-part "Support Hong Kong" campaign to revitalize a local economy hit hard by the 2003 SARS outbreak. First, HSBC delayed interest payments for personal-loan customers who worked in industries most affected by SARS (cinemas, hotels, restaurants, and travel agencies). Second, the bank offered discounts and rebates for HSBC credit card users when they shopped and dined out. More than 1,500 local merchants participated in the promotion.

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

In order to connect with different people and communities, HSBC sponsors more than 250 cultural and sporting events with a special focus on helping the youth, growing education, and embracing communities. These sponsorships also allow the company to learn from different people and cultures around the world.

The bank pulls its worldwide businesses together under a single global brand with the "World's Local Bank" slogan. The aim is to link its international size with close relationships in each of the countries in which it operates. HSBC spends $600 million annually on global marketing, consolidated under the WPP group of agencies.

In 2006, HSBC launched a global campaign entitled "Different Values," which embraced this exact notion of 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 three times with the words, *freedom*, *status symbol*, and *polluter*. Next to the picture reads, "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, HSBC used three different pictures side by side but with the same word. For example, the word *accomplishment* is first shown on a picture of a woman winning a beauty pageant, then an astronaut walking on the moon, and finally a young child tying his sneaker. The copy reads, "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 earned $142 billion in sales in 2009, making it the 21st largest company in the world. It hopes its latest campaign and continued position as the "World's Local Bank" will improve its $10.5 billion brand value, which placed it 32nd on the 2009 Interbrand/*BusinessWeek* global brand rankings.

Questions

1. What are the risks and benefits of HSBC's positioning itself as the "World's Local Bank"?

2. Does HSBC's most recent campaign resonate with its target audience? Why or why not?

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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 War I and World War 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 €53 billion (about $76 billion) in revenues in 2008.

BMW's logo is one of the most distinct and globally recognized 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. The result: 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 different sizes. The 1980s was also a time when yuppies made Beemer and Bimmer, slang terms for BMW's cars and motorcycles, popular names that are 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, which resulted in unique premium-priced cars such as SUVs, convertibles, roadsters, and less expensive compact cars, the 1 Series. In addition, BMW redesigned its 3, 5, and 7 Series cars, making them unique in appearance yet remaining exceptional in performance. BMW's full range of cars now include the 1 Series, 3 Series, 5 Series, 6 Series, 7 Series, X3 SUV, X5 SUV, X6 SUV, Z4 (Roadster), and M. The redesign of the 7 Series, BMW's most luxurious car, targeted a group called "upper conservatives." These wealthy, traditional consumers traditionally don't like sportier cars, so BMW added an influx of 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 were created to add comfort and luxury and attract consumers away from competitors like Jaguar and Mercedes.

BMW successfully launched the X5 by targeting "upper liberals" who achieved success in the 1990s and had 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 created the lower-priced 1 Series and X3 SUV to target the "modern mainstream," a group who are also family-focused and active but had previously avoided BMWs because of the premium cost. The 1 Series reached this group with its lower price point, sporty design, and aspiration to own a luxury brand. The X3 also hit home with its smaller, less expensive SUV design.

BMW introduced convertibles and roadsters to target "post-moderns," a high-income group that continues to attract attention with more showy, flamboyant cars. 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 but has kept the tagline "The Ultimate Driving Machine" for over 35 years. During that time, U.S. sales of BMW vehicles have grown from 15,000 units in 1974 to approximately 250,000 in 2009. 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. What are the pros and cons to BMW's selective target marketing? What has the firm done well over the years and where could it improve?

2. BMW's sales slipped during the worldwide recession in 2008 and 2009. Is its segmentation strategy too selective? Why or why not?

Sources: 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, boston-bmwcca.org; bmw.org, Annual Report, Company History, January 22, 2010.