

Previewing the Concepts

So far, you've learned what marketing is and about the importance of understanding consumers and the marketplace environment. With that as background, you're now ready to delve deeper into marketing strategy and tactics. This chapter looks further into key customer-driven marketing strategy decisions—how to divide up markets into meaningful customer groups (*segmentation*), choose which customer groups to serve (*targeting*), create market offerings that best serve target customers (*differentiation*), and position the offerings in the minds of consumers (*positioning*). Then, the chapters that follow explore the tactical marketing tools—the Four Ps—by which marketers bring these strategies to life.

As an opening example of segmentation, targeting, differentiation, and positioning at work, let's look at Dunkin' Donuts. Dunkin', a largely Eastern U.S. coffee chain, has ambitious plans to expand into a national powerhouse, on a par with Starbucks. But Dunkin' is no Starbucks. In fact, it doesn't want to be. It targets a very different kind of customer with a very different value proposition. Grab yourself some coffee and read on.

Customer-Driven Marketing Strategy

Creating Value for Target Customers

Last year, Dunkin' Donuts paid dozens of faithful customers in Phoenix, Chicago, and Charlotte, North Carolina, \$100 a week to buy coffee at Starbucks instead. At the same time, the no-frills coffee chain paid Starbucks customers to make the opposite switch. When it later debriefed the two groups, Dunkin' says it found them so polarized that company researchers dubbed them "tribes"—each of whom loathed the very things that made the other tribe loyal to their coffee shop. Dunkin' fans viewed Starbucks as pretentious and trendy, whereas Starbucks loyalists saw Dunkin' as plain and unoriginal. "I don't get it," one Dunkin' regular told researchers after visiting Starbucks. "If I want to sit on a couch, I stay at home."

William Rosenberg opened the first Dunkin' Donuts in Quincy, Massachusetts, in 1950. Residents flocked to his store each morning for the coffee and fresh doughnuts. Rosenberg started franchising the Dunkin' Donuts name, and the chain grew rapidly throughout the Midwest and Southeast. By the early 1990s, however, Dunkin' was losing breakfast sales to morning sandwiches at McDonald's and Burger King. Starbucks and other high-end cafes began sprouting up, bringing more competition. Sales slid as the company clung to its strategy of selling sugary doughnuts by the dozen.

In the mid-1990s, however, Dunkin' shifted its focus from doughnuts to coffee in the hope that promoting a more frequently consumed item would drive store traffic. The coffee push worked—coffee now makes up 62 percent of sales. And Dunkin's sales are growing at a double-digit clip, with profits up 35 percent over the past two years. Based on this recent success, Dunkin' now has ambitious plans to expand into a national coffee powerhouse, on a par with Starbucks, the nation's largest coffee chain. Over the next three years, Dunkin' plans to remake its nearly 5,000 U.S. stores and to grow to triple that number in less than 15 years.

But Dunkin' is not Starbucks. In fact, it doesn't want to be. To succeed, it must have its own clear vision of just which customers it wants to serve (what *segments* and *targeting*) and how (what *positioning* or *value proposition*). Dunkin' and Starbucks target very different customers, who want very different things from their favorite coffee shop. Starbucks is strongly positioned as a sort of high-brow "third place"—outside the home and office—featuring couches, eclectic music, wireless Internet access, and art-splashed walls. Dunkin' has a decidedly more low-brow, "everyman" kind of positioning.

With its makeover, Dunkin' plans to move upscale—a bit but not too far—to rebrand itself as a quick but appealing alternative to specialty coffee shops and fast-food chains. A prototype Dunkin' store in Euclid, Ohio, outside Cleveland, features



rounded granite-style coffee bars, where workers make espresso drinks face-to-face with customers. Open-air pastry cases brim with yogurt parfaits and fresh fruit, and a carefully orchestrated pop-music soundtrack is piped throughout.

Yet Dunkin' built itself on serving simple fare to working-class customers. Inching upscale without alienating that base will prove tricky. There will be no couches in the new stores. And Dunkin' renamed a new hot sandwich a "stuffed melt" after customers complained that calling it a "panini" was too fancy. "We're walking that [fine] line," says Regina Lewis, the chain's vice president of consumer insights. "The thing about the Dunkin' tribe is, they see through the hype."

Dunkin's research showed that although loyal Dunkin' customers want nicer stores, they were bewildered and turned off by the atmosphere at Starbucks. They grouched that crowds of laptop users made it difficult to find a seat. They didn't like Starbucks' "tall," "grande," and "venti" lingo for small, medium, and large coffees. And they couldn't understand why anyone would pay as much as \$4 for a cup of coffee. "It was almost as though they were a group of Martians talking about a group of Earthlings," says an executive from Dunkin's ad agency. One customer told researchers that lingering in a Starbucks felt like "celebrating Christmas with people you don't know." The Starbucks customers that Dunkin' paid to switch were equally uneasy in Dunkin' shops. "The Starbucks people couldn't bear that they weren't special anymore," says the ad executive.

Objectives

After reading this chapter, you should be able to:

1. define the four major steps in designing a customer-driven market strategy: market segmentation, market targeting, differentiation, and positioning
2. list and discuss the major bases for segmenting consumer and business markets
3. explain how companies identify attractive market segments and choose a market targeting strategy
4. discuss how companies position their products for maximum competitive advantage in the marketplace

Such opposing opinions aren't surprising, given the differences in the two stores' customers. About 45 percent of Dunkin' Donuts customers have an annual household income between \$45,000 and \$100,000 a year, with 30 percent earning less than that and 25 percent earning more. Dunkin's customers include blue- and white-collar workers across all age, race, and income demographics. By contrast, Starbucks targets a higher-income, more professional group.

But Dunkin' researchers concluded that it wasn't income that set the two tribes apart, as much as an ideal: Dunkin' tribe members want to be part of a crowd, whereas members of the Starbucks tribe want to stand out as individuals. "The Starbucks tribe, they seek out things to make them feel more important," says Dunkin' VP Lewis. Members of the Dunkin' Donuts tribe "don't need to be any more important than they are."

Based on such findings, Dunkin' executives have made dozens of store-redesign decisions, big and small, ranging from where to put the espresso machines to how much of its signature pink and orange color scheme to retain to where to display its fresh baked goods. Out went the square laminate tables, to be replaced by round imitation-granite tabletops and sleek chairs. Dunkin' covered store walls in espresso brown and dialed down the pink and orange tones. Executives considered but held off on installing wireless Internet access because customers "just don't feel it's Dunkin' Donuts." Executives continue to discuss dropping the word "donuts" from its signs to convey that its menu is now broader.

To grab a bigger share of customers, Dunkin' is expanding its menu beyond breakfast with hearty snacks that can substitute for meals, such as smoothies and dough-wrapped pork bites. The new Euclid store is doing three times the sales of other stores in its area, partly because more customers are coming after 11 a.m. for new gourmet cookies and Dunkin' Dawgs, hot dogs wrapped in dough. Focus groups liked hot flatbreads and smoothies, but balked at tiny pinwheels of dough stuffed with various fillings. Customers said "they felt like something at a fancy cocktail hour," says Lewis, and they weren't substantial enough.

Stacey Stevens, a 34-year-old Euclid resident who recently visited the new Dunkin' prototype store, said she noticed it felt different than other Dunkin' locations. "I don't remember there being lots of music," she said, while picking up a dozen doughnuts. "I like it in here." She said it felt "more upbeat" than Starbucks. One Euclid store manager even persuaded Richard Wandersleben to upgrade from a regular coffee to a \$2.39 latte during a recent visit. The 73-year-old retired tool-and-die maker, who drinks about three cups of coffee a day, says the Dunkin' Donuts latte suited him fine. "It's a little creamier" than regular coffee, he said.

Dunkin' knows that it'll take some time to refresh its image. And whatever else happens, it plans to stay true to the needs and preferences of the Dunkin' tribe. Dunkin's "not going after the Starbucks coffee snob," says one analyst, it's "going after the average Joe." Dunkin's positioning and value proposition are pretty well summed up in its new ad campaign, which features the slogan "America Runs on Dunkin'." The ads show everyone from office and construction workers to harried families relying on the chain to get them through their day. Says one ad, "It's where everyday people get things done every day."¹

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

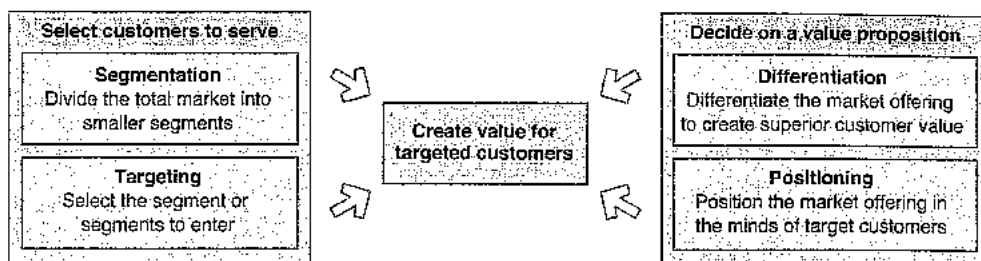
Thus, most companies have moved away from mass marketing and toward *target marketing*—identifying market segments, selecting one or more of them, and developing products and marketing programs tailored to each. Instead of scattering their marketing efforts (the "shotgun" approach), firms are focusing on the buyers who have greater interest in the values they create best (the "rifle" approach).

Figure 7.1 shows the four major steps in designing a customer-driven marketing strategy. In the first two steps, the company selects the customers that it will serve. **Market segmentation** involves dividing a market into smaller groups of buyers with distinct needs, characteristics, or behaviors who might require separate products or marketing mixes. The company

Market segmentation

Dividing a market into smaller groups with distinct needs, characteristics, or behaviors who might require separate products or marketing mixes.

FIGURE 7.1 Steps in market segmentation, targeting, and positioning

**Market targeting**

The process of evaluating each market segment's attractiveness and selecting one or more segments to enter.

Differentiation

Actually differentiating the firm's market offering to create superior customer value.

Positioning

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

identifies different ways to segment the market and develops profiles of the resulting market segments. **Market targeting** (or **targeting**) consists of evaluating each market segment's attractiveness and select one or more market segments to enter.

In the final two steps, the company decides on a value proposition—on how it will create value for target customers. **Differentiation** involves actually differentiating the firm's market offering to create superior customer value. **Positioning** consists of arranging for a market offering to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers. We discuss each of these steps in turn.

Market Segmentation

Markets consist of buyers, and buyers differ in one or more ways. They may differ in their wants, resources, locations, buying attitudes, and buying practices. Through market segmentation, companies divide large, heterogeneous markets into smaller segments that can be reached more efficiently and effectively with products and services that match their unique needs. In this section, we discuss four important segmentation topics: segmenting consumer markets, segmenting business markets, segmenting international markets, and requirements for effective segmentation.

Segmenting Consumer Markets

There is no single way to segment a market. A marketer has to try different segmentation variables, alone and in combination, to find the best way to view the market structure. Table 7.1 outlines the major variables that might be used in segmenting consumer markets. Here we look at the major *geographic*, *demographic*, *psychographic*, and *behavioral* variables.

Geographic Segmentation

Geographic segmentation

Dividing a market into different geographical units such as nations, states, regions, counties, cities, or neighborhoods.

Geographic segmentation calls for dividing the market into different geographical units such as nations, regions, states, counties, cities, or even neighborhoods. A company may decide to operate in one or a few geographical areas, or to operate in all areas but pay attention to geographical differences in needs and wants.

Many companies today are localizing their products, advertising, promotion, and sales efforts to fit the needs of individual regions, cities, and even neighborhoods. For example, one consumer products company shipped additional cases of its low-calorie snack foods to stores in neighborhoods near Weight Watchers clinics. Kraft developed Post's Fiesta Fruity Pebbles cereal for areas with high Hispanic populations. Coca-Cola developed four ready-to-drink canned coffees for the Japanese market, each targeted to a specific geographic region. Procter & Gamble introduced Curry Pringles in England and Funky Soy Sauce Pringles in Asia.²

Other companies are seeking to cultivate as-yet untapped geographic territory. For example, many large companies are fleeing the fiercely competitive major cities and suburbs to set up shop in small-town America. Consider Applebee's, the nation's largest casual-dining chain:

Applebee's is now making sure that even far-flung suburbs and small towns can have a neighborhood bar and grill. It's extending into what it calls STAR (small-town Applebee's restaurant) markets with fewer than 50,000 people, breaking down the misconception that small-market Americans aren't interested in anything that can't be bought at Wal-Mart (or its restaurant equivalent). How's the strategy working? Just check out the dozen or more parties lined up on a typical Friday night outside the Applebee's in Hays, Kansas, a small town of 21,000 people located in an area known

TABLE 7.1 Major Segmentation Variables for Consumer Markets

Geographic	
World region or country	North America, Western Europe, Middle East, Pacific Rim, China, India, Canada, Mexico
Country 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; over 4,000,000
Density	Urban, suburban, rural
Climate	Northern, southern
Demographic	
Age	Under 6, 6–11, 12–19, 20–34, 35–49, 50–64, 65+
Gender	Male, female
Family size	1–2, 3–4, 5+
Family life cycle	Young, single; young, married, no children; young, married with children; older, married with children; older, married, no children; under 18; older, single; other
Income	Under \$10,000; \$10,000–\$20,000; \$20,000–\$30,000; \$30,000–\$50,000; \$50,000–\$100,000; \$100,000 and over
Occupation	Professional and technical; managers, officials, and proprietors; clerical; sales; craftspeople; supervisors; 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	Asian, Hispanic, Black, White
Generation	Baby boomer, Generation X, Generation Y
Nationality	North American, South American, British, French, German, Italian, Japanese
Psychographic	
Social class	Lower lowers, upper lowers, working class, middle class, upper middles, lower uppers, upper uppers
Lifestyle	Achievers, strivers, survivors
Personality	Compulsive, gregarious, authoritarian, ambitious
Behavioral	
Occasions	Regular occasion; special occasion
Benefits	Quality, service, economy, convenience, speed
User status	Nonuser, ex-user, potential user, first-time user, regular user
User rates	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

as “the middle of nowhere” between Denver and Kansas City. Although sales in such smaller communities average 10 percent less than at a suburban Applebee’s, that’s offset by cheaper real estate and less-complicated zoning laws. And there is no real casual-dining competition in Hays. No Chili’s. No Houthan’s. Not even a Bennigan’s. “If you want to take someone out on a date,” says one young diner, “you’re not going to take them to the Golden Corral,” an all-you-can-eat family restaurant next door. That’s a telling statement, given that the young man is a management trainee at the Golden Corral. So far, Applebee’s has opened some 156 small-town restaurants. Considering that there are about 2,200 counties in the United States with populations under 50,000, it has a lot more room to grow.³

In contrast, other retailers are developing new store concepts that will give them access to higher-density urban areas. For example, Home Depot has been introducing urban neighbor-

hood stores that look a lot like its traditional stores but at about two-thirds the size. It is placing these stores in high-density markets, such as Manhattan, where full-size stores are impractical. Similarly, Wal-Mart has been opening small, supermarket-style Neighborhood Market grocery stores to complement its supercenters.⁴

Demographic Segmentation

Demographic segmentation

Dividing a market into groups based on variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race, generation, and nationality.

Demographic segmentation divides the market into groups based on variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race, generation, and nationality. Demographic factors are the most popular bases for segmenting customer groups. One reason is that consumer needs, wants, and usage rates often vary closely with demographic variables. Another is that demographic variables are easier to measure than most other types of variables. Even when market segments are first defined using other bases, such as benefits sought or behavior, their demographic characteristics must be known in order to assess the size of the target market and to reach it efficiently.

Age and life-cycle segmentation

Dividing a market into different age and life-cycle groups.

Age and life-cycle segmentation: Consumer needs and wants change with age. Some companies use **age and life-cycle segmentation**, offering different products or using different marketing approaches for different age and life-cycle groups. For example, for kids, Procter & Gamble sells Crest Spinbrushes featuring favorite children's characters. For adults, it sells more serious models, promising "a dentist-clean feeling twice a day." And Nintendo, long known for its youth-oriented video games, has launched a subbrand, Touch Generations, which targets aging baby boomers. Touch Generations offers video games such as *Brain Training: How Old Is Your Brain?*, designed to "exercise the noggin" and keep the mind young. The aim is to "lure in older nongamers by offering skill-building—or at least less violent, less fantasy-based—titles that might appeal to [older consumers] more than, say, *Grand Theft Auto* or *World of Warcraft*."⁵

Marketers must be careful to guard against stereotypes when using age and life-cycle segmentation. For example, although some 70-year-olds require wheelchairs, others play tennis. Similarly, whereas some 40-year-old couples are sending their children off to college, others are just beginning new families. Thus, age is often a poor predictor of a person's life cycle, health, work or family status, needs, and buying power. Companies marketing to mature consumers usually employ positive images and appeals. For example, ads for Olay ProVital—designed to improve the elasticity and appearance of the "maturing skin" of women over 50—feature attractive older spokeswomen and uplifting messages.

Gender segmentation

Dividing a market into different groups based on gender.

Gender segmentation has long been used in clothing, cosmetics, toiletries, and magazines. For example, Procter & Gamble was among the first with Secret, a brand specially formulated for a woman's chemistry, packaged and advertised to reinforce the female image. More recently, many mostly women's cosmetics makers have begun marketing men's lines. For example, L'Oréal offers Men's Expert skin care products and a VIVE For Men grooming line.

Ads proclaim, "Now L'Oréal Paris brings its grooming technology and expertise to men . . . because you're worth it too."

Nike has recently stepped up its efforts to capture the women's sports apparel market. It wasn't until 2000 that Nike made women's shoes using molds made from women's feet, rather than simply using a small man's foot mold. Since then, however, Nike has changed its approach to women. It has overhauled its women's apparel line—called Nikewomen—to create better fitting, more colorful, more fashionable workout clothes for women. Its revamped Nikewomen.com Web site now features the apparel, along with workout trend highlights. And Nike has been opening Nikewomen stores in several major cities.⁶

A growing number of Web sites and media networks also target women, such as iVillage, Oxygen, Lifetime, and WE. For example, WE TV is "the network dedicated to helping women



Gender segmentation: Nike has recently stepped up its efforts to capture the women's sports apparel market by overhauling its women's apparel lines, revamping the Nikewomen.com Web site, and opening Nikewomen stores in several major cities.

connect to one another and the world around them.” Its WE Empowers Women initiative helps women “find your voice and feel good doing it” by supporting causes that are important to women.⁷

Income segmentation
Dividing a market into different income groups.

Income segmentation has long been used by the marketers of products and services such as automobiles, clothing, cosmetics, financial services, and travel. Many companies target affluent consumers with luxury goods and convenience services. Stores such as Neiman Marcus pitch everything from expensive jewelry and fine fashions to glazed Australian apricots priced at \$20 a pound. And credit-card companies offer superpremium credit cards dripping with perks, such as VISA's Signature Card, MasterCard's World card, and American Express's super-elite Centurian card. The much-coveted black Centurian card is issued by invitation only, to customers who spend more than \$250,000 a year on other AmEx cards. Then, the select few who do receive the card pay a \$2,500 annual fee just for the privilege of carrying it.

However, not all companies that use income segmentation target the affluent. For example, many retailers—such as the Dollar General, Family Dollar, and Dollar Tree store chains—successfully target low- and middle-income groups. The core market for such stores is families with incomes under \$30,000. When Family Dollar real-estate experts scout locations for new stores, they look for lower-middle-class neighborhoods where people wear less expensive shoes and drive old cars that drip a lot of oil.

With their low-income strategies, the dollar stores are now the fastest growing retailers in the nation. They have been so successful that giant discounters are taking notice. For example, Target has installed a dollar aisle—the “1 Spot”—in its stores. And supermarkets such as Kroger to A&P are launching “10 for \$10” promotions. And some experts predict that, to meet the dollar store threat, Wal-Mart will eventually buy one of these chains or start one of its own.⁸

Psychographic Segmentation

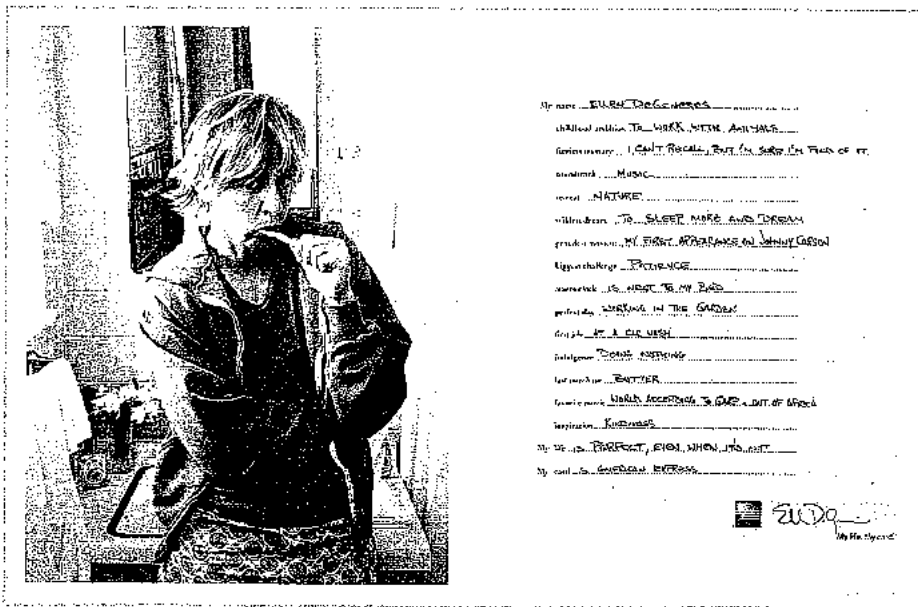
Psychographic segmentation
Dividing a market into different groups based on social class, lifestyle, or personality characteristics.

Psychographic segmentation divides buyers into different groups based on social class, lifestyle, or personality characteristics. People in the same demographic group can have very different psychographic makeups.

In Chapter 5, we discussed how the products people buy reflect their *lifestyles*. As a result, marketers often segment their markets by consumer lifestyles and base their marketing strategies on lifestyle appeals. For example, American Express promises “a card that fits your life.” Its “My life. My card.” campaign provides glimpses into the lifestyles of famous people with whom consumers might want to identify, from pro surfer Laird Hamilton and television personality Ellen DeGeneres to screen stars Robert DeNiro and Kate Winslet.

Pottery Barn, with its different store formats, sells more than just home furnishings. It sells all that its customers aspire to be. Pottery Barn Kids offers idyllic scenes of the perfect childhood.

■ The American Express “My life. My card.” campaign provides glimpses into the lifestyles of famous people with whom consumers might identify, here Ellen DeGeneres.



whereas PB Teens offers trendy fashion-forward self-expression. The flagship Pottery Barn stores serve an upscale yet casual, family- and friend-focused lifestyle—affluent but sensibly so.⁹

Shortly after Hadley MacLean got married, she and her husband, Doug, agreed that their old bed had to go. It was a mattress and box spring on a cheap metal frame, a relic of Doug's Harvard days. But Hadley never anticipated how tough it would be to find a new bed. "We couldn't find anything we liked, even though we were willing to spend the money," says Hadley, a 31-year-old marketing director. It turned out to be much more than just finding a piece of furniture at the right price. It was a matter of emotion: They needed a bed that meshed with their lifestyle—with who they are and where they are going. The couple finally ended up at the Pottery Barn on Boston's upscale Newbury Street, where Doug fell in love with a mahogany sleigh bed that Hadley had spotted in the store's catalog. The couple was so pleased with how great it looked in their Dutch Colonial home that they hurried back to the store for a set of end tables. And then they bought a quilt. And a mirror for the living room. And some stools for the dining room. "We got kind of addicted," Hadley confesses.

Marketers also have used *personality* variables to segment markets. For example, marketing for Honda motor scooters *appears* to target hip and trendy 22-year-olds. But it is *actually* aimed at a much broader personality group. One old ad, for example, showed a delighted child bouncing up and down on his bed while the announcer says, "You've been trying to get there all your life." The ad reminded viewers of the euphoric feelings they got when they broke away from authority and did things their parents told them not to do. Thus, Honda is appealing to the rebellious, independent kid in all of us. In fact, 22 percent of scooter riders are retirees. Competitor Vespa sells more than a quarter of its scooters to the over-50 set. "The older buyers are buying them for kicks," says one senior. "They never had the opportunity to do this as kids."¹⁰

Behavioral segmentation

Dividing a market into groups based on consumer knowledge, attitude, use, or response to a product.

Occasion segmentation

Dividing a market into groups according to occasions when buyers get the idea to buy, actually make their purchase, or use the purchased item.

Benefit segmentation

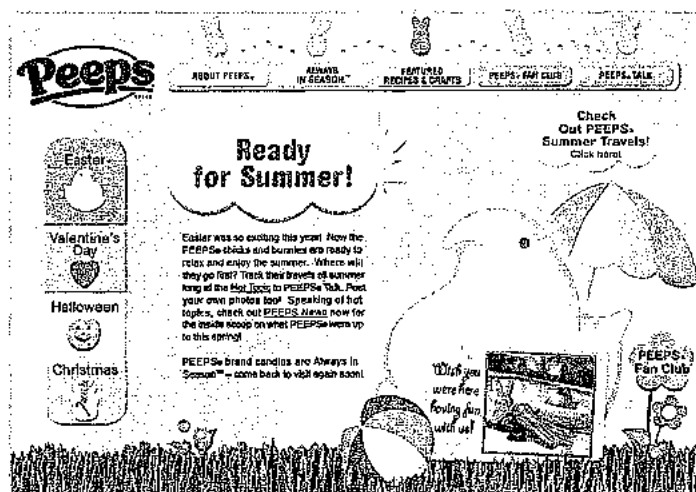
Dividing a market into groups according to the different benefits that consumers seek from the product.

Behavioral Segmentation

Behavioral segmentation divides buyers into groups based on their knowledge, attitudes, uses, or responses to a product. Many marketers believe that behavior variables are the best starting point for building market segments.

Buyers can be grouped according to occasions when they get the idea to buy, actually make their purchase, or use the purchased item. **Occasion segmentation** can help firms build up product usage. For example, eggs are most often consumed at breakfast. But the American Egg Board, with its "incredible, edible egg" theme, promotes eating eggs at all times of the day. Its Web site offers basic egg facts and lots of recipes for egg appetizers, snacks, main dishes, and desserts.

Some holidays, such as Mother's Day and Father's Day, were originally promoted partly to increase the sale of candy, flowers, cards, and other gifts. And many marketers prepare special offers and ads for holiday occasions. For example, Altoids offers a special "Love Tin," the "curiously strong valentine." Peeps creates different shaped sugar and fluffy marshmallow treats for Easter, Valentine's Day, Halloween, and Christmas when it captures most of its sales but advertises that Peeps are "Always in Season" to increase the demand for non-holiday occasions.



Occasion segmentation: Peeps creates different shaped marshmallow treats for special holidays when it captures most of its sales but advertises that Peeps are "Always in Season" to increase the demand for non-holiday occasions.

A powerful form of segmentation is to group buyers according to the different *benefits* that they seek from the product. **Benefit segmentation** requires finding the major benefits people look for in the product class, the kinds of people who look for each benefit, and the major brands that deliver each benefit.

Champion athletic wear segments its markets according to benefits that different consumers seek from their activewear. For example,

"Fit and Polish" consumers seek a balance between function and style—they exercise for results but want to look good doing it. "Serious Sports Competitors" exercise heavily and live in and love their activewear—they seek performance and function. By contrast, "Value-Seeking Moms" have low sports interest and low activewear involvement—they buy for the family and seek durability and value. Thus, each segment seeks a different mix of benefits. Champion must target the benefit segment or segments that it can serve best and most profitably using appeals that match each segment's benefit preferences.

USER STATUS Markets can be segmented into nonusers, ex-users, potential users, first-time users, and regular users of a product. For example, blood banks cannot rely only on regular donors. They must also recruit new first-time donors and remind ex-donors—each will require different marketing appeals.

Included in the potential user group are consumers facing life-stage changes—such as newlyweds and new parents—who can be turned into heavy users. For example, P&G acquires the names of parents-to-be and showers them with product samples and ads for its Pampers and other baby products in order to capture a share of their future purchases. It invites them to visit Pampers.com and join MyPampers.com, giving them access to expert parenting advice, Parent Pages e-mail newsletters, and coupons and special offers.

USAGE Markets can also be segmented into light, medium, and heavy product users. Heavy users are often a small percentage of the market but account for a high percentage of total consumption. For example, fast-feeder Burger King targets what it calls "Super Fans," young (age 18 to 34), Whopper-wolfing males who make up 18 percent of the chain's customers but account for almost half of all customer visits. They eat at Burger King an average of 16 times a month.¹¹

Burger King targets these Super Fans openly with ads that exalt monster burgers containing meat, cheese, and more meat and cheese that can turn "innies into outies." It's "Manthem" ad parodies the Helen Reddy song "I Am Woman." In the ad, young Super Fans who are "too hungry to settle for chick food" rebel by burning their briefs, pushing a minivan off a bridge, chowing down on decadent Texas Double Whoppers, and proclaiming "Eat like a man, man!" Although such ads puzzled many a casual fast-food patron, they really pushed the hungry buttons of Burger King's heavy users.

Despite claims by some consumers that the fast-food chains are damaging their health, these heavy users are extremely loyal. "They insist they don't need saving," says one analyst, "protesting that they are far from the clueless fatties anti-fast-food activists make them out to be." Even the heaviest users "would have to be stupid not to know that you can't eat only burgers and fries and not exercise," he says.¹²

LOYALTY A market can also be segmented by consumer loyalty. Consumers can be loyal to brands (Tide), stores (Nordstrom), and companies (Toyota). Buyers can be divided into groups according to their degree of loyalty. Some consumers are completely loyal—they buy one brand all the time. For example, Apple has a small but almost cultlike following of loyal users.¹³



Consumer loyalty: "Macolytes"—fanatically loyal Apple users—helped keep Apple afloat during the lean years, and they are now at the forefront of Apple's burgeoning iPod and iTunes empire.

It's the "Cult of the Mac," and it's populated by "macolytes." UrbanDictionary.com defines a *macolyte* as "One who is fanatically devoted to Apple products, especially the Macintosh computer. Also known as a Mac Zealot." (Sample usage: "He's a macolyte; don't even *think* of mentioning Microsoft within earshot.") How about Anna Zisa, a graphic designer from Milan who doesn't really like tattoos but stenciled an Apple tat on her behind. "It just felt like the most me thing to have," says Zisa. "I like computers. The apple looks good and sexy. All the comments I have heard have been positive, even from Linux and Windows users."

And then there's Taylor Barcroft, who has spent the past 11 years traveling the country in an RV on a mission to be the Mac cult's ultimate "multimedia historical videographer." He goes to every Macworld Expo, huge trade shows centered on the Mac, as well as all kinds of other tech shows—and videotapes anything and everything Apple. He's accumulated more than 3,000 hours of footage. And he's never been paid a dime to do any of this, living off an inheritance. Barcroft owns 17 Macs. Such fanatically loyal users helped keep Apple afloat during the lean years, and they are now at the forefront of Apple's burgeoning iPod-iTunes empire.

Others consumers are somewhat loyal—they are loyal to two or three brands of a given product or favor one brand while sometimes buying others. Still other buyers show no loyalty to any brand. They either want something different each time they buy or they buy whatever's on sale.

A company can learn a lot by analyzing loyalty patterns in its market. It should start by studying its own loyal customers. For example, by studying "macolytes," Apple can better pinpoint its target market and develop marketing appeals. By studying its less loyal buyers, the company can detect which brands are most competitive with its own. By looking at customers who are shifting away from its brand, the company can learn about its marketing weaknesses.

Using Multiple Segmentation Bases

Marketers rarely limit their segmentation analysis to only one or a few variables. Rather, they are increasingly using multiple segmentation bases in an effort to identify smaller, better-

defined target groups. Thus, a bank may not only identify a group of wealthy retired adults but also, within that group, distinguish several segments based on their current income, assets, savings and risk preferences, housing, and lifestyles.

One good example of multivariable segmentation is "geodemographic" segmentation. Several business information services—such as Claritas, Experian, Acxiom, and MapInfo—have arisen to help marketing planners link U.S. Census and consumer transaction data with consumer lifestyle patterns to better segment their markets down to zip codes, neighborhoods, and even households.

One of the leading lifestyle segmentation systems is the PRIZM NE (New Evolution) system by Claritas. The PRIZM NE system classifies every American household based on a host of demographic factors—such as age, educational level, income, occupation, family composition, ethnicity, and housing—and behavioral and lifestyle factors—such as purchases, free-time activities, and media preferences. Using PRIZM NE, marketers can use where you live to paint a surprisingly precise picture of who you are and what you might buy:

You're a 23-year-old first-generation college graduate, working as a marketing assistant in a small publishing company. Starting on the bottom rung of the job ladder, you make just enough money to chip in your half of the rent for a no-frills, walk-up apartment you share downtown with an old college friend. You drive a one-year-old Kia Spectra and spend your Friday nights socializing at the local nightclubs. Instead of cooking, you'd much rather order pizza from Papa John's and eat a few slices as you watch a rerun of *The Mind of Mencia* on Comedy

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Using Claritas' PRIZM NE system, marketers can paint a surprisingly precise picture of who you are and what you might buy. PRIZM NE segments carry such exotic names as "Kids & Cul-de-Sacs," "Gray Power," "Blue Blood Estates," "Shotguns & Pickups," and "Bright Lites Lil City."

Central. You spend most Sunday afternoons doing laundry at the local laundromat, while drinking your usual large cup of coffee from the café down the block and reading a recent issue of *Spin*. You're living out your own, individual version of the good life. You're unique—not some demographic cliché. Right? Wrong. You're a prime example of PRIZM NE's "City Startups" segment. If you consume, you can't hide from Claritas.¹⁴

PRIZM NE classifies U.S. households into 66 unique segments, organized into 14 different social groups. PRIZM NE segments carry such exotic names as "Kids & Cul-de-Sacs," "Gray Power," "Blue Blood Estates," "Mayberry-ville," "Shotguns & Pickups," "Old Glories," "Multi-Culti Mosaic," "Big City Blues," and "Bright Lites L'il City." "Those image-triggered nicknames save a lot of time and geeky technical research terms explaining what you mean," says one marketer. "It's the names that bring the clusters to life," says another.¹⁵

Regardless of what you call the categories, such systems can help marketers to segment people and locations into marketable groups of like-minded consumers. Each segment exhibits unique characteristics and buying behavior. For example, "Blue Blood Estates" neighborhoods, part of the Elite Suburbs social group, are suburban areas populated by elite, superrich families. People in this segment are more likely to take a golf vacation, watch major league soccer, eat at fast-food restaurants picked by kids, and read *Fortune*. In contrast, the "Shotguns & Pickups" segment, part of the Middle America social group, is populated by rural blue-collar workers and families. People in this segment are more likely to go hunting, buy hard rock music, drive a GMC Sierra 2500, watch the Daytona 500 on TV, and read *Field & Stream*.

Such segmentation provides a powerful tool for marketers of all kinds. It can help companies to identify and better understand key customer segments, target them more efficiently, and tailor market offerings and messages to their specific needs.

Segmenting Business Markets

Consumer and business marketers use many of the same variables to segment their markets. Business buyers can be segmented geographically, demographically (industry, company size), or by benefits sought, user status, usage rate, and loyalty status. Yet, business marketers also use some additional variables, such as customer *operating characteristics*, *purchasing approaches*, *situational factors*, and *personal characteristics*. By going after segments instead of the whole market, companies can deliver just the right value proposition to each segment served and capture more value in return.

Almost every company serves at least some business markets. For example, we've discussed American Express as the "My life. My card." company that offers credit cards to end consumers. But American Express also targets businesses in three segments—merchants, corporations, and small businesses. It has developed distinct marketing programs for each segment.

In the merchants segment, American Express focuses on convincing new merchants to accept the card and on managing relationships with those that already do. For larger corporate customers, the company offers a corporate card program, which includes extensive employee expense and travel management services. It also offers this segment a wide range of asset management, retirement planning, and financial education services.

Finally, for small business customers, American Express has created the OPEN: Small Business

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This helps you buy what your small business needs.

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SMALL BUSINESS NETWORK

This lets you track, organize, categorize, subdivide, examine, break down, cross-reference, combine and archive online what your small business spends.

Now you can access the Expense Management Report and many other online tools. But only if you have the American Express Business Card. The Card with the savings, rewards and services of OPEN: The Small Business Network™ behind it. Apply now and get an instant decision. Visit OPEN.AMERICANEXPRESS.COM.

■ Segmenting business markets: For small business customers, American Express has created the OPEN: Small Business Network, "the one place that's all about small business."

Network, “the one place that’s all about small business.” Small business cardholders can access the network for everything from account and expense management software to expert small business management advice and connecting with other small business owners to share ideas and get recommendations.¹⁶

Many companies set up separate systems for dealing with larger or multiple-location customers. For example, Steelcase, a major producer of office furniture, first segments customers into 10 industries, including banking, insurance, and electronics. Next, company salespeople work with independent Steelcase dealers to handle smaller, local, or regional Steelcase customers in each segment. But many national, multiple-location customers, such as ExxonMobil or IBM, have special needs that may reach beyond the scope of individual dealers. So Steelcase uses national accounts managers to help its dealer networks handle its national accounts.

Within a given target industry and customer size, the company can segment by purchase approaches and criteria. As in consumer segmentation, many marketers believe that *buying behavior* and *benefits* provide the best basis for segmenting business markets.

Segmenting International Markets

Few companies have either the resources or the will to operate in all, or even most, of the countries that dot the globe. Although some large companies, such as Coca-Cola or Sony, sell products in more than 200 countries, most international firms focus on a smaller set. Operating in many countries presents new challenges. Different countries, even those that are close together, can vary greatly in their economic, cultural, and political makeup. Thus, just as they do within their domestic markets, international firms need to group their world markets into segments with distinct buying needs and behaviors.

Companies can segment international markets using one or a combination of several variables. They can segment by *geographic location*, grouping countries by regions such as Western Europe, the Pacific Rim, the Middle East, or Africa. Geographic segmentation assumes that nations close to one another will have many common traits and behaviors. Although this is often the case, there are many exceptions. For example, although the United States and Canada have much in common, both differ culturally and economically from neighboring Mexico. Even within a region, consumers can differ widely. For example, some U.S. marketers lump all Central and South American countries together. However, the Dominican Republic is no more like Brazil than Italy is like Sweden. Many Central and South Americans don’t even speak Spanish, including 140 million Portuguese-speaking Brazilians and the millions in other countries who speak a variety of Indian dialects.

World markets can also be segmented on the basis of *economic factors*. For example, countries might be grouped by population income levels or by their overall level of economic

development. A country’s economic structure shapes its population’s product and service needs and, therefore, the marketing opportunities it offers. Countries can be segmented by *political and legal factors* such as the type and stability of government, receptivity to foreign firms, monetary regulations, and the amount of bureaucracy. Such factors can play a crucial role in a company’s choice of which countries to enter and how. *Cultural factors* can also be used, grouping markets according to common languages, religions, values and attitudes, customs, and behavioral patterns.

Segmenting international markets based on geographic, economic, political, cultural, and other factors assumes that segments should consist of clusters of countries. However, many companies use a different approach called *intermarket segmentation*. They form segments of consumers who have similar needs and buying behavior even though they are located in different countries. For example, Mercedes-

Intermarket segmentation

Forming segments of consumers who have similar needs and buying behavior even though they are located in different countries.



24 Intermarket segmentation: Teens show surprising similarity no matter where they live—these teens could be from almost anywhere. Thus, many companies target teens with worldwide marketing campaigns.

Benz targets the world's well-to-do, regardless of their country. And Swedish furniture giant IKEA targets the aspiring global middle class—it sells good-quality furniture that ordinary people worldwide can afford.

MTV targets the world's teenagers. The world's 1.2 billion teens have a lot in common: They study, shop, and sleep. They are exposed to many of the same major issues: love, crime, homelessness, ecology, and working parents. In many ways, they have more in common with each other than with their parents. "Last year I was in 17 different countries," says one expert, "and it's pretty difficult to find anything that is different, other than language, among a teenager in Japan, a teenager in the UK, and a teenager in China." Says another, "Global teens in Buenos Aires, Beijing, and Bangalore swing to the beat of MTV while sipping Coke." MTV bridges the gap between cultures, appealing to what teens around the world have in common. Sony, Adidas, Nike, and many other firms also actively target global teens. For example, Adidas's "Impossible Is Nothing" theme appeals to teens the world over.¹⁷

Requirements for Effective Segmentation

Clearly, there are many ways to segment a market, but not all segmentations are effective. For example, buyers of table salt could be divided into blond and brunette customers. But hair color obviously does not affect the purchase of salt. Furthermore, if all salt buyers bought the same amount of salt each month, believed that all salt is the same, and wanted to pay the same price, the company would not benefit from segmenting this market.

To be useful, market segments must be

- **Measurable:** The size, purchasing power, and profiles of the segments can be measured. Certain segmentation variables are difficult to measure. For example, there are 32.5 million left-handed people in the United States—almost equaling the entire population of Canada. Yet few products are targeted toward this left-handed segment. The major problem may be that the segment is hard to identify and measure. There are no data on the demographics of lefties, and the U.S. Census Bureau does not keep track of left-handedness in its surveys. Private data companies keep reams of statistics on other demographic segments but not on left-handers.

- The "Leftie" segment can be hard to identify and measure. As a result, few companies tailor their offers to left-handers. However, some nichers such as Anything Left-Handed in the United Kingdom targets this segment.

- **Accessible:** The market segments can be effectively reached and served. Suppose a fragrance company finds that heavy users of its brand are single men and women who stay out late and socialize a lot. Unless this group lives or shops at certain places and is exposed to certain media, its members will be difficult to reach.
- **Substantial:** The market segments are large or profitable enough to serve. A segment should be the largest possible homogenous group worth pursuing with a tailored marketing program. It would not pay, for example, for an automobile manufacturer to develop cars especially for people whose height is greater than seven feet.
- **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 designed for attracting and serving the segments. For example, although one small airline identified seven market segments, its staff was too small to develop separate marketing programs for each segment.

Market Targeting

Market segmentation reveals the firm's market segment opportunities. The firm now must evaluate the various segments and decide how many and which segments it can serve best. We now look at how companies evaluate and select target segments.

Evaluating Market Segments

In evaluating different market segments, a firm must look at three factors: segment size and growth, segment structural attractiveness, and company objectives and resources. The company must first collect and analyze data on current segment sales, growth rates, and expected profitability for various segments. It will be interested in segments that have the right size and growth characteristics. But "right size and growth" is a relative matter. The largest, fastest-growing segments are not always the most attractive ones for every company. Smaller companies may lack the skills and resources needed to serve the larger segments. Or they may find these segments too competitive. Such companies may target segments that are smaller and less attractive, in an absolute sense, but that are potentially more profitable for them.

The company also needs to examine major structural factors that affect long-run segment attractiveness.²⁸ For example, a segment is less attractive if it already contains many strong and aggressive competitors. The existence of many actual or potential *substitute products* may limit prices and the profits that can be earned in a segment. The relative *power of buyers* also affects segment attractiveness. Buyers with strong bargaining power relative to sellers will try to force prices down, demand more services, and set competitors against one another—all at the expense of seller profitability. Finally, a segment may be less attractive if it contains *powerful suppliers* who can control prices or reduce the quality or quantity of ordered goods and services.

Even if a segment has the right size and growth and is structurally attractive, the company must consider its own objectives and resources. Some attractive segments can be dismissed quickly because they do not mesh with the company's long-run objectives. Or the company may lack the skills and resources needed to succeed in an attractive segment. The company should enter only segments in which it can offer superior value and gain advantages over competitors.

Selecting Target Market Segments

After evaluating different segments, the company must now decide which and how many segments it will target. A **target market** consists of a set of buyers who share common needs or characteristics that the company decides to serve.

Because buyers have unique needs and wants, a seller could potentially view each buyer as a separate target market. Ideally, then, a seller might design a separate marketing program for each buyer. However, although some companies do attempt to serve buyers individually, most face larger numbers of smaller buyers and do not find individual targeting worthwhile. Instead, they look for broader segments of buyers. More generally, market targeting can be carried out at several different levels. Figure 7.2 shows that companies can target very broadly (undifferentiated marketing), very narrowly (micromarketing), or somewhere in between (differentiated or concentrated marketing).

Target market

A set of buyers sharing common needs or characteristics that the company decides to serve.

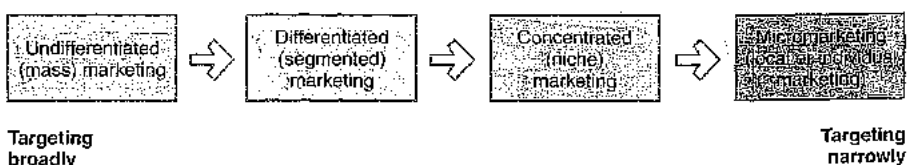
Undifferentiated (mass) marketing

A market-coverage strategy in which a firm decides to ignore market segment differences and go after the whole market with one offer.

Undifferentiated Marketing

Using an **undifferentiated marketing** (or **mass-marketing**) strategy, a firm might decide to ignore market segment differences and target the whole market with one offer. This mass-marketing strategy focuses on what is *common* in the needs of consumers rather than on what

FIGURE 7.2
Target marketing strategies



is *different*. The company designs a product and a marketing program that will appeal to the largest number of buyers.

As noted earlier in the chapter, most modern marketers have strong doubts about this strategy. Difficulties arise in developing a product or brand that will satisfy all consumers. Moreover, mass marketers often have trouble competing with more-focused firms that do a better job of satisfying the needs of specific segments and niches.

Differentiated Marketing

Differentiated (segmented) marketing

A market-coverage strategy in which a firm decides to target several market segments and designs separate offers for each.

Using a **differentiated marketing** (or **segmented marketing**) strategy, a firm decides to target several market segments and designs separate offers for each. General Motors tries to produce a car for every "purse, purpose, and personality." Gap Inc. has created four different retail store formats—Gap, Banana Republic, Old Navy, and its most recent addition, Forth & Towne—to serve the varied needs of different fashion segments. And Estée Lauder offers hundreds of different products aimed at carefully defined segments:

Estée Lauder is an expert in creating differentiated brands that serve the tastes of different market segments. Five of the top-ten best-selling prestige perfumes in the United States belong to Estée Lauder. So do eight of the top-ten prestige makeup brands. There's the original Estée Lauder brand, with its gold and blue packaging, which appeals to older, 50+ baby boomers. Then there's Clinique, the company's most popular brand, perfect for the middle-aged mom with no time to waste and for younger women attracted to its classic free gift offers. For young, fashion-forward consumers, there's M.A.C., which provides makeup for clients like Pamela Anderson and Marilyn Manson. For the young and trendy, there's the Stila line, containing lots of shimmer and uniquely packaged in clever containers. And, for the New Age type, there's upscale Aveda, with its salon, makeup, and lifestyle products, based on the art and science of earthy origins and pure flower and plant essences, celebrating the connection between Mother Nature and human nature.¹⁹

By offering product and marketing variations to segments, companies hope for higher sales and a stronger position within each market segment. Developing a stronger position within several segments creates more total sales than undifferentiated marketing across all segments. Estée Lauder's combined brands give it a much greater market share than any single brand could. The Estée Lauder and Clinique brands alone reap a combined 40 percent share of the prestige cosmetics market. Similarly, Procter & Gamble markets six different brands of laundry detergent, which compete with each other on supermarket shelves. Yet together, these multiple brands capture four times the market share of nearest rival Unilever (see Real Marketing 7.1).

But differentiated marketing also increases the costs of doing business. A firm usually finds it more expensive to develop and produce, say, 10 units of 10 different products than 100 units of one product. Developing separate marketing plans for the separate segments requires extra marketing research, forecasting, sales analysis, promotion planning, and channel



■ Differentiated marketing: Estée Lauder offers hundreds of different products aimed at carefully defined segments, from its original Estée Lauder brand appealing to age 50+ baby boomers to Aveda, with earthy origins that appeal to younger new age types.

management. And trying to reach different market segments with different advertising increases promotion costs. Thus, the company must weigh increased sales against increased costs when deciding on a differentiated marketing strategy.

Concentrated Marketing

Concentrated (niche) marketing

A market-coverage strategy in which a firm goes after a large share of one or a few segments or niches.

A third market-coverage strategy, **concentrated marketing** (or **niche marketing**), is especially appealing when company resources are limited. Instead of going after a small share of a large market, the firm goes after a large share of one or a few smaller segments or niches. For example, Oshkosh Truck is the world's largest producer of airport rescue trucks and front-loading concrete mixers. Tetra sells 80 percent of the world's tropical fish food, and Steiner Optical captures 80 percent of the world's military binoculars market.

Through concentrated marketing, the firm achieves a strong market position because of its greater knowledge of consumer needs in the niches it serves and the special reputation it acquires. It can market more *effectively* by fine-tuning its products, prices, and programs to the needs of carefully defined segments. It can also market more *efficiently*, targeting its products or services, channels, and communications programs toward only consumers that it can serve best and most profitably.

Whereas segments are fairly large and normally attract several competitors, niches are smaller and may attract only one or a few competitors. Niching offers smaller companies an opportunity to compete by focusing their limited resources on serving niches that may be unimportant to or overlooked by larger competitors. Consider Apple Computer. Although it once enjoyed a better than 13 percent market share, Apple is now a PC market nicher, capturing less than 2 percent of the personal computer market worldwide. Rather than competing head-on with other PC makers as they slash prices and focus on volume, Apple invests in research and development, making it the industry trendsetter. For example, when the company introduced the iPod and iTunes, it captured more than 70 percent of the music download market. Such innovation has created a loyal base of consumers who are willing to pay more for Apple's cutting edge products.²⁰

Many companies start as nichers to get a foothold against larger, more resourceful competitors, then grow into broader competitors. For example, Southwest Airlines began by serving intrastate, no-frills commuters in Texas but is now one of the nation's largest airlines. In contrast, as markets change, some megamarketers develop niche markets to create sales growth. For example, in recent years, Pepsi has introduced several niche products, such as Sierra Mist, Pepsi Twist, Mountain Dew Code Red, and Mountain Dew LiveWire. Initially, these brands combined accounted for barely 5 percent of Pepsi's overall soft-drink sales. However, Sierra Mist quickly blossomed and now is the number two lemon-lime soft drink behind Sprite, and Code Red and LiveWire have revitalized the Mountain Dew brand. Says Pepsi-Cola North America's chief marketing officer, "The era of the mass brand has been over for a long time."²¹

Today, the low cost of setting up shop on the Internet makes it even more profitable to serve seemingly minuscule niches. Small businesses, in particular, are realizing riches from serving small niches on the Web. Here is a "Webpreneur" who achieved astonishing results:

Sixty-three-year-old British artist Jacquie Lawson taught herself to use a computer only a few years ago. Last year, her online business had sales of over \$4 million. What does she sell? Online cards. Lawson occupies a coveted niche in the electronic world: a profitable, subscription-based Web site (www.jacquelawson.com) where she sells her highly stylized e-cards without a bit of advertising. While the giants—Hallmark and American Greetings—offer hundreds of e-cards for every occasion, Lawson only offers about 50 in total, the majority of which she intricately designed herself. Revenue comes solely from members—81 percent from the United States—who pay \$8 a year. Last year, membership climbed from 300,000 to 500,000 and the membership renewal rate is close to 70 percent. Last December, Lawson's Web site attracted 22.7 million visitors, more than double that of closest rival AmericanGreetings.com. Lawson's success with a business model that has stumped many media giants speaks to both the Internet's egalitarian nature and her own stubborn belief that doing it her way is the right way.²²

Concentrated marketing can be highly profitable. At the same time, it involves higher-than-normal risks. Companies that rely on one or a few segments for all of their business will suffer greatly if the segment turns sour. Or larger competitors may decide to enter the same segment with greater resources. For these reasons, many companies prefer to diversify in several market segments.

Real Marketing

7.1 Procter & Gamble is one of the world's premier consumer-goods companies. Some 99 percent of all U.S. households use at least one of P&G's more than 300 brands, and the typical household regularly buys and uses from one to two dozen P&G brands.

P&G sells six brands of laundry detergent in the United States (Tide, Cheer, Gain, Era, Dreft, and Ivory Snow). It also sells six brands of bath soap (Ivory, Safeguard, Camay, Olay, Zest, and Old Spice); seven brands of shampoo (Pantene, Head & Shoulders, Aussie, Herbal Essences, Infusium 23, Port Plus, and Physique); four brands of dishwashing detergent (Dawn, Ivory, Joy, and Cascade); three brands each of tissues and paper towels (Charmin, Bounty, and Puffs), skin care products (Olay, Gifette Complete Skincare, and Noxzema), and deodorant (Secret, Sure, and Old Spice); and two brands each of fabric softener (Downy and Bounce), cosmetics (CoverGirl and Max Factor), and disposable diapers (Pampers and Luvs).

Moreover, P&G has many additional brands in each category for different international markets. For example, it sells 16 different laundry product brands in Latin America and 19 in Europe, the Middle East, and Africa. (See P&G's Web site at www.pg.com for a full glimpse of the company's impressive lineup of familiar brands.)

These P&G brands compete with one another on the same supermarket shelves. But why would P&G introduce several brands in one category instead of concentrating its resources on a single leading brand? The answer lies in the fact that different people want different mixes of benefits from the products they buy. Take laundry deter-



Differentiated marketing: Procter & Gamble markets six different laundry detergents, including Tide—each with multiple forms and formulations—that compete with each other on store shelves. Yet together, these multiple brands capture four times the market share of nearest rival Unilever.

gents as an example. People use laundry detergents to get their clothes clean. But they also want other things from their detergents—such as economy, strength or mildness, bleaching power, fabric softening, fresh smell, and lots of suds or only a few. We all want *some* of these benefits from our detergent, but we may have different *priorities* for each benefit. To some people, cleaning and bleaching power are most important; to others, fabric softening matters most; still others want a mild, fresh scented detergent. Thus,

Micromarketing

Differentiated and concentrated marketers tailor their offers and marketing programs to meet the needs of various market segments and niches. At the same time, however, they do not customize their offers to each individual customer. **Micromarketing** is the practice of tailoring products and marketing programs to suit the tastes of specific individuals and locations. Rather than seeing a customer in every individual, micromarketers see the individual in every customer. Micromarketing includes *local marketing* and *individual marketing*.

Micromarketing

The practice of tailoring products and marketing programs to the needs and wants of specific individuals and local customer groups—includes *local marketing* and *individual marketing*.

Local marketing

Tailoring brands and promotions to the needs and wants of local customer groups—cities, neighborhoods, and even specific stores.

Local marketing involves tailoring brands and promotions to the needs and wants of local customer groups—cities, neighborhoods, and even specific stores. Citibank provides different mixes of banking services in each of its branches, depending on neighborhood demographics. Kroger designates its supermarkets as “upscale,” “mainstream,” or “value” based on customer purchase behavior and adjusts its merchandise to match store customer profiles. And Wal-Mart customizes its merchandise store by store to meet the needs of local shoppers.

Wal-Mart's real-estate teams deeply research the local customer base when scouting for locations. Designers then create a new store's format accordingly—

each segment of laundry detergent buyers seeks a special combination of benefits.

Procter & Gamble has identified at least six important laundry detergent segments, along with numerous subsegments, and has developed a different brand designed to meet the special needs of each. The six brands are positioned for different segments as follows:

- *Tide* provides “fabric cleaning and care at its best.” It’s the all-purpose family detergent that “gets to the bottom of dirt and stains to help keep your whites white and your colors bright.”
- *Cheer* is the “color expert.” It helps protect against fading, color transfer, and fabric wear, with or without bleach. *Cheer Free* is “dermatologist tested . . . contains no irritating perfume or dye.”
- *Gain*, originally P&G’s “enzyme” detergent, was repositioned as the detergent that gives you “great cleaning power and the smell that says clean.” It “cleans and freshens like sunshine.”
- *Era* “provides powerful stain removal and pretreating for physically active families.” It contains advanced enzymes to fight a family’s toughest stains and help get the whole wash clean. *Era Max* has three types of active enzymes to help fight many stains that active families encounter.
- *Ivory Snow* is “Ninety-nine and forty-four one-hundredths percent pure.” It provides “mild cleansing benefits for a gentle, pure, and simple clean.”
- *Dreft* is specially formulated “to help clean tough baby and toddler stains.” It “rinses out thoroughly, leaving clothes soft next to a baby’s delicate skin.”

Within each segment, P&G has identified even narrower niches. For example, you can buy regular Tide (in powder or liquid form) or any of several formulations:

Tide Powder helps keep everyday laundry clean and new. It comes in regular and special scents: *Tide Mountain Spring* (“the scent of crisp mountain air and fresh wildflowers”); *Tide Clean Breeze* (the fresh scent of laundry line-dried in a clean breeze); *Tide Tropical Clean* (a fresh tropical scent); and *Tide Free* (“has no scent at all—leaves out the dyes or perfumes”).

- *Tide Liquid* combines all the great stain-fighting qualities you’ve come to expect in Tide powder with the pretreating ease of a liquid detergent. Available in original and Mountain Spring, Clean Breeze, Tropical Clean, and Free scents.
- *Tide with Bleach* helps to “clean even the dirtiest laundry without the damaging effects of chlorine bleach.” Keeps “your family’s whites white and colors bright.” Available in Clean Breeze or Mountain Spring scents.
- *Tide Liquid with Bleach Alternative* is the “smart alternative to chlorine bleach.” It uses active enzymes in pretreating and washing to break down and remove the toughest stains while whitening whites.
- *Tide with a Touch of Downy* provides “outstanding Tide clean with a touch of Downy softness and freshness.” Available in April Fresh, Clean Breeze, and Soft Ocean Mist scents.
- *Tide Coldwater* is specially formulated to help reduce your energy bills by delivering outstanding cleaning, even on the toughest stains, in cold water. Available in both liquid and powder formulas and in two new cool scents—Fresh Scent and Glacier.
- *Tide HE* is specially formulated to unlock the cleaning potential of high-efficiency washers and provides excellent cleaning with the right level of sudsing. Available in Original, Free, and Clean Breeze scents.

By segmenting the market and having several detergent brands, P&G has an attractive offering for consumers in all important preference groups. As a result, P&G is really cleaning up in the \$4.9 billion U.S. laundry detergent market. Tide, by itself, captures a whopping 40 percent of the detergent market. All P&G brands combined take an impressive 60 percent market share—more than four times that of nearest rival Unilever and much more than any single brand could obtain by itself.

Sources: See LeeAnn Prescott, “Case Study: Tide Boosts Traffic 9-Fold,” *iMedia Connection*, November 30, 2005, accessed at www.imediaconnection.com; Doris de Guzman, “Household Products Struggle,” *Chemical Market Reporter*, March 20–26, 2006, pp. 46–47; and information accessed at www.pg.com and www.tide.com, December 2005.

stores near office parks, for example, contain prominent islands featuring ready-made meals for busy workers. Through its Retail Link program, Wal-Mart works with suppliers to tailor store merchandise with similar precision. Retail Link provides both local Wal-Mart managers and suppliers with a two-year history of every item’s daily sales in every Wal-Mart store. Using Retail Link, Wal-Mart and its suppliers can determine which merchandise should be stocked when and where. For example, Wal-Mart stocks about 60 types of canned chili but carries only three nationwide. The rest are allocated according to local tastes. Similarly, Wal-Mart uses more than 200 finely tuned planograms (shelf plans) to match soup assortments to each store’s demand patterns. The giant retailer even localizes product packaging to match local preferences. For example, Wal-Mart found that although ant and roach killer sells well in the southern United States, consumers in the northern states are turned off by the word “roach.” After labeling the pesticide as “ant killer” in northern states, the company has seen sales increase dramatically.²³

Local marketing has some drawbacks. It can drive up manufacturing and marketing costs by reducing economies of scale. It can also create logistics problems as companies try

to meet the varied requirements of different regional and local markets. Further, a brand's overall image might be diluted if the product and message vary too much in different localities.

Still, as companies face increasingly fragmented markets, and as new supporting technologies develop, the advantages of local marketing often outweigh the drawbacks. Local marketing helps a company to market more effectively in the face of pronounced regional and local differences in demographics and lifestyles. It also meets the needs of the company's first-line customers—retailers—who prefer more fine-tuned product assortments for their neighborhoods.

Individual marketing

Tailoring products and marketing programs to the needs and preferences of individual customers—also labeled “markets-of-one marketing,” “customized marketing,” and “one-to-one marketing.”

In the extreme, micromarketing becomes **individual marketing**—tailoring products and marketing programs to the needs and preferences of individual customers. Individual marketing has also been labeled *one-to-one marketing*, *mass customization*, and *markets-of-one marketing*.

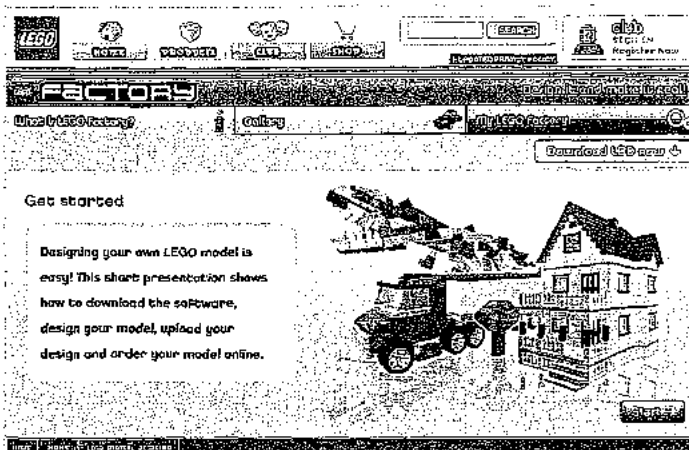
The widespread use of mass marketing has obscured the fact that for centuries consumers were served as individuals: The tailor custom-made the suit, the cobbler designed shoes for the individual, the cabinetmaker made furniture to order. Today, however, new technologies are permitting many companies to return to customized marketing. More powerful computers, detailed databases, robotic production and flexible manufacturing, and interactive communication media such as e-mail and the Internet—all have combined to foster “mass customization.” Mass customization is the process through which firms interact one-to-one with masses of customers to design products and services tailor-made to individual needs.²⁴

Dell creates custom-configured computers. Hockey-stick maker Branches Hockey lets customers choose from more than two dozen options—including stick length, blade patterns, and blade curve—and turns out a customized stick in five days. Visitors to Nike's NikeiD Web site can personalize their sneakers by choosing from hundreds of colors and putting an embroidered word or phrase on the tongue. And at Target's “Target to a T” Web site, customers can personalize selected clothing items to “create a clothing look that's all you.” The Target to a T Web site proclaims: “You'll experience the perfect fit—for your personality, your lifestyle, your wardrobe, your body—without setting foot in a dressing room.”

Companies selling all kinds of products—from computers, candy, clothing, and golf clubs to fire trucks—are customizing their offerings to the needs of individual buyers. Consider this example:

The LEGO Company recently launched LEGO Factory, a Web site (LEGOFactory.com) where LEGO fans can “design their own ultimate LEGO model, show it off, and bring it to life.” Using free, downloadable Digital Designer software, customers can create any structure they can imagine. Then, if they decide to actually build their creation, the software, which keeps track of which pieces are required, sends the order to the LEGO warehouse. There, employees put all the pieces into a box, along with instructions, and ship it off. Customers can even design their own boxes. The software also lets proud users share their creations with others in the LEGO community, one of the traditional building blocks of the company's customer loyalty. The LEGO Factory Gallery features winning designs and lets users browse and order the inspired designs of others.²⁵

Consumer goods marketers aren't the only ones going one-to-one. Business-to-business marketers are also finding new ways to customize their offerings. For example, John Deere manufactures seeding equipment that can be configured in more than two million versions to individual customer specifications. The seeders



Individual marketing: At the LEGO Factory Web site, fans can design their own ultimate LEGO model, show it off, and bring it to life.

are produced one at a time, in any sequence, on a single production line. Mass customization provides a way to stand out against competitors. Consider Oshkosh Truck:

Oshkosh Truck specializes in making heavy-duty fire, airport-rescue, cement, garbage, snow-removal, ambulance, and military vehicles. According to one account, "Whether you need to plow your way through Sahara sands or Buffalo snow, Oshkosh has your vehicle, by gosh." Oshkosh has grown rapidly and profitably over the past decade. What's its secret? Mass customization—the ability to personalize its products and services to the needs of individual customers. For example, when firefighters order a truck from Oshkosh, it's an event. They travel to the plant to watch the vehicle, which may cost as much as \$800,000, take shape. The firefighters can choose from 19,000 options. A stripped-down fire truck costs \$130,000, but 75 percent of Oshkosh's customers order lots of extras, like hideaway stairs, ladders, special doors, compartments, and firefighting foam systems for those difficult-to-extinguish fires. Some bring along paint chips so they can customize the color of their fleet. Others are content just to admire the vehicles, down to the water tanks and hideaway ladders. "Some chiefs even bring their wives; we encourage it," says the president of Oshkosh's firefighting unit, Pierce Manufacturing. "Buying a fire truck is a very personal thing." Indeed, Pierce customers are in town so often that the Holiday Inn renamed its lounge the Hook and Ladder. Through such customization and personalization, Oshkosh has gained a big edge over its languishing larger rivals.²⁶

Unlike mass production, which eliminates the need for human interaction, one-to-one marketing has made relationships with customers more important than ever. Just as mass production was the marketing principle of the twentieth century, mass customization is becoming a marketing principle for the twenty-first century. The world appears to be coming full circle—from the good old days when customers were treated as individuals, to mass marketing when nobody knew your name, and back again.

The move toward individual marketing mirrors the trend in consumer *self-marketing*. Increasingly, individual customers are taking more responsibility for determining which products and brands to buy. Consider two business buyers with two different purchasing styles. The first sees several salespeople, each trying to persuade him to buy his or her product. The second sees no salespeople but rather logs onto the Internet. She searches for information on available products; interacts electronically with various suppliers, users, and product analysts; and then makes up her own mind about the best offer. The second purchasing agent has taken more responsibility for the buying process, and the marketer has had less influence over her buying decision.

As the trend toward more interactive dialogue and less advertising monologue continues, self-marketing will grow in importance. As more buyers look up consumer reports, join Internet product-discussion forums, and place orders via phone or online, marketers will need to influence the buying process in new ways. They will need to involve customers more in all phases of the product development and buying processes, increasing opportunities for buyers to practice self-marketing.

Choosing a Targeting Strategy

Companies need to consider many factors when choosing a market targeting strategy. Which strategy is best depends on *company resources*. When the firm's resources are limited, concentrated marketing makes the most sense. The best strategy also depends on the degree of *product variability*. Undifferentiated marketing is more suited for uniform products such as grapefruit or steel. Products that can vary in design, such as cameras and automobiles, are more suited to differentiation or concentration. The *product's life-cycle stage* also must be considered. When a firm introduces a new product, it may be practical to launch only one version, and undifferentiated marketing or concentrated marketing may make the most sense. In the mature stage of the product life cycle, however, differentiated marketing begins to make more sense.

Another factor is *market variability*. If most buyers have the same tastes, buy the same amounts, and react the same way to marketing efforts, undifferentiated marketing is appropriate. Finally, *competitors' marketing strategies* are important. When competitors use differentiated or concentrated marketing, undifferentiated marketing can be suicidal. Conversely, when competitors use undifferentiated marketing, a firm can gain an advantage by using differentiated or concentrated marketing.

Socially Responsible Target Marketing

Smart targeting helps companies to be more efficient and effective by focusing on the segments that they can satisfy best and most profitably. Targeting also benefits consumers—companies reach specific groups of consumers with offers carefully tailored to satisfy their needs. However, target marketing sometimes generates controversy and concern. The biggest issues usually involve the targeting of vulnerable or disadvantaged consumers with controversial or potentially harmful products.

For example, over the years, the cereal industry has been heavily criticized for its marketing efforts directed toward children. Children make up almost half of the \$8.9 billion U.S. cereal market. Critics worry that premium offers and high-powered advertising appeals presented through the mouths of lovable animated characters will overwhelm children's defenses. The marketers of toys and other children's products have been similarly battered, often with good justification.²⁷

Other problems arise when the marketing of adult products spills over into the kid segment—intentionally or unintentionally. For example, the Federal Trade Commission (FTC) and citizen action groups have accused tobacco and beer companies of targeting underage smokers and drinkers. For instance, a recent Adhowl poll found that, in the most recent Super Bowl, Bud Light and Budweiser ads ranked first through fourth in popularity among viewers under age 17.²⁸ Some critics have even called for a complete ban on advertising to children. To encourage responsible advertising, the Children's Advertising Review Unit, the advertising industry's self-regulatory agency, has published extensive children's advertising guidelines that recognize the special needs of child audiences.

Cigarette, beer, and fast-food marketers have also generated much controversy in recent years by their attempts to target inner-city minority consumers. For example, McDonald's and other chains have drawn criticism for pitching their high-fat, salt-laden fare to low-income, urban residents who are much more likely than are suburbanites to be heavy consumers. Similarly, R.J. Reynolds took heavy flak in the early 1990s when it announced plans to market Uptown, a menthol cigarette targeted toward low-income blacks. It quickly dropped the brand in the face of a loud public outcry and heavy pressure from black leaders.

The meteoric growth of the Internet and other carefully targeted direct media has raised fresh concerns about potential targeting abuses. The Internet allows increasing refinement of audiences and, in turn, more precise targeting. This might help makers of questionable products or deceptive advertisers to more readily victimize the most vulnerable audiences. Unscrupulous marketers can now send tailor-made deceptive messages directly to the computers of millions of unsuspecting consumers. For example, the FBI's Internet Crime Complaint Center Web site alone received more than 231,000 complaints last year, an increase of more than 85 percent over the past two years.²⁹

Not all attempts to target children, minorities, or other special segments draw such criticism. In fact, most provide benefits to targeted consumers. For example, Colgate makes a large selection of toothbrushes and toothpaste flavors and packages for children—from Colgate Barbie, Blues Clues, and SpongeBob SquarePants Sparkling Bubble Fruit toothpastes to Colgate LEGO BIONICLE and Bratz character toothbrushes. Such products help make tooth brushing more fun and get children to brush longer and more often.

American Girl appropriately targets minority consumers with African American, Mexican, and American Indian versions of its highly acclaimed dolls and books. And Nacara Cosmetics markets a multiethnic cosmetics line for "ethnic women who have a thirst for the exotic." The line is specially formulated to complement the darker skin tones of African American women and dark-skinned women of Latin American, Indian, and Caribbean origins.

Thus, in target marketing, the issue is not really *who* is targeted but rather *how* and for *what*. Controversies arise when marketers attempt to profit at the expense of targeted segments—when they unfairly target vulnerable segments or target them with questionable



Most target marketing benefits both the marketer and the consumer. Nacara Cosmetics markets cosmetics for "ethnic women who have a thirst for the exotic."

products or tactics. Socially responsible marketing calls for segmentation and targeting that serve not just the interests of the company but also the interests of those targeted.

Differentiation and Positioning

Beyond deciding which segments of the market it will target, the company must decide on a *value proposition*—on how it will create differentiated value for targeted segments and what positions it wants to occupy in those segments. A **product's position** is the way the product is defined by consumers on important attributes—the place the product occupies in consumers' minds relative to competing products. "Products are created in the factory, but brands are created in the mind," says a positioning expert.³⁰

Tide is positioned as a powerful, all-purpose family detergent; Ivory Snow is positioned as the gentle detergent for fine washables and baby clothes. At Subway restaurants, you "Eat Fresh"; at Olive Garden, "When You're Here, You're Family"; and at Applebee's, you're "Eat'n' Good in the Neighborhood." In the automobile market, the Toyota Yaris and Honda Fit are positioned on economy, Mercedes and Cadillac on luxury, and Porsche and BMW on performance. Volvo positions powerfully on safety. And Toyota positions its fuel-efficient, hybrid Prius as a high-tech solution to the energy shortage. "How far will you go to save the planet?" it asks.

Consumers are overloaded with information about products and services. They cannot reevaluate products every time they make a buying decision. To simplify the buying process, consumers organize products, services, and companies into categories and "position" them in their minds. A product's position is the complex set of perceptions, impressions, and feelings that consumers have for the product compared with competing products.

Consumers position products with or without the help of marketers. But marketers do not want to leave their products' positions to chance. They must *plan* positions that will give their products the greatest advantage in selected target markets, and they must design marketing mixes to create these planned positions.

Positioning Maps

In planning their differentiation and positioning strategies, marketers often prepare *positioning maps*, which show consumer perceptions of their brands versus competing products on important buying dimensions. Figure 7.3 shows a positioning map for the luxury sport utility vehicle market.³¹ The position of each circle on the map indicates the perceived positioning on two dimensions—price and orientation (luxury versus rugged).

The size of each circle indicates the brand's relative market share. Thus, Cadillac Escalade is a market-leading Cadillac as a moderately-priced large luxury SUV. Hummer H1 is positioned as a very high-performance SUV with a price tag that targets the current H1 Alpha toward a small segment of well-off rugged consumers.

According to the H1 Web site, "The H1 was built around one central philosophy: to be the most functional off-road vehicle ever made available to the civilian market. It not only sets you apart, but truly sets you free."

Hummer H2 is positioned as a more and more reasonably priced luxury SUV. The H2 is targeted toward a more urban and suburban professional. "In a world where SUVs have begun to be associated with love handles and mushy seats, the H2 proves that there is a SUV that can drop and give you 20," says the H2 Web site. The H2 "strikes a balance between interior comfort, on-the-road capability, and off-road capability."

Differentiation and Positioning Strategy

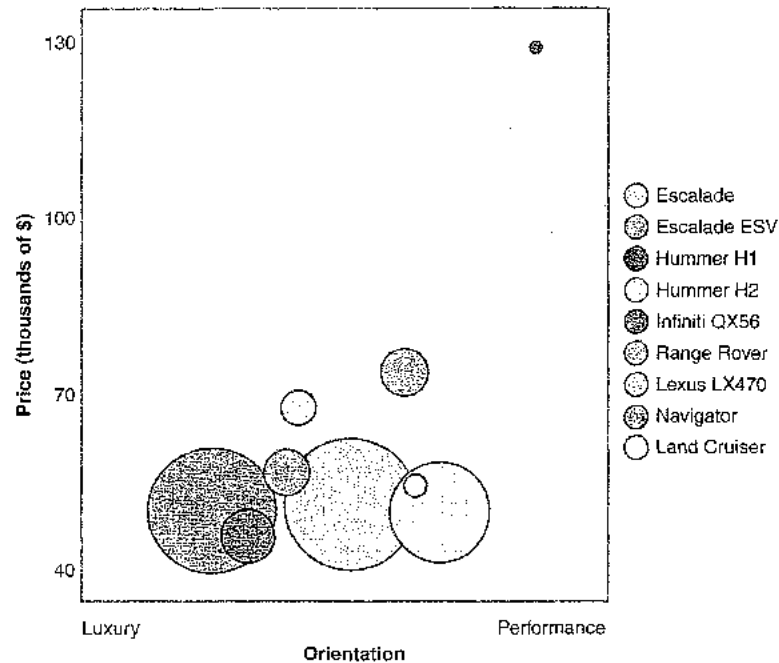
Marketers choose a differentiation and their positioning strategy. For example, they may choose to target certain segments will go for this position in a new segment if they can provide a unique quality. But in many cases, two or more firms will go after the same segment. They will have to find other ways to set itself apart. Each firm must differentiate itself with a unique bundle of benefits that appeals to a substantial group of consumers.

Product position

The way the product is defined by consumers on important attributes—the place the product occupies in consumers' minds relative to competing products.

FIGURE 7.3

Positioning map: Large luxury SUVs



The differentiation and positioning task consists of three steps: identifying a set of possible customer value differences that provide competitive advantages upon which to build a position, choosing the right competitive advantages, and selecting an overall positioning strategy. The company must then effectively communicate and deliver the chosen position to the market.

Identifying Possible Value Differences and Competitive Advantages

To build profitable relationships with target customers, marketers must understand customer needs better than competitors do and deliver more customer value. To the extent that a company can differentiate and position itself as providing superior value, it gains **competitive advantage**.

Competitive advantage

An advantage over competitors gained by offering consumers greater value, either through lower prices or by providing more benefits that justify higher prices.

But solid positions cannot be built on empty promises. If a company positions its product as *offering* the best quality and service, it must actually differentiate the product so that it *delivers* the promised quality and service. Companies must do much more than simply shout out their positions in ad slogans and taglines. They must first *live* the slogan. For example, when Staples' research revealed that it should differentiate itself on the basis of "an easier shopping experience," the office supply retailer held back its "Staples: That was easy" marketing campaign for more than a year. First, it remade its stores to actually deliver the promised positioning (see Real Marketing 7.2).

To find points of differentiation, marketers must think through the customer's entire experience with the company's product or service. An alert company can find ways to differentiate itself at every customer contact point. In what specific ways can a company differentiate itself or its market offer? It can differentiate along the lines of *product, services, channels, people, or image*.

Product differentiation takes place along a continuum. At one extreme we find physical products that allow little variation: chicken, steel, aspirin. Yet even here some meaningful differentiation is possible. For example, Perdue claims that its branded chickens are better—fresher and more tender—and gets a 10 percent price premium based on this differentiation. At the other extreme are products that can be highly differentiated, such as automobiles, clothing, and furniture. Such products can be differentiated on features, performance, or style and design. Thus, Volvo provides new and better safety features; Whirlpool designs its dishwasher to run more quietly; Bose positions its speakers on their striking design and sound characteristics. Similarly, companies can differentiate their products on such attributes as consistency, durability, reliability, or repairability.

Real Manufacturing

These days, Staples really is riding the easy button. But only five years ago, things weren't so easy for the office-supply superstore—or for its customers. The ratio of customer complaints to compliments was running an abysmal eight to one at Staples stores. The company's slogan—"Yeah, we've got that"—had become laughable. Customers griped that items were often out of stock and said the sales staff was unhelpful to boot.

After weeks of focus groups and interviews, Shira Goodman, Staples' executive VP for marketing, had a revelation. "Customers wanted an easier shopping experience," she says. That simple revelation has resulted in one of the most successful marketing campaigns in recent history, built around the now-familiar "Staples: That was easy" tagline. But Staples' positioning turnaround took a lot more than simply bombarding customers with a new slogan. Before it could promise customers a simplified shopping experience, Staples had to actually deliver one. First, it had to *live* the slogan.

When it launched in 1986, Staples all but invented the office-supply superstore. Targeting small and medium-size businesses, it aimed to sell everything for the office under one roof. But by the mid-1990s, the marketplace was crowded with retailers such as Office Depot, not to mention Target, Wal-Mart, and a slew of other online and offline sellers. Partly as a result of that competition, Staples' same-store sales fell for the first time in 2001.

Customer research conducted by Goodman and her team revealed that although shoppers expected Staples and its competitors to have everything in stock, they placed little importance on price. Instead, customers overwhelmingly requested a simple, straightforward shopping experience. "They wanted knowledgeable and helpful associates and hassle-free shopping," Goodman says. The "Staples: That was easy" tagline was the simple—yet inspired—outgrowth of that realization.

The slogan, however, was kept under wraps until the company could give its stores a major makeover. Staples removed from its inventory some 800 superfluous items, such as Britney Spears backpacks, that had little use in the corporate world. Office chairs, which had been displayed in the rafters, were moved to the floor so customers could try them out. Staples also added larger signs and retrained sales associates to walk shoppers to the correct aisle. Because customers revealed that the availability of ink was one of their biggest concerns, the company introduced an in-stock guarantee on printer cartridges. Even communications were simplified—a four-paragraph letter sent to prospective customers was cut to two sentences.

Only when all of the customer-experience pieces were in place did Staples begin communicating its new positioning to customers. It took about a year to get the stores up to snuff, Goodman says, but "once we felt that the experience was significantly easier, we changed the tagline."

For starters, the company hired a new ad agency, McCann-Erickson Worldwide, which had also created MasterCard's nine-year-old "Priceless" campaign. A group of McCann copywriters and art directors held a marathon brainstorming session to find ways to illustrate the concept of "easy." As the creative session dragged on, the group's creative director mentioned how nice it would be if she could just push a button to come up with a great ad, so they could go to lunch. The Easy Button was born. "It took an amorphous concept and made it tangible," Goodman says.



**Now there's
an easy button for
your business.**

It's called Staples.

Wouldn't it be nice if daily tasks around the office got a little easier? When you shop Staples, it will be as easy as—well—pressing a button. Visit us at staples.com/easy to find out what our Easy Button™ can do for you today.



that was easy:

The "Staples: That was easy" marketing campaign has played a major role in repositioning Staples. But marketing promises count for little if not backed by the reality of the customer experience.

The Easy Button soon birthed a string of humorous and popular television commercials, which premiered in January 2005 and also aired during the Super Bowl a month later. In one spot, called "The Wall," an emperor uses the button to erect a giant barrier as marauders approach; another shows an office worker causing printer cartridges to rain down from above. Online, Staples created a downloadable Easy Button toolbar, which took shoppers directly from their desktops to Staples.com, and billboards reminded commuters that an Easy Button would be helpful in snarled traffic.

As a result of the advertising onslaught, customers began asking about buying real Easy Buttons, so Staples again took the cue. It began selling \$5 three-inch red plastic buttons that when pushed say "That was easy." Staples promised to donate \$1 million in button profits to charity each year, and by mid-2006, it had sold its millionth button. By selling the Easy Button as a sort of modern-day stress ball, Staples has turned its customers into advertisers. Homegrown movies starring the button have appeared on video-sharing site

(continues)

(continued)

YouTube, and a blogger at Sexy Red-Headed Nuns hacked the button to create a garage door opener; the post was picked up by Digg.com and other sites. "The Easy Button is bigger than its category," says a McCann executive creative director.

In all, the repositioning campaign has met with striking success. The five-year rebranding odyssey has helped make \$16.1 billion Staples the runaway leader in office retail. In addition to the viral success of the buttons, Staples says customer recall of its advertising has doubled to about 70 percent, compared with the industry average of 43. Last year, Staples' profits were up 18 percent—in a year when competitor Office Depot's earnings slid 18 percent and OfficeMax posted a loss of \$73.8 million. According to Goodman, Staples now receives twice as many compliments as complaints at its stores.

No doubt about it, the "Staples: That was easy" marketing campaign has played a major role in repositioning Staples. Beyond pulling customers to the company's stores and Web site, the Easy Button seems to have insinuated itself into popular culture. But marketing promises count for little if not backed by the reality of the customer experience. Marketing VP Goodman attributes Staples' recent success more to the easy-does-it push within stores than to the "That was easy" catchphrase and campaign. "What has happened at the store has done more to drive the Staples brand than all the marketing in the world," she says.

Source: Adapted from portions of Michael Myser, "Marketing Made Easy," *Business* 2.0, June 2006, pp. 43–44.

Beyond differentiating its physical product, a firm can also differentiate the services that accompany the product. Some companies gain *services differentiation* through speedy, convenient, or careful delivery. For example, Commerce Bank has positioned itself as "the most convenient bank in America"—it remains open seven days a week, including evenings, and you can get a debit card while you wait. Installation service can also differentiate one company from another, as can repair services. Many an automobile buyer will gladly pay a little more and travel a little farther to buy a car from a dealer that provides top-notch repair services.

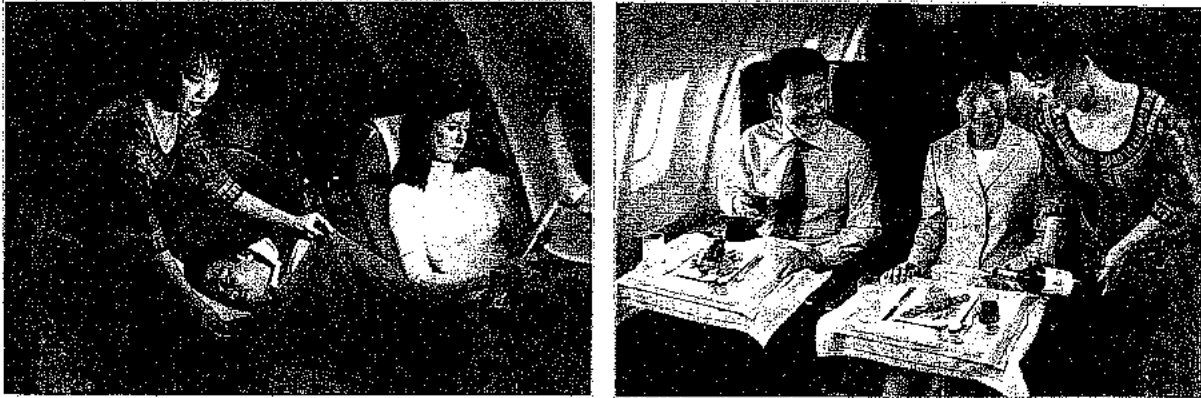
Some companies gain service differentiation by providing customer training service or consulting services—data, information systems, and advising services that buyers need. McKesson Corporation, a major drug wholesaler, consults with its 12,000 independent pharmacists to help them set up accounting, inventory, and computerized ordering systems. By helping its customers compete better, McKesson gains greater customer loyalty and sales.

Firms that practice *channel differentiation* gain competitive advantage through the way they design their channel's coverage, expertise, and performance. Amazon.com, Dell, and GEICO set themselves apart with their smooth-functioning direct channels. Caterpillar's success in the construction-equipment industry is based on superior channels. Its dealers worldwide are renowned for their first-rate service.

Companies can gain a strong competitive advantage through *people differentiation*—hiring and training better people than their competitors do. Disney people are known to be friendly and upbeat. And Singapore Airlines enjoys an excellent reputation, largely because of the grace of its flight attendants. People differentiation requires that a company select its customer-contact people carefully and train them well. For example, Disney trains its theme park people thoroughly to ensure that they are competent, courteous, and friendly—from the hotel check-in agents, to the monorail drivers, to the ride attendants, to the people who sweep Main Street USA. Each employee is carefully trained to understand customers and to "make people happy."

Even when competing offers look the same, buyers may perceive a difference based on company or brand *image differentiation*. A company or brand image should convey the product's distinctive benefits and positioning. Developing a strong and distinctive image calls for creativity and hard work. A company cannot develop an image in the public's mind overnight using only a few advertisements. If Ritz-Carlton means quality, this image must be supported by everything the company says and does.

Symbols—such as the McDonald's golden arches, the Prudential rock, the Nike swoosh, or Google's colorful logo—can provide strong company or brand recognition and image differentiation. The company might build a brand around a famous person, as Nike did with its Air Jordan basketball shoes and Tiger Woods golfing products. Some companies even become associated with colors, such as IBM (blue), UPS (brown), or Coca-Cola (red). The chosen symbols, characters, and other image elements must be communicated through advertising that conveys the company's or brand's personality.



People differentiation: Singapore Airlines enjoys an excellent reputation, largely because of the grace of its flight attendants.

Choosing the Right Competitive Advantages

Suppose a company is fortunate enough to discover several potential differentiations that provide competitive advantages. It now must choose the ones on which it will build its positioning strategy. It must decide *how many* differences to promote and *which ones*.

One difference is better than many. Many marketers think that companies should aggressively promote only one benefit to the target market. Ad man Rosser Reeves, for example, said a company should develop a *unique selling proposition* (USP) for each brand and stick to it. Each brand should pick an attribute and tout itself as “number one” on that attribute. Buyers tend to remember number one better, especially in this overcommunicated society. Thus, Crest toothpaste consistently promotes its anticavity protection and Wal-Mart promotes its always low prices.

Other marketers think that companies should position themselves on more than one differentiator. This may be necessary if two or more firms are claiming to be best on the same attribute. Today, in a time when the mass market is fragmenting into many small segments, companies are trying to broaden their positioning strategies to appeal to more segments. For example, Unilever introduced the first three-in-one bar soap—Lever 2000—offering cleansing, deodorizing, and moisturizing benefits. Clearly, many buyers want all three benefits. The challenge was to convince them that one brand can deliver all three. Judging from Lever 2000’s outstanding success, Unilever easily met the challenge. However, as companies increase the number of claims for their brands, they risk disbelief and a loss of clear positioning.

Not all brand differences are meaningful or worthwhile. Not all brand differences are meaningful or worthwhile; not every difference makes a good differentiator. Each difference has the potential to create company costs as well as customer benefits. A difference is worth establishing to the extent that it satisfies the following criteria:

- **Important:** The difference delivers a highly valued benefit to target buyers.
- **Distinctive:** Competitors do not offer the difference, or the company can offer it in a more distinctive way.
- **Superior:** The difference is superior to other ways that customers might obtain the same benefit.
- **Communicable:** The difference is communicable and visible to buyers.
- **Preemptive:** Competitors cannot easily copy the difference.
- **Affordable:** Buyers can afford to pay for the difference.
- **Profitable:** The company can introduce the difference profitably.

Many companies have introduced differentiations that failed one or more of these tests. When the Westin Stamford Hotel in Singapore once advertised that it is the world’s tallest hotel, it was a distinction that was not important to most tourists—in fact, it turned many off. Polaroid’s Polarvision, which produced instantly developed home movies, bombed too. Although Polarvision was distinctive and even preemptive, it was inferior to another way of capturing motion, namely, camcorders. Thus, choosing competitive advantages upon which to position a product or service can be difficult, yet such choices may be crucial to success.

Value proposition

The full positioning of a brand—the full mix of benefits upon which it is positioned.

Selecting an Overall Positioning Strategy

The full positioning of a brand is called the brand's **value proposition**—the full mix of benefits upon which the brand is differentiated and positioned. It is the answer to the customer's question "Why should I buy your brand?" Volvo's value proposition hinges on safety but also includes reliability, roominess, and styling, all for a price that is higher than average but seems fair for this mix of benefits.

Figure 7.4 shows possible value propositions upon which a company might position its products. In the figure, the five green cells represent winning value propositions—differentiation and positioning that gives the company competitive advantage. The red cells, however, represent losing value propositions. The center yellow cell represents at best a marginal proposition. In the following sections, we discuss the five winning value propositions upon which companies can position their products: more for more, more for the same, the same for less, less for much less, and more for less.

"More-for-more" positioning involves providing the most upscale product or service and charging a higher price to cover the higher costs. Ritz-Carlton Hotels, Mont Blanc writing instruments, Mercedes automobiles, Viking appliances—each claims superior quality, craftsmanship, durability, performance, or style and charges a price to match. Not only is the market offering high in quality, it also gives prestige to the buyer. It symbolizes status and a loftier lifestyle. Often, the price difference exceeds the actual increment in quality.

Sellers offering "only the best" can be found in every product and service category, from hotels, restaurants, food, and fashion to cars and household appliances. Consumers are sometimes surprised, even delighted, when a new competitor enters a category with an unusually high-priced brand. Starbucks coffee entered as a very expensive brand in a largely commodity category. Dyson came in as a premium vacuum cleaner with a price to match, touting "No clogged bags, no clogged filters, and no loss of suction means only one thing. It's a Dyson."

In general, companies should be on the lookout for opportunities to introduce a "more-for-more" brand in any underdeveloped product or service category. Yet "more-for-more" brands can be vulnerable. They often invite imitators who claim the same quality but at a lower price. Luxury goods that sell well during good times may be at risk during economic downturns when buyers become more cautious in their spending.

Companies can attack a competitor's more-for-more positioning by introducing a brand offering comparable quality but at a lower price. For example, Toyota introduced its Lexus line with a "more-for-the-same" value proposition versus Mercedes and BMW. Its first ad headline read: "Perhaps the first time in history that trading a \$72,000 car for a \$36,000 car could be considered trading up." It communicated the high quality of its new Lexus through rave reviews in car magazines and through a widely distributed videotape showing side-by-side comparisons of Lexus and Mercedes automobiles. It published surveys showing that Lexus dealers were providing customers with better sales and service experiences than were Mercedes dealerships. Many Mercedes owners switched to Lexus, and the Lexus repurchase rate has been 60 percent, twice the industry average.

FIGURE 7.4
Possible value propositions

		Price		
		More	The same	Less
Benefits	More	More for more	More for the same	More for less
	The same			The same for less
	Less			Less for much less

Offering “the same for less” can be a powerful value proposition—everyone likes a good deal. For example, Dell offers equivalent quality computers at a lower “price for performance.” Discounts stores such as Wal-Mart and “category killers” such as Best Buy, Circuit City, and Sportmart also use this positioning. They don’t claim to offer different or better products. Instead, they offer many of the same brands as department stores and specialty stores but at deep discounts based on superior purchasing power and lower-cost operations. Other companies develop imitative but lower-priced brands in an effort to lure customers away from the market leader. For example, AMD makes less-expensive versions of Intel’s market-leading microprocessor chips.

A market almost always exists for products that offer less and therefore cost less. Few people need, want, or can afford “the very best” in everything they buy. In many cases, consumers will gladly settle for less than optimal performance or give up some of the bells and whistles in exchange for a lower price. For example, many travelers seeking lodgings prefer not to pay for what they consider unnecessary extras, such as a pool, attached restaurant, or mints on the pillow. Hotel chains such as Ramada Limited suspend some of these amenities and charge less accordingly.

“Less-for-much-less” positioning involves meeting consumers’ lower performance or quality requirements at a much lower price. For example, Family Dollar and Dollar General stores offer more affordable goods at very low prices. Sam’s Club and Costco warehouse stores offer less merchandise selection and consistency and much lower levels of service; as a result, they charge rock-bottom prices. Southwest Airlines, the nation’s most consistently profitable air carrier, also practices less-for-much-less positioning.

From the start, Southwest has positioned itself firmly as *the* no-frills, low-price airline. Southwest’s passengers have learned to fly without the amenities. For example, the airline provides no meals—just peanuts. It offers no first-class section, only three-across seating in all of its planes. And there’s no such thing as a reserved seat on a Southwest flight. Why, then, do so many passengers love Southwest? Perhaps



❑ Less-for-much-less positioning: Southwest has positioned itself firmly as the no-frills, low-price airline. But no frills doesn’t mean drudgery—Southwest’s cheerful employees go out of their way to amuse, surprise, or somehow entertain passengers.

most importantly, Southwest excels at the basics of getting passengers where they want to go on time, and with their luggage. Beyond the basics, however, Southwest offers shockingly low prices. In fact, prices are so low that when Southwest enters a market, it actually increases total air traffic by attracting customers who might otherwise travel by car or bus.

No frills and low prices, however, don’t mean drudgery. Southwest’s cheerful employees go out of their way to amuse, surprise, or somehow entertain passengers. For example, veteran Southwest fliers know to listen up to announcements over the intercom. On one recent flight, a flight attendant offered the following safety advice: “In the unlikely event of a sudden loss of cabin pressure, oxygen masks will descend from the ceiling. Stop screaming, grab the mask, and pull it over

your face. If you have small children traveling with you, secure your mask before assisting with theirs. If you are traveling with two small children, decide now which one you love more.” One analyst sums up Southwest’s less-for-much-less positioning this way: “It is not luxurious, but it’s cheap and it’s fun.”

Of course, the winning value proposition would be to offer “more for less.” Many companies claim to do this. And, in the short run, some companies can actually achieve such lofty positions. For example, when it first opened for business, Home Depot had

arguably the best product selection, the best service, and the lowest prices compared to local hardware stores and other home improvement chains.

Yet in the long run, companies will find it very difficult to sustain such best-of-both positioning. Offering more usually costs more, making it difficult to deliver on the "for-less" promise. Companies that try to deliver both may lose out to more focused competitors. For example, facing determined competition from Lowe's stores, Home Depot must now decide whether it wants to compete primarily on superior service or on lower prices.

All said, each brand must adopt a positioning strategy designed to serve the needs and wants of its target markets. "More for more" will draw one target market, "less for much less" will draw another, and so on. Thus, in any market, there is usually room for many different companies, each successfully occupying different positions. The important thing is that each company must develop its own winning positioning strategy, one that makes it special to its target consumers.

Developing a Positioning Statement

Positioning statement

A statement that summarizes company or brand positioning—it takes this form: *To (target segment and need) our (brand) is (concept) that (point of difference).*³²

Company and brand positioning should be summed up in a **positioning statement**. The statement should follow the form: *To (target segment and need) our (brand) is (concept) that (point of difference).*³² For example: *"To busy, mobile professionals who need to always be in the loop, BlackBerry is a wireless connectivity solution that allows you to stay connected to data, people, and resources while on the go, easily and reliably—more so than competing technologies."* Sometimes a positioning statement is more detailed:

To young, active soft-drink consumers who have little time for sleep, Mountain Dew is the soft drink that gives you more energy than any other brand because it has the highest level of caffeine. With Mountain Dew, you can stay alert and keep going even when you haven't been able to get a good night's sleep.

Note that the positioning first states the product's membership in a category (Mountain Dew is a soft drink) and then shows its point of difference from other members of the category (has more caffeine). Placing a brand in a specific category suggests similarities that it might share with other products in the category. But the case for the brand's superiority is made on its points of difference.

Sometimes marketers put a brand in a surprisingly different category before indicating the points of difference. DiGiorno is a frozen pizza whose crust rises when the pizza is heated. But instead of putting it in the frozen pizza category, the marketers positioned it in the delivered pizza category. Their ad shows party guests asking which pizza delivery service the host used. But, says the host, "It's not delivery, it's DiGiorno!" This helped highlight DiGiorno's fresh quality and superior taste over the normal frozen pizza.

Communicating and Delivering the Chosen Position

Once it has chosen a position, the company must take strong steps to deliver and communicate the desired position to target consumers. All the company's marketing mix efforts must support the positioning strategy.

Positioning the company calls for concrete action, not just talk. If the company decides to build a position on better quality and service, it must first *deliver* that position. Designing the marketing mix—product, price, place, and promotion—involves working out the tactical details of the positioning strategy. Thus, a firm that seizes on a more-for-more position knows that it must produce high-quality products, charge a high price, distribute through high-quality dealers, and advertise in high-quality media. It must hire and train more service people, find retailers who have a good reputation for service, and develop sales and advertising messages that broadcast its superior service. This is the only way to build a consistent and believable more-for-more position.

Companies often find it easier to come up with a good positioning strategy than to implement it. Establishing a position or changing one usually takes a long time. In contrast, positions that have taken years to build can quickly be lost. Once a company has built the desired position, it must take care to maintain the position through consistent performance and communication. It must closely monitor and adapt the position over time to match changes in consumer needs and competitors' strategies. However, the company should avoid abrupt changes that might confuse consumers. Instead, a product's position should evolve gradually as it adapts to the ever-changing marketing environment.

Reviewing the Concepts

In this chapter, you've learned about the major elements of a customer-driven marketing strategy: segmentation, targeting, differentiation, and positioning. Marketers know that they cannot appeal to all buyers in their markets, or at least not to all buyers in the same way. Buyers are too numerous, too widely scattered, and too varied in their needs and buying practices. Therefore, most companies today practice *target marketing*—identifying market segments, selecting one or more of them, and developing products and marketing mixes tailored to each.

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

Customer-driven marketing strategy begins with selecting which customers to serve and deciding on a value proposition that best serves the targeted customers. It consists of four steps. *Market segmentation* is the act of dividing a market into distinct groups of buyers with different needs, characteristics, or behaviors who might require separate products or marketing mixes. Once the groups have been identified, *market targeting* evaluates each market segment's attractiveness and selects one or more segments to serve. Market targeting consists of designing strategies to build the *right relationships* with the *right customers*. *Differentiation* involves actually differentiating the market offering to create superior customer value. *Positioning* consists of positioning the market offering in the minds of target customers.

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

There is no single way to segment a market. Therefore, the marketer tries different variables to see which give the best segmentation opportunities. For consumer marketing, the major segmentation variables are geographic, demographic, psychographic, and behavioral. In *geographic segmentation*, the market is divided into different geographical units such as nations, regions, states, counties, cities, or neighborhoods. In *demographic segmentation*, the market is divided into groups based on demographic variables, including age, gender, family size, family life cycle, income, occupation, education, religion, race, generation, and nationality. In *psychographic segmentation*, the market is divided into different groups based on social class, lifestyle, or personality characteristics. In *behavioral segmentation*, the market is divided into groups based on consumers' knowledge, attitudes, uses, or responses to a product.

Business marketers use many of the same variables to segment their markets. But business markets also can be segmented by business consumer *demographics* (industry, company size), *operating*

characteristics, *purchasing approaches*, *situational factors*, and *personal characteristics*. The effectiveness of segmentation analysis depends on finding segments that are *measurable*, *accessible*, *substantial*, *differentiable*, and *actionable*.

3. Explain how companies identify attractive market segments and choose a market targeting strategy.

To target the best market segments, the company first evaluates each segment's size and growth characteristics, structural attractiveness, and compatibility with company objectives and resources. It then chooses one of four market targeting strategies—ranging from very broad to very narrow targeting. The seller can ignore segment differences and target broadly using *undifferentiated (or mass) marketing*. This involves mass producing, mass distributing, and mass promoting about the same product in about the same way to all consumers. Or the seller can adopt *differentiated marketing*—developing different market offers for several segments. *Concentrated marketing (or niche marketing)* involves focusing on only one or a few market segments. Finally, *micromarketing* is the practice of tailoring products and marketing programs to suit the tastes of specific individuals and locations. Micromarketing includes *local marketing* and *individual marketing*. Which targeting strategy is best depends on company resources, product variability, product life-cycle stage, market variability, and competitive marketing strategies.

4. Discuss how companies differentiate and position their products for maximum competitive advantage in the marketplace.

Once a company has decided which segments to enter, it must decide on its *differentiation and positioning strategy*. The differentiation and positioning task consists of three steps: identifying a set of possible differentiations that create competitive advantage, choosing advantages upon which to build a position, choosing the right competitive advantages, and selecting an overall positioning strategy. The brand's full positioning is called its *value proposition*—the full mix of benefits upon which the brand is positioned. In general, companies can choose from one of five winning value propositions upon which to position their products: more for more, more for the same, the same for less, less for much less, or more for less. Company and brand positioning are summarized in positioning statements that state the target segment and need, positioning concept, and specific points of difference. The company must then effectively communicate and deliver the chosen position to the market.

Reviewing the Key Terms

Age and life-cycle segmentation 187	Differentiated (segmented) marketing 196	Local marketing 198	Product position 203
Behavioral segmentation 189	Differentiation 185	Market segmentation 184	Psychographic segmentation 188
Benefit segmentation 189	Gender segmentation 187	Market targeting 185	Target market 195
Competitive advantage 204	Geographic segmentation 185	Micromarketing 198	Undifferentiated (mass) marketing 195
Concentrated (niche) marketing 197	Income segmentation 188	Occasion segmentation 189	Value proposition 208
Demographic segmentation 187	Individual marketing 200	Positioning 185	
	Intermarket segmentation 193	Positioning statement 210	

Discussing the Concepts

1. Explain which segmentation variables would be most important to marketers of the following products: vitamins, credit cards, coffee.
2. How can a company segment international markets for its products? How might Apple segment the international market for its iPod?
3. What is micromarketing? When should a company practice micromarketing?
4. The chapter discusses five requirements for effective segmentation. Suppose you are a product manager in a regional fast-food restaurant company. You are listening to a presentation on a new sandwich wrap idea (chicken breast and basil) and it is your turn to ask questions. Write five questions that you would ask the person presenting this product idea. Each question should be directed at one of the five segmentation requirements.
5. In the context of marketing, what does the term "product positioning" mean? Why is it so important?
6. Using the value propositions presented in Figure 7.4, describe the value proposition of Toys "R" Us. Is the Toys "R" Us value proposition clear? Is it appropriate?

Applying the Concepts

1. As discussed in the chapter, PRIZM is one of the leading lifestyle segmentation systems. Go to "<http://www.tetrad.com/pcensus/usaf/prizmlst.html>" and review the 67 PRIZM clusters. Which cluster(s) would each of the following retailers most likely target?
 - a. Tiffany's
 - b. Macy's
 - c. Wal-Mart
2. You are a product manager of a financial services product that is being sold directly to consumers over the Internet. The most important measure to the company is customer acquisition cost—the cost associated with convincing a consumer to buy the service. You have been conducting tests with both a concentrated and undifferentiated segmentation strategy, and the results are presented here. Which strategy is the best? Why?

Concentrated segmentation outcome

- Purchased 10,000 very targeted exposures on Web sites such as Yahoo Financial and keywords such as retirement, IRA, and ROTH.
- Paid \$80 per thousand exposures
- Obtained 400 clicks to the site, 40 trials, and 20 repeat customers

Undifferentiated segmentation outcome

- Purchased 1,000,000 run-of-site exposures on Web sites
 - Paid \$1.60 per thousand exposures
 - Obtained 2,000 clicks to the site, 100 trials, and 40 repeat customers
3. Form a small group and create an idea for a new reality television show. What competitive advantage does this show have over existing shows? How many and which differences would you promote? Develop a positioning statement for this television show.

Focus on Technology

Marketers of technological products such as cell phones have become very focused on segmentation. They segment on benefits sought, allowing consumers to pick from many popular phone features including Bluetooth technology, camera, games, video screens, speakerphone, and voice dialing. Consumers make choices based on style and price, with most prices ranging from \$20 to \$800. To move style to the next level and to target the high-end consumer, Nokia offers Vertu, the luxury brand, which comes in platinum and gold. Vertu prices begin at around \$5,000, with diamond-studded phones selling at more than \$30,000. Visit Vertu

on the Web at <http://www.vertu.com> and compare this site to Nokia's general site at "www.nokia.com".

1. Explain how the design of each Web site relates to positioning of the products featured.
2. What do you think of the Vertu luxury brand?
3. Nokia uses a different brand name for its luxury brands. Is this a good decision? How else might this product be marketed differently than other Nokia brands? Consider distribution and promotion.

Focus on Ethics

Pharmaceutical companies work very hard to get the word out to patients with specific illnesses when they have a new drug to treat that illness. People with a wide range of diseases have benefited from the advances in pharmaceutical research. But some are concerned by the way some companies market specific medications. Doctors worry about "disease-mongering," corporate-sponsored exaggeration of maladies that drives consumers to request and receive unnecessary medications. Diagnoses of rare diseases are soaring, and even mild cases of maladies are being treated with drugs. Diseases cited include restless legs syndrome, social anxiety disorder, irritable bowel syndrome, and bipolar disorder. The drug makers say they are only trying to educate patients and that labels con-

tain important information on the product. In addition, the pharmaceutical companies stress that the final decision for any medication is made by the doctor.

1. How do pharmaceutical marketers segment the market?
2. How do they position their medications?
3. Are these marketing strategies socially responsible?

See "Hey, You Don't Look So Good," *BusinessWeek*, May 8, 2006, pp. 30–32.

Video Case**Procter & Gamble**

Procter & Gamble has one of the world's largest and strongest brand portfolios, including such familiar brands Pampers, Tide, Ariel, Always, Pantene, Bounty, Folgers, Pringles, Charmin, Downy, Iams, Crest, Secret, and Olay. In fact, in the United States, P&G offers seven shampoo brands, six detergent brands, and six soap brands. In each of these categories, P&G's products compete against each other, in addition to products offered by other companies, for share of the customer's wallet.

How can a company with more than 300 brands sold in more than 140 countries maximize profits without cannibalizing its own sales? It all starts with a solid understanding of consumers and how a brand fits into consumers' lives. P&G believes that a brand must stand for something singular in a consumer's life. As a result, each brand is carefully positioned to target a very specific segment of the market. The result? P&G had nearly \$57 billion in sales last year.

After viewing the video featuring Procter & Gamble, answer the following questions about segmentation, targeting, and positioning.

1. Visit the Procter & Gamble Web site, choose a specific product category, and review the brands in that category. How does P&G use positioning to differentiate the brands in the product category you selected?
2. What bases of segmentation does P&G use to differentiate the products in the category you selected?
3. How does P&G use its variety of brands to build relationships with the right customers?

Company Case**Saturn: An Image Makeover**

Things are about to change at Saturn. The General Motors brand had only three iterations of the same compact car for the entire decade of the 1990s. But Saturn will soon introduce an all-new lineup of vehicles that includes a mid-sized sport sedan, an eight-passenger crossover vehicle, a two-seat roadster, a new compact, and a hybrid SUV. Having anticipated the brand's renaissance for years, Saturn executives, employees, and customers are beside themselves with glee.

But with all this change, industry observers are wondering whether Saturn will be able to maintain the very characteristics that have distinguished the brand since its inception. Given that Saturn established itself based on a very narrow line of compact vehicles, many believe that the move from targeting one segment of customers to targeting multiple segments will be challenging. Will a newly positioned Saturn still meet the needs of one of the most loyal cadres of customers in the automotive world?

A NEW KIND OF CAR COMPANY

In 1980, GM recognized its inferiority to the Japanese big three (Honda, Toyota, and Datsun) with respect to compact vehicles. The Japanese had a lower cost structure, yet built better cars. In an effort to offer a more competitive economy car, GM actually turned to the enemy. It entered into a joint venture with Toyota to build small cars. Soon, a Toyota plant in Northern California was turning out Corollas on one assembly line while making very similar Chevy Novas on a second. Meanwhile, in a long-term effort to make better small cars, GM gave the green light to Group 99, a secretive task force that resulted in formation of the Saturn Corporation in 1985.

From the beginning, Saturn set out to break through the GM bureaucracy and become "A different kind of car. A different kind of company." As the single-most defining characteristic of the new company, Saturn proclaimed that its sole focus would be people: customers, employees, and communities. Saturn put significant resources into customer research and product development. The first Saturn cars were made "from scratch," without any allegiance to the GM parts bin or suppliers. The goal was to produce not only a high-quality vehicle, but one known for safety and innovative features that would "wow" the customer.

Saturn's focus on employees began with an unprecedented contract with United Auto Workers (UAW). The contract was so simple, it fit in a shirt pocket. It established progressive work rules, with special emphasis given to benefits, work teams, and the concept of empowerment. At the retail end, Saturn selected dealers based on carefully crafted criteria. It paid service personnel and sales associates a salary rather than commission. This would help create an environment that would reverse the common customer perception of the dealer as a nemesis.

Finally, in addition to customer and employee relations, Saturn focused on social responsibility. Human resources policies gave equal opportunities to women, ethnic minorities, and people with disabilities. Saturn designed environmentally responsible manufacturing processes, even going beyond legal requirements. The company also gave heavy philanthropic support to various causes. All of these actions earned Saturn a number of awards recognizing its environmentally and socially responsible actions.

(case continues)

(Case continued)

When the first Saturn vehicles rolled off the assembly line on July 30, 1990, the company offered a sedan, a coupe, and a wagon in two trim levels each, all based on a single compact vehicle platform. In spite of this minimal approach, sales quickly exceeded expectations. By 1992, Saturn had sold 500,000 vehicles. That same year, the company achieved the highest new-car sales per retail outlet, something that had not been done by a domestic car company for 15 years.

Indeed, customers were drawn to all the things that Saturn had hoped they would be. They loved the innovations, such as dent resistant body panels, the high-tech paint job designed to resist oxidization and chipping longer than any in the industry, and safety features such as traction control, antilock brakes, and unparalleled body reinforcements. They were overwhelmed by the fresh sales approach that included no-haggle pricing, a 30-day return policy, and no hassle from the sales associates. The noncommissioned associates spent as much time with each customer as they wished, even going on extended test drives. Absent were typical high-pressure tactics so commonly used by automotive salespeople.

By 1994, Saturn had developed an unusually loyal customer base. The depth of customer relationships became apparent when 38,000 Saturn loyalists made the trek to company headquarters in Tennessee to celebrate the first five years at the company's Spring Hill Homecoming. It was "just like Woodstock without all the patchouli oil," beamed one proud SL2 owner. The homecoming set the mold for many company-sponsored customer gatherings to follow.

As Saturn's customer base grew, it became apparent that the Saturn brand was attracting customers who would not have otherwise purchased a GM vehicle. Interestingly, the Saturn buyer did not appear to be all that different from a Chevrolet buyer. With respect to household income, age, gender, and education, typical Saturn buyers appeared to represent the same Chevy-like cross section of middle-class America. But Wisconsin megadealer John Bergstrom said his network of 22 GM dealerships draws different types of customers to the two brands. With trucks accounting for 65 percent of his Chevrolet sales, he described the Chevy owner as "a true-blue, bow-tie America consumer." However, "the Saturn guest is a little different guest. They might buy an Asian car or a Korean car or a Saturn. They are very much into safety and value, and how they're treated is critically important. I don't think we'd get those kinds of people in our Chevy stores if we didn't have the Saturn brand."

During Saturn's first years of operations, the accolades rolled in. The list included "Best Car" picks from numerous magazines and organizations, along with awards for quality, engineering, safety, and ease of maintenance. But the crowning achievement occurred in 1995, as the 1,000,000th Saturn took to the road. That year, Saturn ranked number one out of all automotive nameplates on the J.D. Power and Associates Sales Satisfaction Index Study, achieving the

highest score ever given by the organization. It would be the only company ever to achieve the highest marks in all three categories ranked by the satisfaction index (salesperson performance, delivery activities, and initial product quality). Saturn earned that honor for an astounding four consecutive years, and it was the only nonluxury brand to be at or near the top of J.D. Power's scores for the better part of a decade.

THE HONEYMOON ENDS

Despite the initially strong sales levels, overall Saturn revenues tapered off quickly (sales peaked in 1994 at 286,000, settling in at an average of about 250,000 units per year). This may have been due partly to the fact that Saturn released no new models in the 1990s. Finally, in the 2000 model year, Saturn introduced its long-awaited mid-sized L-series with an optional V6 engine. But unlike the S-series, the L-series was reviewed as a generally bland and forgettable car.

In 2002, Saturn broadened the lineup with the Vue, a compact SUV model. In January of 2003, it replaced the S-series with the Ion, a totally new compact that offered more options than before. But although these new vehicles addressed the issue of a lack of model options, they brought with them a new concern. Saturn's history of high quality and its long-cherished J.D. Power ratings began to slide. In the early part of the new millennium, not only was Saturn's J.D. Power initial-quality rating not near the top, it fell to below the industry average.

Even with the new models, Saturn's sales did not improve. In fact, they declined. This was partly due to an industry-wide downturn in sales wrought by a recession. Still, L-series production ended in 2004, only five years after it began. In 2005, Saturn sales fell to a low of 213,000 units, only about 1 percent of the overall market. It seemed that sales of the L-series and Vue were coming almost entirely from loyal Saturn customers who were trading up to something different, something bigger, and, unfortunately, something not as good.

Looking back, Saturn unquestionably defied the odds. To launch an all-new automotive company in such a fiercely competitive and barrier-entrenched industry is one thing. To achieve the level of sales, the customer base, and the list of awards that Saturn achieved in such a short period of time is truly remarkable. But as GM and Saturn executives faced the reality of declining quality, plummeting sales, and annual losses of up to \$1 billion, they knew they had to do something dramatic. In 2006, Saturn general manager Jill Lajdziak said, "Saturn's initial image as a smart innovation small-car company was blurred by bumps in quality and slow model turnover. We didn't grow the portfolio fast enough, and this year we're growing in a huge way."

A NEW KIND OF SATURN

With all that Saturn has done wrong, the fact that dealers still moved 213,000 vehicles in 2005 against competitors

with better reputations and better cars testifies to the things it has done right. With its rock-solid dealer network, high purchase process satisfaction ratings, and loyal customer base, Saturn has valuable assets to build upon.

And GM plans to do just that as it addresses product quality and model selection problems. GM is currently investing heavily in a Saturn turnaround. Showering \$3 billion on Saturn, it hopes to perform a makeover between 2006 and 2008 that is similar to the one achieved with Cadillac earlier this decade. GM, the world's biggest carmaker, lost \$10.6 billion in 2005. It's clearly putting some faith in one of its smallest brands to help turn the tide. GM wants to raise Saturn's sales to 400,000 units by the end of 2007. If all goes as planned, sales could reach 500,000 not long after that. With higher prices and margins, this would represent an even greater growth in revenues and profits.

Key to the Saturn makeover will be an infusion of European styling from GM's German division, Opel. In fact, some of the new cars already hitting showrooms are largely rebadged Opels. In the future, new-product development will be carried out in a joint-venture fashion between the two divisions. For a company that in the past has been known as making the "car for people who hate cars," this is a 180-degree turnaround. Saturn clearly hopes to change its humdrum image to boost profits with higher-priced vehicles.

If the first of four new Saturn models is any indication, Saturn is moving in the right direction. The Sky two-seat roadster hit showroom floors in early 2006 with long waiting lists. Based on the Opel GT, the Sky is a head-turning performance vehicle, dubbed by one observer as the "cub-Vette." For dealer John Bergstrom, this new model presented an unexpected but welcome dilemma. "Sky is just a flat-out home run," said Bergstrom, referring to the waiting lists that he has started at all six of his dealerships. "I've never had that before," he says, noting that those on the waiting lists are people who have never even considered a Saturn before.

In the fall of 2006, Saturn launched 2007 models of the mid-sized Aura sport sedan (based on the Opel Vectra) and the eight-passenger Outlook crossover vehicle (based on GM's Lambda platform being sold by Chevrolet, Buick, and GMC). For 2008, after a year without a compact car, Saturn will replace the Ion with a mildly changed Opel Astra, already a European hit in its fifth generation. The new lineup will also include the Green Line, which will add hybrid technology to multiple models, starting with the 2007 Vue. The Green Line promises to make full-hybrid technology available at a price much lower than any other hybrid offering.

"The biggest advantage to rebranding Opel vehicles as Saturn is it doesn't mean additional costs to GM," said Guido Vildoza, a senior market analyst and industry forecaster at Global Insight Inc. "And since Opel is a kind of sporty European brand, Saturn will adopt this image too, or

at least that is what they hope to happen." Some industry analysts suggest that because Saturn is such a new company, it can reposition itself more easily than other brands.

GM makes it clear that with Saturn, it's not trying to make another Chevrolet. Chevrolet will remain the only GM brand positioned as "all things to all people." Along with the other GM brands, Saturn will play a niche role and target a specific segment of the market. In fact, GM says that it's just trying to help Saturn do more of what it has been doing all along—reach the type of import-buying customer it can't reach with any of its other brands. Indeed, top executives at GM acknowledge that many Saturn owners already believe their car is an Asian brand, not a domestic one. "Saturn has always been the one brand in the GM lineup suitable for attracting import-intenders," says a GM executive.

However, some questions remain as to what segment Saturn will actually target. After seeing the new Saturn lineup at the New York auto show, Tom Libby of Power Information Network says he's confused about what the brand is trying to do. He's worried that Saturn will stop focusing on the retail experience and shift to emphasizing styling. "What's the message they're trying to get out?" he asks. "I'm just puzzled by the whole thing." Is Saturn losing focus, or is it simply adding style to its current image of providing a good value and an honest dealer experience? Many analysts believe that because Saturn's current image is only loosely based on the actual car, the company has plenty of room to add style to the formula.

Questions for Discussion

1. Using the full spectrum of segmentation variables, describe how GM has segmented the automobile market.
2. What segment(s) is Saturn now targeting? How is GM now positioning Saturn? How do these strategies differ from those employed with the original Saturn S-series?
3. Describe the role that social responsibility plays in Saturn's targeting strategy.
4. Do you think that GM will accomplish its goals with the "new Saturn"? Why or why not?
5. What segmentation, targeting, and positioning recommendations would you make to GM for future Saturn models?

Sources: Leslie J. Allen, "Saturn's Rebirth Vexes Chevy Dealers," *Automotive News*, February 20, 2006, p. 1; Sharon Silke Carty, "Saturn Puts Its Models Where Its Mouth Is," *USA Today*, April 21, 2006, accessed at www.usatoday.com; Barbara Powell, "GM's Saturn Seeks to Shake Up Humdrum Image," *Ottawa Citizen*, April 12, 2006, p. F7; David Welch, "Saturn's Second Liftoff?" *BusinessWeek Online*, April 13, 2006, accessed at www.businessweek.com; and "Our Story," accessed at www.saturn.com, May 2006.