Part 1: Defining Marketing and the Marketing Process (Chapters 1–2)
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Part 3: Designing a Customer-Driven Strategy and Mix (Chapters 7–17)
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7 Customer-Driven Marketing Strategy

Creating Value for Target Customers

Chapter Preview

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: dividing up markets into meaningful customer groups (*segmentation*), choosing which customer groups to serve (*targeting*), creating market offerings that best serve targeted customers (*differentiation*), and positioning the offerings in the minds of consumers (*positioning*). The chapters that follow explore the tactical marketing tools—the four Ps—by which marketers bring these strategies to life.

To start our discussion of the ins and outs of segmentation, targeting, differentiation, and positioning, let's look at Best Buy, the nation's largest consumer electronics retailer. Best Buy knows that it can't make all its customers happy all the time. Instead, it has segmented its market carefully and concentrates on serving its best customers better.

Best Buy: Embracing the Angels and Ditching the Demons

There's no such thing as a bad customer. Right? And the more customers, the merrier. Makes sense, right? After all, more customers mean more money in the till. As it turns out, however, that's often not so. These days, many marketers are discovering a new truth: Some customers can be way, way wrong for the company—as in unprofitable. And trying to serve any and all customers can mean serving none of them well. Instead, companies need to make certain that they are serving the *right* customers and serving them in the *right* way. They need to decide who their best potential customers are—and who they aren't.

Few companies do that better than Best Buy, the nation's leading consumer electronics retailer. Six years ago, Best Buy embarked on a "customer-centricity" segmentation strategy, by which it set out to identify its best customers and win their loyalty by serving them better. At the same time, it identified less attractive customers and began to send them packing—off to Walmart or some other competitor.

Best Buy began in 1966 as a small Minnesota home and car stereo chain. It has since blossomed into a profitable $45 billion mega retailer, with 1,023 U.S. stores and another 2,835 stores worldwide. Today's Best Buy stores are huge, warehouselike emporiums featuring a treasure trove of goods—from consumer electronics, home office equipment, and appliances to software, CDs, and DVDs—all at low discount prices. A decade ago, however, Best Buy saw an influx of new competitors encroaching on its profitable consumer electronics turf. On one side was Walmart, the world's largest retailer and now number two in store sales of consumer electronics. On the other side was a fast-growing cadre of online and direct retailers, ranging from computer maker Dell to Web giant Amazon.com.

To better differentiate itself in this more crowded marketplace, Best Buy needed to stake out its own turf—to identify its best customers and serve them in ways that no discount or online competitor could. Rather than trying to make all customers happy all the time, Best Buy needed to segment its market, narrow its targeting, and sharpen its positioning. The answer: customer centricity.

The customer-centricity strategy draws on the research of consultant Larry Selden, a Columbia University emeritus business professor. Selden argues that a company should see itself as a portfolio of *customers*, not product lines. His research identified two basic types of customers: angels and demons. Angel customers are profitable, whereas demon customers may actually cost a company more to serve than it makes from them. In fact, Selden claims, serving the demons often wipes out the profits earned by serving the angels.

Following this logic, Best Buy assigned a task force to analyze its customers' purchasing habits. Sure enough, the analysts found both angels and demons. The angels included the 20 percent of Best Buy customers who produced the bulk of its profits. They snapped up HDTVs, portable electronics, and newly released DVDs without waiting for markdowns or rebates. In contrast, the demons formed an "underground of bargain-hungry shoppers intent on wringing every nickel of savings out of the big retailer. They loaded up on loss leaders . . . then flipped the goods at a profit on eBay. They slapped down rock-bottom price quotes from Web sites and demanded that Best Buy make good on its lowest-price pledge." According to a senior Best Buy executive, these demon customers could account for up to 100 million of Best Buy's 500 million customer visits each year. "They can wreak enormous economic havoc," he says.

Further segmentation analysis revealed that the angels fell into eight groups of typical Best Buy shoppers, such as "Barrys," high-income men; "Jills," suburban moms; "Buzzes," male technology enthusiasts; "Rays," young family men on a budget; or "Charlies and Helens," empty nesters with money to spend. Each group has unique needs and spending habits. Take "Ray." He's "no ordinary customer," notes one analyst. "He loves Best Buy, [he's] a hardcore 'techno-tainment' enthusiast, and he's the company's 'bread-and-butter,' accounting for over 20 percent of [the retailer's] sales." And although "Helen" is "by no means a Best Buy regular, she is rediscovering 'me time' and is open to being sold technology that will keep her connected to her community."

At Best Buy, customer-centricity means listening to target customers and helping them use technology the way they dreamed. "We're about people. People just like you. We really mean it. Really."

Based on these segmentation findings, Best Buy set out to embrace the angels and ditch the demons. To attract the angels, the retailer began stocking more merchandise and offering better service to them. For example, it set up digital photo centers and the "Geek Squad," which offers one-on-one in-store or at-home assistance to high-value buyers. It established a Reward Zone loyalty program, in which regular customers can earn points toward discounts on future purchases. To discourage the demons, Best Buy removed them from its marketing lists, reduced the promotions and other sales tactics that tended to attract them, and installed a 15 percent restocking fee.

In line with its customer-centricity approach, Best Buy then combed through customer databases and began remodeling each store to align its product and service mix to reflect the store's make-up of core customer segments. At customer-centric stores, sales clerks now receive hours of training in identifying desirable customers according to their shopping preferences and behavior.

> At one store targeting upper-income Barrys, blue-shirted sales clerks prowl the DVD aisles looking for promising candidates. The goal is to steer them into the store's Magnolia Home Theater Center, a store within a store that features premium home-theater systems and knowledgeable, no-pressure home-theater consultants. Unlike the usual television sections at Best Buy stores, the center has easy chairs, a leather couch, and a basket of popcorn to mimic the media rooms popular with home-theater fans. At stores popular with young Buzzes, Best Buy has created videogame areas with leather chairs and game players hooked to mammoth, plasma-screen televisions. The games are conveniently stacked outside the playing area, and the glitzy new TVs are a short stroll away.

How is Best Buy's customer-centricity strategy working? Very well. Early customer-centricity stores clobbered Best Buy's traditional stores, with many posting sales gains more than triple those of stores with conventional formats. Since rolling out the new strategy six years ago, Best Buy's overall sales (and profits) have more than doubled. And despite the recently gloomy economy, which has seen competitors such as Circuit City, Tiger Direct, and CompUSA biting the dust or undergoing major restructuring, Best Buy has seen profit growth year after year. Revenue grew nearly 13 percent last year. And according to a recent survey, Best Buy is rated as the preferred place to shop for consumer electronics by 40 percent of U.S. shoppers, with Walmart a distant second at 14 percent.

"We started this [customer-centricity] journey by learning how to see the differences in the desires of our customers, and then learning how to meet them," says former CEO Brad Anderson. Customer-centricity means "listening to understand how customers are going to deploy the stuff they buy from us and use it to enrich their lives, . . . rather than worrying about selling the product." Best Buy wants to focus on customers' individual wants and needs—to become "that trusted advisor capable of helping customers use technology the way they dreamed," says Anderson. "That unlocks enormous horizons of growth opportunities for us."[1]

Best Buy's "customer-centricity" strategy serves its best customer segments better while sending less attractive customers packing. The result: Sales are jumping despite the recently gloomy economy.

Objective OUTLINE

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

Customer-Driven Marketing Strategy (190)

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

Market Segmentation (190–200)

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

Market Targeting (200–207)

Objective 4 **Discuss how companies differentiate and position their products for maximum competitive advantage.**

Differentiation and Positioning (207–215)

Companies today recognize that they cannot appeal to all buyers in the marketplace—or at least not to all buyers in the same way. Buyers are too numerous, widely scattered, and varied in their needs and buying practices. Moreover, the companies themselves vary widely in their abilities to serve different segments of the market. Instead, like Best Buy, 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 segments of buyers with distinct needs, characteristics, or behaviors that might require separate marketing strategies or mixes. The company identifies different ways to segment the market and develops profiles of the resulting market segments. **Market targeting** (or **targeting**) consists of evaluating each market segment's attractiveness and selecting one or more market segments to enter.

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

Market segmentation
Dividing a market into smaller segments with distinct needs, characteristics, or behavior that might require separate marketing strategies or mixes.

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

Differentiation
Differentiating the market offering to create superior customer value.

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

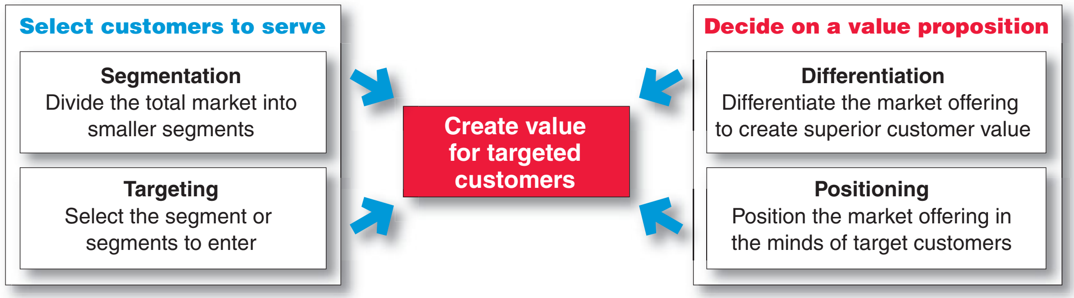
Author Comment Market segmentation addresses the first simple-sounding marketing question: What customers will we serve?

Market Segmentation (pp 190–200)

Buyers in any market 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 the requirements for effective segmentation.

FIGURE | 7.1
Designing a Customer-Driven Marketing Strategy

In concept, marketing boils down to two questions: (1) Which customers will we serve? and (2) How will we serve them? Of course, the tough part is coming up with good answers to these simple-sounding yet difficult questions. The goal is to create more value for the customers we serve than competitors do.



Segmenting Consumer Markets

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

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

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

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 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, Walmart operates virtually everywhere but has developed special formats tailored to specific types of geographic locations. In strongly Hispanic neighborhoods in Texas and Arizona, Walmart is now testing Hispanic-focused Supermercado de Walmart stores, which feature layouts, signage, product assortment, and bilingual staff to make them more relevant to local Hispanic customers. In markets where full-size superstores are impractical, Walmart has opened supermarket-style Marketside grocery stores. Marketside stores are one-third the size of Walmart's other small-store format, Neighborhood Market supermarkets, and one-tenth the size of one of its supercenters.[2]

Similarly, Citibank offers different mixes of branch banking services depending on neighborhood demographics. And Baskin-Robbins practices what it calls "three-mile marketing," emphasizing local events and promotions close to each local store location.[3]

Geographic segmentation: Walmart has developed special formats tailored to specific types of geographic locations, from Hispanic-focused Supermercado de Walmart stores to smaller Marketside and Neighborhood Market supermarkets.

Demographic Segmentation

Demographic segmentation divides the market into segments 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 marketers first define segments using other bases, such as benefits sought or behavior, they must know a segment's demographic characteristics to assess the size of the target market and reach it efficiently.

Age and Life-Cycle Stage. 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 children, TABLE | 7.1 Major Segmentation Variables for Consumer Markets

Geographic	
World region or country	North America, Canada, Western Europe, Middle East, Pacific Rim, China, India, Brazil
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, exurban, rural
Climate	Northern, southern
Demographic	
Age	Under 6, 6–11, 12–19, 20–34, 35–49, 50–64, 65 and over
Gender	Male, female
Family size	1–2, 3–4, 5 or more
Family life cycle	Young, single; married, no children; married with children; single parents; unmarried couples; older, married, no children under 18; older, single; other
Income	Under \$20,000; \$20,000–\$30,000; \$30,000–\$50,000; \$50,000–\$100,000; \$100,000–\$250,000; over \$250,000
Occupation	Professional and technical; managers, officials, and proprietors; clerical; sales; craftspeople; supervisors; farmers; students; homemakers; unemployed; retired
Education	Primary school or less; some high school; high school graduate; some college; college graduate, advanced degree
Religion	Catholic, Protestant, Jewish, Muslim, Hindu, other
Race	Asian, Hispanic, Black, White
Generation	Baby boomer, Generation X, Millennial
Nationality	North American, South American, British, French, German, Russian, Japanese
Psychographic	
Social class	Lower lowers, upper lowers, working class, middle class, upper middles, lower uppers, upper uppers
Lifestyle	Achievers, strivers, survivors
Personality	Compulsive, outgoing, authoritarian, ambitious
Behavioral	
Occasions	Regular occasion; special occasion; holiday; seasonal
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

Oscar Mayer offers Lunchables, full of fun, kid-appealing finger food. For older generations, it markets Deli Creations, "with all the warmth, flavor, and fresh-baked taste you look forward to—in a microwave minute without having to go out."

Other companies focus on the specific age of life-stage groups. For example, although consumers in all age segments love Disney cruises, Disney Cruise Lines focuses primarily on families with children, large and small. Most of its destinations and shipboard activities are

Life-stage segmentation: Disney Cruise Lines targets primarily families with children, large and small. Most of its destinations and shipboard activities are designed with parents and their children in mind.

designed with parents and their children in mind. On board, Disney provides trained counselors who help younger kids join in hands-on activities, teen-only spaces for older children, and family-time or individual-time options for parents and other adults. It's difficult to find a Disney Cruise Lines ad or Web page that doesn't feature a family full of smiling faces. In contrast, Viking River Cruises, the deluxe smaller-boat cruise line that offers tours along the world's great rivers, primarily targets older-adult couples and singles. You won't find a single child in a Viking ad or Web page.

Marketers must be careful to guard against stereotypes when using age and life-cycle segmentation. Although some 80-year-olds fit the doddering stereotypes, 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, one Carnival Cruise Lines ad for its Fun Ships features an older boomer and child riding waterslides, stating "fun has no age limit."

Gender segmentation
Dividing a market into different segments based on gender.

Gender. **Gender segmentation** has long been used in clothing, cosmetics, toiletries, and magazines. For example, P&G 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, Nivea markets Nivea for Men, a product line for men ranging from its 3-in-1 Active3 body wash, shampoo, and shaving cream combination to a revitalizing eye cream. According to a Nivea marketer, Active3 appeals to the male mind-set of, "I wanted to be fast, convenient, and economical. I wanted to fit with these times." It's "What Men Want."[4]

A neglected gender segment can offer new opportunities in markets ranging from consumer electronics to motorcycles. For example, Harley-Davidson has traditionally targeted its product design and marketing to a bread-and-butter market of males between 35 and 55 years old. Women were more often just along for the ride—but no longer:[5]

> Women are now among the fastest growing customer segments in the motorcycle business. The number of female Harley-Davidson owners has tripled in the past 20 years, and female buyers now account for 12 percent of new Harley-Davidson purchases. So the company is boosting its efforts to move more women from the back of the bike onto the rider's seat. Rather than indulging in female stereotypes, however, Harley-Davidson is appealing to "strong, independent women who enjoy taking on a challenge and a feeling of adventure," says the company's women's outreach manager. A recent ad sports this headline: "Not pictured: the weaker sex." A women's Web microsite encourages women to share inspirational riding stories with one another. And to kick off Women Riders Month, Harley-Davidson recently hosted special riding events designed to "celebrate the millions of women who have already grabbed life by the handlebars."
>
> In marketing to women, Harley-Davidson is staying true to its tough, road-tested image. "I don't think we're going to see any pink [Harley-Davidson motorcycles] on the road," says an analyst. And "they don't have to add bigger mirrors so women can do their cosmetics. . . . They want to sell Harleys to women, and they want to sell them to women who want to ride a *Harley*."

Harley-Davidson has boosted its efforts to move women from the back of the bike onto the rider's seat.

Income segmentation
Dividing a market into different income segments.

Income. The marketers of products and services such as automobiles, clothing, cosmetics, financial services, and travel have long used **income segmentation**. Many companies target affluent consumers with luxury goods and convenience services. For example, luxury hotels provide special packages to attract affluent travelers. The Four Seasons Miami recently offered a Five Diamond package that included a two-carat Graff diamond eternity band (or another diamond piece designed to your specifications) and a stay in the presidential suite with a bottle of 1990 Dom Pérignon Oenothéque champagne, caviar for two, and an 80-minute in-suite couples massage using a lotion infused with real ground diamonds. The price tag: "From $50,000."[6]

Other marketers use high-touch marketing programs to court the well-to-do. Consider these examples:[7]

> Seadream Yacht Club, a small-ship luxury cruise line, calls select guests after every cruise and offers to have the CEO fly out to their home and host, at Seadream's expense, a brunch or reception for a dozen of the couple's best friends. The cruisers tell the story of their cruise. Seadream offers a great rate to their guests and sells several cruises at $1,000 per person per night—not to mention the friends of the couple telling their friends. This has been so successful for Seadream that it has abandoned most traditional advertising. Similarly, when Steinway sells a Steinway grand piano, it offers to host a social event for buyers in their homes, including having a Steinway artist perform. Such highly personal marketing creates a community of "brand evangelists" who tell the story to prospective affluent buyers and friends—precisely the right target group.

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 represented by 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, dollar stores are now the fastest-growing retailers in the nation.

The recent troubled economy has provided challenges for marketers targeting all income groups. Consumers at all income levels—including affluent consumers—are cutting back on their spending and seeking greater value from their purchases. In many cases, luxury marketers targeting high-income consumers have been hardest hit. Even consumers who can still afford to buy luxuries appear to be pushing the pause button. "It's conspicuous *non*consumption," says one economist. "The wealthy still have the wealth, [but] it's the image you project in a bad economy of driving a nice car when your friends or colleagues may be losing their businesses."[8]

Psychographic Segmentation

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

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

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, car-sharing nicher Zipcar rents cars by the hour or the day. But it doesn't see itself as a car-rental company. Instead it sees itself as enhancing its customers urban lifestyles and targets accordingly. "It's not about cars," says Zipcar's CEO, "it's about urban life." (See Real Marketing 7.1.)

Marketers also use *personality* variables to segment markets. For example, cruise lines target adventure seekers. Royal Caribbean appeals to high-energy couples and families by providing hundreds of activities, such as rock wall climbing and ice skating. Its commercials urge travelers to "declare your independence and become a citizen of our nation—Royal Caribbean, The Nation of Why Not." By contrast, the Regent Seven Seas Cruise Line targets more serene

Real Marketing 7.1

Zipcar: "It's Not about Cars; It's about Urban Life"

Imagine a world in which no one owns a car. Cars would still exist, but rather than owning cars, people would just share them. Sounds crazy, right? But Scott Griffith, CEO of Zipcar, the world's largest car-share company, paints a picture of just such an imaginary world. And he has 325,000 passionate customers, or "Zipsters" as they are called, who will back him up.

Zipcar specializes in renting out cars by the hour or day. The service isn't for everyone—it doesn't try to be. Instead, it zeros in on narrowly defined lifestyle segments, people who live or work in densely populated neighborhoods in New York City, Boston, Atlanta, San Francisco, London, or one of the more than a dozen big cities in which Zipcar operates (or on more than 100 college campuses across North America). For these customers, owning a car (or a second or third car) is difficult, costly, and environmentally irresponsible. Interestingly, Zipcar doesn't see itself as a car-rental company. Instead, it's selling a lifestyle. "It's not about cars," says CEO Griffith, "it's about urban life. We're creating a lifestyle brand that happens to have a lot of cars."

Initially, Zipcar targeted mostly trendy, young, well-educated, environmentally conscious urbanites. But, gradually, the Zipster profile is broadening, becoming more mature and mainstream. However, Zipsters share a number of common urban lifestyle traits. For starters, the lifestyle is rooted in environmental consciousness. In fact, at first, Zipcar focused almost exclusively on the benefits of reduced traffic congestion and carbon emissions. It targeted green-minded customers with promotional pitches such as "We ❤ Earth" and "Imagine a world with a million fewer cars on the road." Zipcar's vibrant green logo reflects this save-the-Earth philosophy. And Zipcar really does deliver on its environmental promises. Studies show that every shared Zipcar takes up to 20 cars off the road and cuts emissions by up to 50 percent per user. On average, Zipsters travel 44 percent fewer miles than when they owned a car.

But if Zipcar was going to grow, it needed to move beyond just being green. "It is an important part of the brand," says Griffith, but "I don't think people are going to use Zipcar [just] because it's green." So the company has broadened its appeals to include other urban lifestyle benefits. One of those benefits is convenience. Owning a car in a densely populated urban area can be a real hassle. Zipcar lets customers focus on driving, not on the complexities of car ownership. It gives them "Wheels when you want them," in four easy steps: "Join. Reserve. Unlock. Drive."

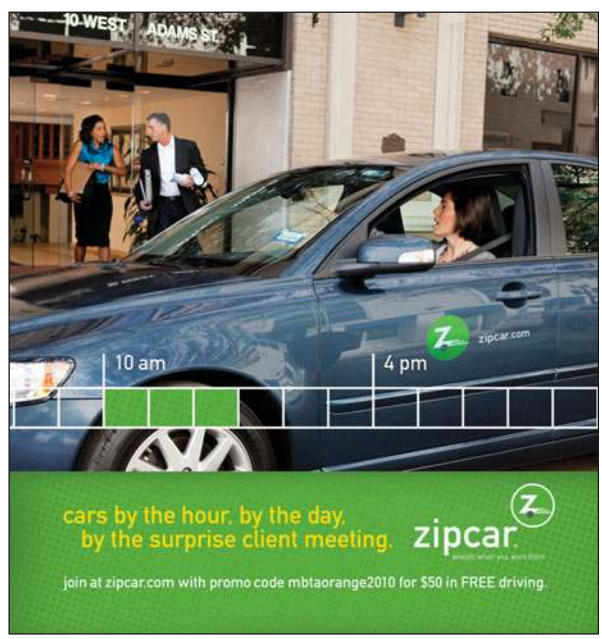
To join, you pay a $50 annual fee and receive your personal Zipcard, which unlocks any of thousands of cars in urban areas around the world. Then, when you need a car, reserve one—minutes or months in advance—online, by phone, or using an iPhone app. You can choose the car you want, when and where you want it, and drive it for as little as $7 an hour, including gas, insurance, and free miles. When you're ready, walk to the car, hold your Zipcard to the windshield to unlock the doors, and you're good to go. When done, you drop the car off at the same parking spot; Zipcar worries about the maintenance and cleaning.

Zipcar not only eliminates the hassle of urban car ownership but also saves money. By living with less, the average Zipster saves $600 a month on car payments, insurance, gas, maintenance, and other car ownership expenses.

Zipcar's operating system is carefully aligned with its tight urban lifestyle targeting. For starters, Zipcar "pods" (a dozen or so vehicles located in a given neighborhood) are stocked with over 50 different models that trendy urbanites love. The vehicles are both hip and fuel efficient: Toyota Priuses, Honda CRVs, MINIs, Volvo S60s, BMW 328s, Toyota Tacomas, Toyota Siennas, Subaru Outbacks, and others. And Zipcar is now eyeing plug-in hybrids and full electric vehicles. Each car has a personality—a name and profile created by a Zipster. For example, Prius Ping "jogs in the morning; doesn't say much," whereas Civic Carlos "teaches yoga; loves to kayak." Such personal touches make it feel like you're borrowing the car from a friend, rather than being assigned whatever piece of metal happens to be available.

Zipcar's promotion tactics also focus tightly on its narrowly defined urban segments. The company targets urbanites within a 10-minute walk of its car pods—no easy task. "Even with today's highly targeted Web, it's hard to target at that hyper-local level," says Griffith. "So our street teams do it block by block, zip code by zip code." Thus, in addition to local Web ads and transit advertising, Zipcar reps are beating the streets in true guerilla fashion.

For example, in San Francisco, passersby got to swing a sledgehammer at an SUV, while on Harvard's campus, students tried to guess how many frozen IKEA meatballs were stuffed inside a MINI. In Washington, D.C., Zipcar street teams planted a couch on a busy sidewalk with the sign "You need a Zipcar to move this." And the company has launched several "Low-Car Diet" events, in which it asks urban residents to give up their cars and blog about



Geographic segmentation: Car-sharing service Zipcar focuses only on densely populated areas, positioning itself as a low-cost alternative to urban car ownership. As it has grown, Zipcar has expanded its targeting to include a different type of urban dweller: businesses and other organizations.

Continued on next page

it. Zipcar partnered with a bike company to give away a free bike to a lucky dieter in each of the 69 cities where Zipcars can be found. Surveyed dieters reported saving 67 percent on vehicle costs compared to operating their own cars. Nearly half of them also said that they lost weight.

As Zipcar has taken off, it has expanded its targeting to include a different type of urban dweller: businesses and other organizations. Companies such as Google now encourage employees to be environmentally conscious by commuting via a company shuttle and then using Zipcars for both business and personal use during the day. Other companies are turning to Zipcar as an alternative to black sedans, long taxi rides, and congested parking lots. Government agencies are getting into the game as well. The city of Washington, D.C., now saves more than $1 million a year using Zipcar. Fleet manager Ralph Burns says that it's such a no-brainer, and he has departments lining up. "Agencies putting their budgets together for next year are calling me up and saying, 'Ralph, I've got 25 cars I want to get rid of!'"

Zipcar's lifestyle targeting fosters a tight-knit sense of customer community. Zipsters are as fanatically loyal as the hardcore fans of Harley-Davidson or Apple, brands that have been nurturing customer relationships for decades. Loyal Zipsters serve as neighborhood brand ambassadors; 30 percent of new members join up at the recommendation of existing customers. "When I meet another Zipcar member at a party or something, I feel like we have something in common," says one Brooklyn Zipster. "It's like we're both making intelligent choices about our lives."

How is Zipcar's urban lifestyle targeting working? By all accounts, the young car-sharing nicher has the pedal to the metal, and its tires are smoking. In just the past six years, Zipcar's annual revenues have rocketed 65-fold, from $2 million to $130 million, and it's looking to hit $1 billion in revenues within the next few years. Last year alone, Zipcar boosted its membership by more than 40 percent.

Zipcar's rapid growth has sounded alarms at the traditional car-rental giants. Enterprise, Hertz, Avis, and Thrifty now have their own car-sharing operations. Even U-Haul is getting into the act. These veteran companies have deep pockets and large fleets. But Zipcar has a 10-year head start, cozy relationships in targeted neighborhoods, and an urban hipster creed that corporate giants like Hertz will have trouble matching. To Zipsters, Hertz rents cars, but Zipcar is part of their hectic urban lives.

Sources: Kunur Patel, "Zipcar: An America's Hottest Brands Case Study," *Advertising Age*, November 16, 2009, p. 16; Paul Keegan, "Zipcar: The Best New Idea in Business," *Fortune*, August 27, 2009, accessed at www.fortune.com; Elizabeth Olson, "Car Sharing Reinvents the Company Wheels," *New York Times*, May 7, 2009, p. F2; Stephanie Clifford, "How Fast Can This Thing Go, Anyway?" *Inc*, March 2008, accessed at www.inc.com; and www.zipcar.com, accessed October 2010.

Occasion segmentation: M&Ms runs special ads and packaging for holidays and events such as Easter.

and cerebral adventurers, mature couples seeking a more elegant ambiance and exotic destinations, such as the Orient. Regent invites them to come along as "luxury goes exploring."[9]

Behavioral Segmentation

Behavioral segmentation divides buyers into segments 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.

Occasions. 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, most consumers drink orange juice in the morning, but orange growers have promoted drinking orange juice as a cool, healthful refresher at other times of the day. By contrast, Coca-Cola's "Good Morning" campaign attempts to increase Diet Coke consumption by promoting the soft drink as an early morning pick-me-up.

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, M&Ms runs ads throughout the year but prepares special ads and packaging for holidays and events such as Christmas, Easter, and the Super Bowl.

Benefits Sought. A powerful form of segmentation is grouping buyers according to the different *benefits* that they seek from a prod-

Behavioral segmentation
Dividing a market into segments based on consumer knowledge, attitudes, uses, or responses to a product.

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

Benefit segmentation
Dividing the market into segments according to the different benefits that consumers seek from the product.

uct. **Benefit segmentation** requires finding the major benefits people look for in a 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. Marketers want to reinforce and retain regular users, attract targeted nonusers, and reinvigorate relationships with ex-users.

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, upscale kitchen and cookware retailer Williams-Sonoma actively targets newly engaged couples.

> Eight-page Williams-Sonoma inserts in bridal magazines show a young couple strolling through a park or talking intimately in the kitchen over a glass of wine. The bride-to-be asks, "Now that I've found love, what else do I need?" Pictures of Williams-Sonoma knife sets, toasters, glassware, and pots and pans provide some strong clues. The retailer also offers a bridal registry, of course, but it takes its registry a step further. Through a program called "The Store Is Yours," it opens its stores after hours, by appointment, exclusively for individual couples to visit and make their wish lists. This segment is very important to Williams-Sonoma. About half the people who register are new to the brand, and they'll be buying a lot of kitchen and cookware in the future.[10]

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

Usage Rate. 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, Burger King targets what it calls "Super Fans," young (ages 18 to 34), Whopper-wolfing males and females 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 13 times a month. 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."[11]

Loyalty Status. A market can also be segmented by consumer loyalty. Consumers can be loyal to brands (Tide), stores (Target), and companies (Apple). 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, as we discussed in the previous chapter, Apple has an almost cultlike following of loyal users. Other 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 Mac fanatics, 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 only. Rather, they often use 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.

Several business information services—such as Nielsen, Acxiom, and Experian—provide multivariable segmentation systems that merge geographic, demographic, lifestyle, and behavioral data to help companies segment their markets down to zip codes, neighborhoods, and even households. One of the leading segmentation systems is the PRIZM system by Nielsen. PRIZM 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.

PRIZM classifies U.S. households into 66 demographically and behaviorally distinct segments, organized into 14 different social groups. ◉ PRIZM segments carry such exotic names as "Kids & Cul-de-Sacs," "Gray Power," "Bohemian Mix," "Mayberry-ville," "Shotguns & Pickups," "Old Glories," "Multi-Culti Mosaic," "Big City Blues," and "Bright Lites L'il City." The colorful names help to bring the clusters to life.[12]

PRIZM and other such systems can help marketers segment people and locations into marketable groups of like-minded consumers. Each cluster has its own pattern of likes, dislikes, lifestyles, and purchase behaviors. For example, "Winner's Circle" neighborhoods, part of the Elite Suburbs social group, are suburban areas populated by well-off couples, between the ages of 35 and 54, with large families in new-money neighborhoods. People in this segment are more likely to own a Mercedes GL Class, go jogging, shop at Neiman Marcus, and read *The Wall Street Journal*. In contrast, the "Bedrock America" segment, part of the Rustic Living social group, is populated by young, economically challenged families in small, isolated towns located throughout the nation's heartland. People in this segment are more likely to eat at Hardee's, buy a used vehicle, and read *Parents Magazine*.

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

◉ Using Nielsen's PRIZM system, marketers can paint a surprisingly precise picture of who you are and what you might buy. PRIZM segments carry such exotic names as "Brite Lites, L'il City," "Kids & Cul-de-Sacs," "Gray Power," and "Big City Blues."

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*.

Almost every company serves at least some business markets. For example, American Express 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 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 OPEN: The Small Business Network, a system of small business cards and financial services. It includes credit cards and lines of credit, special usage rewards, financial monitoring and spending report features, and 24/7 customized financial support services. "OPEN is how we serve small business," says American Express.[13]

Many companies establish separate systems for dealing with larger or multiple-location customers. For example, Steelcase, a major producer of office furniture, first divides customers into seven segments, including biosciences, higher education, U.S. and Canadian governments, state and local governments, healthcare, professional services, and retail banking. 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 account managers to help its dealer networks handle 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 200 million Portuguese-speaking Brazilians and the millions in other countries who speak a variety of Indian dialects.

Intermarket segmentation: Coca-Cola targets the world's teens—core consumers of its soft drinks—no matter where they live.

World markets can also be segmented on the basis of *economic factors*. Countries might be grouped by population income levels or by their overall level of economic development. A country's economic structure shapes its population's product and service needs and, therefore, the marketing opportunities it offers. For example, many companies are now targeting the BRIC countries—Brazil, Russia, India, and China—which are fast-growing developing economies with rapidly increasing buying power.

Countries can also be segmented by *political and legal factors* such as the type and stability of government, receptivity to foreign firms, monetary regulations, and amount of bureaucracy. *Cultural factors* can also be used, grouping markets according to common languages, religions, values and attitudes, customs, and behavioral patterns.

Segmenting international markets based on geographic, economic, political, cultural, and other factors presumes that segments should consist of clusters of countries. However, as new communications technologies, such as satellite TV and the Internet, connect consumers around the world, marketers can define and reach segments of like-minded consumers no matter where in the world they are. Using **intermarket segmentation** (also called **cross-market segmentation**), they form segments of consumers who have similar needs and buying behaviors even though they are located in different countries. For example, Lexus targets the world's well-to-do—the "global elite" segment—regardless of their country. Coca-Cola creates special programs to target teens, core consumers of its soft drinks the world over. And Swedish furniture giant IKEA targets the aspiring global middle class—it sells good-quality furniture that ordinary people worldwide can afford.

Intermarket segmentation (cross-market segmentation)
Forming segments of consumers who have similar needs and buying behavior even though they are located in different countries.

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 approximately 30.5 million left-handed people in the United States, which is nearly 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.
- *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 homogeneous 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 men and women respond similarly to marketing efforts for soft drinks, 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.

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 target this segment.

Author Comment | After dividing the market into segments, it's time to answer that first seemingly simple marketing strategy question we raised in Figure 7.1: Which customers will the company serve?

Market Targeting (pp 200–207)

Market segmentation reveals the firm's market segment opportunities. The firm now has to 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 the 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 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.[14] 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. For example, given the current economic conditions, the economy segment of the automobile market is large and growing. But given its objectives and resources, it would make little sense for luxury-performance carmaker BMW to enter this segment. A company should enter only segments in which it can create superior customer value and gain advantages over its competitors.

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.

Selecting Target Market Segments

After evaluating different segments, the company must 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. 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).

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. Such a strategy focuses on what is *common* in the needs of consumers rather than on what is *different*. The company designs a product and a marketing program that will appeal to the largest number of buyers.

This figure covers a broad range of targeting strategies, from mass marketing (virtually no targeting) to individual marketing (customizing products and programs to individual customers). An example of individual marketing: At myMMs.com you can order a batch of M&Ms with your face and personal message printed on each little candy.

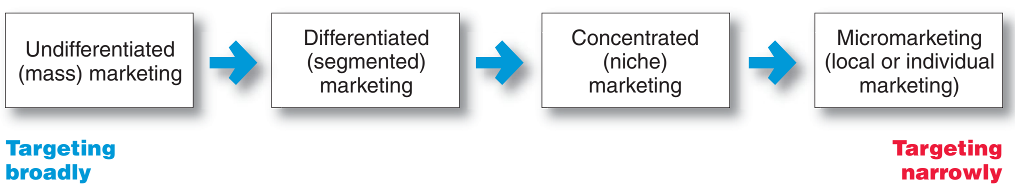


FIGURE | 7.2
Market Targeting Strategies

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. Toyota Corporation produces several different brands of cars—from Scion to Toyota to Lexus—each targeting its own segments of car buyers. P&G markets six different laundry detergent brands in the United States, which compete with each other on supermarket shelves. And VF Corporation offers a closet full of more than thirty premium lifestyle brands, which "fit the lives of consumers the world over" in well-defined segments—"from commuters to cowboys, surfers to soccer moms, sports fans to rock bands."[15]

VF is the nation's number-one jeans maker, with brands such as Lee, Riders, Rustler, and Wrangler. But jeans are not the only focus for VF. The company's brands are carefully separated into five major segments—Jeanswear, Imagewear (workwear), Outdoor, Sportswear, and Contemporary Brands. The North Face, part of the Outdoor unit, offers top-of-the-line gear and apparel for diehard outdoor enthusiasts, especially those who prefer cold weather activities. From the Sportswear unit, Nautica focuses on people who enjoy high-end casual apparel inspired by sailing and the sea. Vans began as a skate shoemaker, and Reef features surf-inspired footwear and apparel. In the Contemporary Brands unit, Lucy features upscale activewear, whereas 7 for All Mankind supplies premium denim and accessories sold in boutiques and high-end department stores such as Saks and Nordstrom. At the other end of the spectrum, Sentinel, part of the Imagewear unit, markets uniforms for security officers. No matter who you are, says the company, "We fit your life."

Differentiated marketing: VF Corporation offers a closet full of over 30 premium lifestyle brands, each of which "taps into consumer aspirations to fashion, status, and well-being" in a well-defined segment.

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. VF Corporation's combined brands give it a much greater, more stable market share than any single brand could. The four Jeanswear brands alone account for one-fourth of all jeans sold in the United States. Similarly, P&G's multiple detergent brands capture four times the market share of its nearest rival.

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 a single product. Developing separate marketing plans for the separate segments requires extra marketing research, forecasting, sales analysis, promotion planning, and channel management. And trying to reach different market segments with different advertising campaigns 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.

Using a **concentrated marketing** (or **niche marketing**) strategy, instead of going after a small share of a large market, a firm goes after a large share of one or a few smaller segments or niches. For example, Whole Foods Market has about 285 stores and $8 billion in sales, compared with goliaths such as Kroger (more than 3,600 stores and sales of $76 billion) and Walmart (8,400 stores and sales of $408 billion).[16] Yet, over the past five years, the smaller, more upscale retailer has grown faster and more profitably than either of its giant rivals. Whole Foods thrives by catering to affluent customers who the Walmarts of the world can't serve well, offering them "organic, natural, and gourmet foods, all swaddled in Earth Day politics." In fact, a typical Whole Foods customer is more likely to boycott the local Walmart than to shop at it.

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 lets smaller companies focus their limited resources on serving niches that may be unimportant to or overlooked by larger competitors. Many companies start as nichers to get a foothold against larger, more-resourceful competitors and 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. And Enterprise Rent-A-Car began by building a network of neighborhood offices rather competing with Hertz and Avis in airport locations. Enterprise is now the nation's largest car rental company.

In contrast, as markets change, some megamarketers develop niche products to create sales growth. For example, in recent years, as consumers have grown more health conscious, the demand for carbonated soft drinks has declined, and the market for energy drinks and juices has grown. Carbonated soft drink sales fell 3 percent last year; energy drink sales rose 11 percent. To meet this shifting demand, mainstream cola marketers PepsiCo and Coca-Cola have both developed or acquired their own niche products. PepsiCo developed Amp energy drink and purchased the SoBe and Izze brands of enhanced waters and juices. Similarly, Coca-Cola developed Vault and acquired the Vitaminwater and Odwalla brands. Says Pepsi-Cola North America's chief marketing officer, "The era of the mass brand has been over for a long time."[17]

Today, the low cost of setting up shop on the Internet makes it even more profitable to serve seemingly miniscule niches. Small businesses, in particular, are realizing riches from serving small niches on the Web. Consider Etsy:

Concentrated marketing: Thanks to the reach and power of the Web, online nicher Etsy—sometimes referred to as eBay's funky little sister—is thriving.

Etsy is "an online marketplace for buying and selling all things handmade"—from hand-knit leg warmers to Conan O'Brien cufflinks. Sometimes referred to as eBay's funky little sister, the Etsy online crafts fair site was launched five years ago by three New York University grads. The site makes money three ways: a 20-cent listing fee for every item, a 3.5 percent sales fee on every transaction, and an internal advertising system that sells ad space to Etsy sellers who want to promote their items. A far cry from the old-fashioned street-corner flea market, thanks to the reach and power of the Web, Etsy now counts 5 million members and 5.7 million listings in 150 countries. Last year alone, Etsy more than doubled its gross sales to $180 million. And Etsy is more than an e-commerce site; it's a thriving community. For example, it sponsors actual and virtual meet-ups organized by location (from Syracuse to Saskatchewan and Singapore), medium (papier-mâché, mosaic), and interest area (Chainmaillers Guild, Lizards, and Lollipops). Etsy's main goal? According to former CEO Maria Thomas, it's "to help people make a living by doing what they love and making things."[18]

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.

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
Tailoring products and marketing programs to the needs and wants of specific individuals and local customer segments; It includes *local marketing* and *individual marketing*.

Local Marketing. **Local marketing** involves tailoring brands and promotions to the needs and wants of local customer groups—cities, neighborhoods, and even specific stores. For example, Walmart customizes its merchandise store by store to meet the needs of local shoppers. The retailer's store designers create each new store's format according to neighborhood characteristics—stores near office parks, for instance, contain prominent islands featuring ready-made meals for busy workers. By using a wealth of customer data on daily sales in every store, Walmart tailors individual store merchandise with similar precision. For example, it uses more than 200 finely tuned planograms (shelf plans) to match soup assortments to each store's demand patterns.[19]

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

Advances in communications technology have given rise to a new high-tech version of location-based marketing. For example, retailers have long been intrigued by the promise of cell phones, which live in people's pockets and send signals about shoppers' locations. The idea is to send people ads tailored to their location, like a coupon for cappuccino when passing a Starbucks. That idea is fast becoming a reality. Consider The North Face, an outdoor apparel and gear retailer:[20]

> The North Face is trying a new tactic: sending people text messages as soon as they get near one of its stores. The new marketing campaign first singles out customers depending on where they are, as gleaned from their phone's GPS signal or location data provided by a phone carrier. It uses "geo-fencing," which draws half-mile-wide virtual perimeters around selected store locations. When someone steps into a geo-fenced area, The North Face sends a text message to consumers who have opted in. Within each geo-fence, it can personalize messages to local weather and other factors.
>
> For now, The North Face sends texts about promotions, like a free water bottle with a purchase or seasonal merchandise arrivals. A text message might say, for example, "TNF: The new spring running apparel has hit the stores! Check it out @ TNF Downtown Seattle." But that's just for starters. Eventually, the company plans to send branded texts when people arrive at a hiking trail or mountain to alert them about weather conditions or logistics for a ski competition, for example. It also created an iPhone app called The North Face Snow Report that provides local snow conditions and trail maps. The store doesn't want to be intrusive, says the vice president of marketing. For brand fans who opt in, "We are bringing something to the table," he says, something that "connects to a person's passions"—locally.

Local marketing: The North Face uses "geo-fencing" to send localized text messages to consumers who get near one of its stores.

Local marketing has some drawbacks. It can drive up manufacturing and marketing costs by reducing the 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.

Individual marketing
Tailoring products and marketing programs to the needs and preferences of individual customers—also called *one-to-one marketing*, *customized marketing*, and *markets-of-one marketing*.

Individual 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 a suit, the cobbler designed shoes for an individual, and the cabinetmaker made furniture to order. Today, however, new technologies are permitting many companies to return to customized marketing. More detailed databases, robotic production and flexible manufacturing, and interactive communication media such as cell phones and the Internet 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.

Dell, HP, and Apple create 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 Nike ID Web site can personalize their sneakers by choosing from hundreds of colors and putting an embroidered word or phrase on the tongue. At www.myMMs.com, you can upload your photo and order a batch of M&Ms with your face and a personal message printed on each little piece of candy.

Marketers are also finding new ways to personalize promotional messages. ◉ For example, plasma screens placed in shopping malls around the country can now analyze shoppers' faces and place ads based on an individual shopper's gender, age, or ethnicity:[21]

> If you watch an ad on a video screen in a mall, health club, or grocery store, there is a growing chance that the ad is also watching you. Small cameras can now be embedded in or around the screen, tracking who looks at the screen and for how long. With surprising accuracy, the system can determine the viewer's gender, approximate age range, and, in some cases, ethnicity—and change the ads accordingly. That could mean razor ads for men, cosmetics ads for women, and videogame ads for teens. Or a video screen might show a motorcycle ad for a group of men but switch to a minivan ad when women and children join them. "This is proactive merchandising," says a media executive. "You're targeting people with smart ads."

◉ **Individual marketing: Video screens in malls and stores can now determine who's watching them and change the ads accordingly.**

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

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, interactive marketing 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 then back again.

Choosing a Targeting Strategy

Companies need to consider many factors when choosing a market-targeting strategy. Which strategy is best depends on the company's 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 cars, 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 one version only, and undifferentiated marketing or concentrated marketing may make the most sense. In the mature stage of the product life cycle (PLC), however, differentiated marketing often makes 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, focusing on the needs of buyers in specific segments.

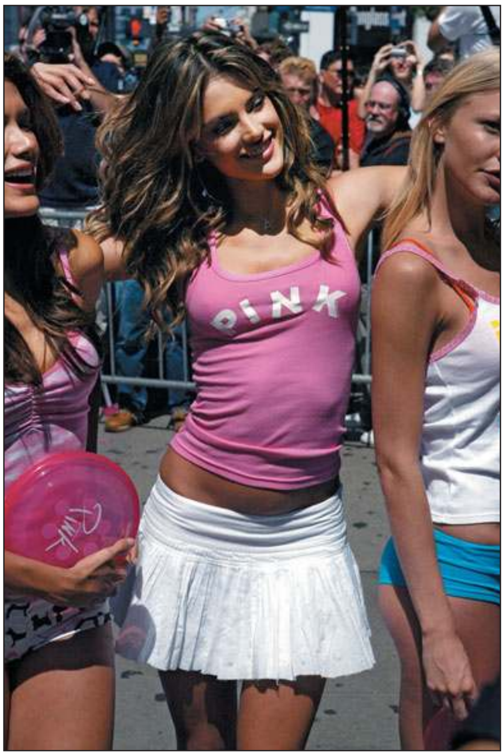
Socially Responsible Target Marketing

Smart targeting helps companies become more efficient and effective by focusing on the segments that they can satisfy best and most profitably. Targeting also benefits consumers—companies serve specific groups of consumers with offers carefully tailored to 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, marketers in a wide range of industries—from cereal, soft drinks, and fast food to toys and fashion—have been heavily criticized for their marketing efforts directed toward children. Critics worry that premium offers and high-powered advertising appeals presented through the mouths of lovable animated characters will overwhelm children's defenses.

Other problems arise when the marketing of adult products spills over into the children's segment—intentionally or unintentionally. ● For example, Victoria's Secret targets its highly successful Pink line of young, hip, and sexy clothing to young women from 18 to 30 years old. However, critics charge that Pink is now all the rage among girls as young as 11 years old. Responding to Victoria's Secret's designs and marketing messages, tweens are flocking into stores and buying Pink, with or without their mothers. More broadly, critics worry that marketers of everything from lingerie and cosmetics to Barbie dolls are directly or indirectly targeting young girls with provocative products, promoting a premature focus on sex and appearance.[22]

> Ten-year-old girls can slide their low-cut jeans over "eye-candy" panties. French maid costumes, garter belt included, are available in preteen sizes. Barbie now comes in a "bling-bling" style, replete with halter top and go-go boots. And it's not unusual for girls under 12 years old to sing, "Don't cha wish your girlfriend was hot like me?" American girls, say experts, are increasingly being fed a cultural catnip of products and images that promote looking and acting sexy. "The message we're telling our girls is a simple one," laments one reporter about the Victoria's Secret Pink line. "You'll have a great life if people find you sexually attractive. Grown women struggle enough with this ridiculous standard. Do we really need to start worrying about it at 11?"



● Socially responsible targeting: Victoria's Secret targets its Pink line of young, hip, and sexy clothing to young women from 18 to 30 years old. However, critics charge that Pink is now all the rage among girls as young as 11 years old.

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. Still, critics feel that more should been done. Some have even called for a complete ban on advertising to children.

Cigarette, beer, and fast-food marketers have also generated 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 suburbanites to be heavy consumers. Similarly, big banks and mortgage lenders have been criticized for targeting consumers in poor urban areas with attractive adjustable rate home mortgages that they can't really afford.

The growth of the Internet and other carefully targeted direct media has raised fresh concerns about potential targeting abuses. The Internet allows more precise targeting, letting the makers of questionable products or deceptive advertisers zero in on the most vulnerable audiences. Unscrupulous marketers can now send tailor-made, deceptive messages by e-mail directly to millions of unsuspecting consumers. For example, the FBI's Internet Crime Complaint Center Web site alone received more than 336,000 complaints last year.[23]

Not all attempts to target children, minorities, or other special segments draw such criticism. In fact, most provide benefits to targeted consumers. For example, Pantene markets Relaxed and Natural hair products to women of color. Samsung markets the Jitterbug, an easy-to-use phone, directly to seniors who need a simpler cell phone that is bigger and has a louder speaker. And Colgate makes a large selection of toothbrush shapes and toothpaste flavors for children—from Colgate SpongeBob SquarePants Mild Bubble Fruit toothpaste to Colgate Dora the Explorer character toothbrushes. Such products help make tooth brushing more fun and get children to brush longer and more often.

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 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.

Author Comment At the same time that the company is answering the first simple-sounding question (Which customers will we serve?), it must be asking the second question (How will we serve them?). For example, The Ritz-Carlton serves the top 5 percent of corporate and leisure travelers. Its parallel value proposition is "The Ritz-Carlton Experience"—one that "enlivens the senses, instills a sense of well-being, and fulfills even the unexpressed wishes and needs of our guests."

Differentiation and Positioning (pp 207–215)

Beyond deciding which segments of the market it will target, the company must decide on a *value proposition*—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 made in factories, but brands happen in the minds 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.

Tide is positioned as a powerful, all-purpose family detergent; Ivory is positioned as the gentle detergent for fine washables and baby clothes. At IHOP, you "Come hungry. Leave happy."; at Olive Garden, "When You're Here, You're Family"; and Chili's wants you to "Pepper in Some Fun." In the automobile market, the Nissan Versa and Honda Fit are positioned on economy, Mercedes and Cadillac on luxury, and Porsche and BMW on performance. And Toyota positions its fuel-efficient, hybrid Prius as a high-tech solution to the energy shortage: "Harmony between man, nature, and machine."

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 *perceptual positioning maps* that show consumer perceptions of their brands versus competing products on important buying dimensions. **Figure 7.3** shows a positioning map for the U.S. large luxury sport utility vehicle (SUV) market.[24] The position of each circle on the map indicates the brand's perceived positioning on two dimensions: price and orientation (luxury versus performance). The size of each circle indicates the brand's relative market share.

Thus, customers view the market-leading Cadillac Escalade as a moderately priced, large, luxury SUV with a balance of luxury and performance. The Escalade is positioned on urban luxury, and, in its case, "performance" probably means power and safety performance. You'll find no mention of off-road adventuring in an Escalade ad.

By contrast, the Range Rover and the Land Cruiser are positioned on luxury with nuances of off-road performance. For example, the Toyota Land Cruiser began in 1951 as a four-wheel drive, Jeeplike vehicle designed to conquer the world's most grueling terrains and climates. In recent years, the Land Cruiser has retained this adventure and performance positioning but with luxury added. Its Web site brags of "legendary off-road capability," with off-road technologies such as downhill assist control and kinetic dynamic suspension systems. "In some parts of the world, it's an essential." Despite its ruggedness, however, the company notes that "its available Bluetooth hands-free technology, DVD entertainment, and a sumptuous interior have softened its edges."

Choosing a Differentiation and Positioning Strategy

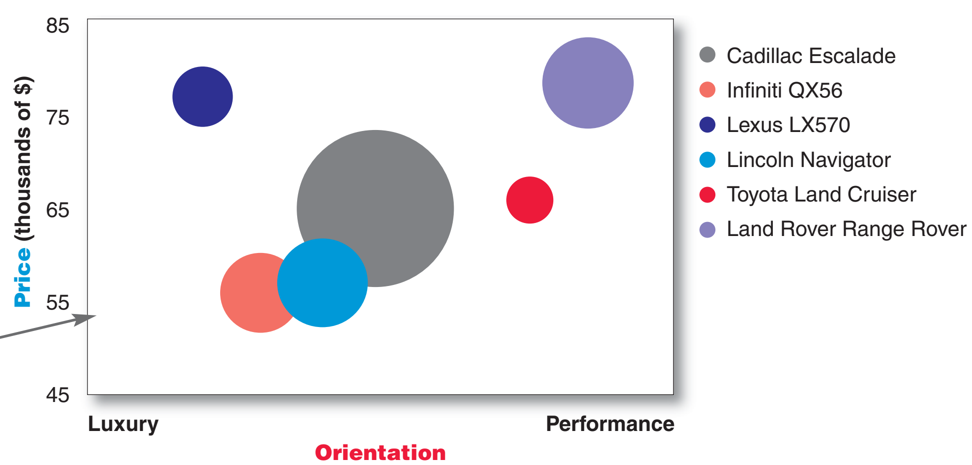
Some firms find it easy to choose a differentiation and positioning strategy. For example, a firm well known for quality in certain segments will go for this position in a new segment if there are enough buyers seeking quality. But in many cases, two or more firms will go after the same position. Then each will have to find other ways to set itself apart. Each firm must differentiate its offer by building a unique bundle of benefits that appeals to a substantial group within the segment.

Above all else, a brand's positioning must serve the needs and preferences of well-defined target markets. For example, although both Dunkin' Donuts and Starbucks are coffee shops, they offer very different product assortments and store atmospheres. Yet each succeeds because it creates just the right value proposition for its unique mix of customers. (See Real Marketing 7.2.)

The differentiation and positioning task consists of three steps: identifying a set of differentiating competitive advantages on 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.

FIGURE | 7.3
Positioning Map: Large Luxury SUVs
Source: Based on data provided by WardsAuto.com and Edmunds.com, 2010.

The location of each circle shows where consumers position a brand on two dimensions: price and luxury-performance orientation. The size of each circle indicates the brand's relative market share in the segment. Thus, Toyota's Land Cruiser is a niche brand that is perceived to be relatively affordable and more performance oriented.



Real Marketing 7.2

Dunkin' Donuts:
Positioning for the Average Joe

A few years ago, 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."

Dunkin' Donuts has ambitious plans to expand into a national coffee powerhouse, on par with Starbucks, the nation's largest coffee chain. But the research confirmed a simple fact: Dunkin' is not Starbucks. In fact, it doesn't want to be. To succeed, Dunkin' must have its own clear vision of just which customers it wants to serve (what *segments* and *targeting* strategy) and how (what *positioning* or *value proposition*). Dunkin' and Starbucks target very different customers, who want very different things from their favorite coffee shops. 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.

Dunkin' Donuts built itself on serving simple fare at a reasonable price to working-class customers. But recently, to broaden its appeal and fuel expansion, the chain has been moving upscale—a bit but not too far. It's spiffing up its more than 6,500 stores in 34 states and adding new menu items, such as lattes and flatbread sandwiches. Dunkin' has 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 and where to display its fresh baked goods. However, as it inches upscale, it's being careful not to alienate its traditional customer base. There are no couches in the remodeled stores. And Dunkin' renamed a new hot sandwich a "stuffed melt" after customers complained that calling it a "panini" was too fancy; it then dropped it altogether when faithful customers thought it was too messy. "We're walking [a fine] line," says the chain's vice president of consumer insights. "The thing about the Dunkin' tribe is, they see through the hype."

Dunkin' Donuts' research showed that although loyal customers want nicer stores, they were bewildered and turned off by the atmosphere at Starbucks. They groused 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 so much 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. 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.

Such opposing opinions aren't surprising, given the differences in the two stores' customers. Dunkin's customers include more middle-income 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 was more the ideal, rather than income, that set the two tribes apart: Dunkin's tribe members want to be part of a crowd, whereas members of the Starbucks tribe want to stand out as individuals. "You could open a Dunkin' Donuts right next to Starbucks and get two completely different types of consumers," says one retailing expert.

Over the past several years, each targeting its own tribe of customers, both Dunkin' Donuts and Starbucks have grown rapidly, riding the wave of America's growing thirst for coffee. However, the recent recession has highlighted differences in the positioning strategies of the two chains. Dunkin' Donuts

Differentiation and positioning: Starbucks is strongly positioned as a sort of high-brow "third place"; Dunkin' Donuts has a decidedly more low-brow, "everyman" kind of positioning. Dunkin's "not going after the Starbucks coffee snob"; it's "going after the average Joe."

Continued on next page

has found itself well-positioned for tougher economic times; Starbucks not so much so. Paying a premium price for the "Starbucks Experience" doesn't sell as well in bad times as in good. When the economy drooped, many cash-strapped Starbucks customers cut back or switched to less expensive brands. After years of sizzling growth, Starbucks sales fell for the first time ever in 2009, down 6 percent for the year.

In contrast, Dunkin' Donuts' positioning seemed to resonate strongly with customers during hard times. Even as competition grew in the superheated coffee category, with everyone from McDonald's to 7-Eleven offering their own premium blends, Dunkin's 2009 sales grew by 2.5 percent. While Starbucks was closing stores, Dunkin' opened 200 new ones. And the company is aggressively expanding menu options, adding everything from personal pizzas and flatbread sandwiches to smoothies and gourmet cookies. Befitting its positioning, Dunkin' now offers a ninety-nine-cent breakfast wrap, proclaiming "Breakfast NOT Brokefast."

In refreshing its positioning, whatever else happens, Dunkin' Donuts plans to stay true to the needs and preferences of the Dunkin' tribe. Dunkin' is "not going after the Starbucks coffee snob," says one analyst, it's "going after the average Joe." So far so good. For four years running, Dunkin' Donuts has ranked number one in the coffee category in a leading customer loyalty survey, ahead of number-two Starbucks. According to the survey, Dunkin' Donuts was the top brand for consistently meeting or exceeding customer expectations with respect to taste, quality, and customer service. And on BrandIndex's buzz rating, the overall buzz score of Dunkin' Donuts is double that of McDonald's and triple that of Starbucks.

Dunkin' Donuts' positioning and value proposition are pretty well summed up in its popular ad slogan "America Runs on Dunkin'," and its latest campaign iteration—"You Kin' Do It." Dunkin' Donuts ads show ordinary Americans relying on the chain to get them through their day, especially in a tighter economic environment:

> The "You Kin' Do It" campaign encapsulates the spirit of Dunkin' Donuts and the brands' understanding of what everyday folks need to keep themselves and the country running. "The 'You Kin' Do It' campaign shines the spotlight on the accomplishments of hard-working Americans," says a Dunkin' Donuts marketing executive, "while reinforcing that Dunkin' Donuts will continue to fuel their busy day and provide a bit of happiness without blowing the lid off their budget." The campaign cheers on everyday people who keep America running by reminding them that they can take on any task, even during challenging times. With a big, steaming cup of Dunkin' Donuts coffee, you kin' make it through the workday, you kin' shovel the snow out of that driveway, you kin' finish that paperwork. America runs on Dunkin'—it's where everyday people get things done every day.

Sources: Quotes, extracts, and other information from "Dunkin' Donuts New Advertising Offers a Rallying Cry for 2009: 'You Kin' Do It'," *PR Newswire*, January 5, 2009; Janet Adamy, "Battle Brewing: Dunkin' Donuts Tries to Go Upscale, But Not Too Far," *Wall Street Journal*, April 8, 2006, p. A1; Emily Bryson York, "Dunkin' Looks to New Executives to Keep Up Buzz," *Advertising Age*, November 2, 2009, p. 6; Eric Zeitoun, "Yes You 'Kin': New Dunkin' Spots Prove That Coffee Is the Great Enabler," *Adweek*, February 23, 2009, p. 11; "Dunkin' Donuts One in Customer Loyalty for Fourth Straight Year," February 16, 2010, http://news.dunkindonuts.com/article_display.cfm?article_id=1082; Thomas Grillo, "At 60, It's Still Time to Make the Donuts," *Boston Herald*, February 19, 2010, www.bostonherald.com; and www.starbucks.com and www.dunkindonuts.com, accessed October 2010.

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 customer value, it gains **competitive advantage**.

Competitive advantage
An advantage over competitors gained by offering greater customer value, either by having lower prices or 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 with 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.[25]

> A few years ago, things weren't so easy for Staples—or for its customers. The ratio of customer complaints to compliments was running a dreadful eight to one at Staples stores. Weeks of focus groups produced an answer: Customers wanted an easier shopping experience. 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.

So, for more than a year, Staples worked to revamp the customer experience. It remodeled its stores, streamlined its inventory, retrained employees, and even simplified customer communications. Only when all of the customer-experience pieces were in place did Staples begin communicating its new positioning to customers. The "Staples: That was easy" repositioning campaign has met with striking success, helping to make Staples the runaway leader in office retail. No doubt about it, clever marketing helped. But marketing promises count for little if they are not backed by the reality of the customer experience.

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*.

Through *product differentiation*, brands can be differentiated on features, performance, or style and design. Thus, Bose positions its speakers on their striking design and sound characteristics. By gaining the approval of the American Heart Association as an approach to a healthy lifestyle, Subway differentiates itself as the healthy fast-food choice. And Seventh Generation, a maker of household cleaning and laundry supplies, paper products, diapers and wipes, differentiates itself not so much by how its products perform but by the fact that its products are greener. Seventh Generation products are "protecting planet home."

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, First Convenience Bank of Texas offers "Real Hours for Real People"; it is open seven days a week, including evenings. Others differentiate their service based on high-quality customer care. In an age where customer satisfaction with airline service is in constant decline, Singapore Airlines sets itself apart through extraordinary customer care and the grace of its flight attendants. "Everyone expects excellence from us," says the international airline. "[So even] in the smallest details of flight, we rise to each occasion and deliver the Singapore Airlines experience."[26]

Firms that practice *channel differentiation* gain competitive advantage through the way they design their channel's coverage, expertise, and performance. Amazon.com and GEICO set themselves apart with their smooth-functioning direct channels. Companies can also gain a strong competitive advantage through *people differentiation*—hiring and training better people than their competitors do. Disney World people are known to be friendly and upbeat. 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 a 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 by using only a few ads. If The 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 red Travelers umbrella, the Nike swoosh, or Apple's "bite mark" 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 Michael Jordan, Kobe Bryant, and LeBron James basketball shoe and apparel collections. Some companies even become associated with colors, such as Coca-Cola (red), IBM (blue), or UPS (brown). The chosen symbols, characters, and other image elements must be communicated through advertising that conveys the company's or brand's personality.

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.

How Many Differences to Promote. Many marketers think that companies should aggressively promote only one benefit to the target market. Advertising executive 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, Walmart promotes its unbeatable low prices, and Burger King promotes personal choice—"have it your way."

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 and brands are trying to broaden their positioning strategies to appeal to more segments. ● For example, whereas most laundry products marketers offer separate products for cleaning, softening, and reducing static cling, Henkel's Purex brand recently introduced a product that offers all three benefits in a single sheet: Purex Complete 3-in-1 Laundry Sheets. "Cleans. Softens. Removes static. If only it could fold," says one ad. Clearly, many buyers want these multiple benefits. The challenge is to convince them that one brand can do it all. However, as companies increase the number of claims for their brands, they risk disbelief and a loss of clear positioning.

● **Purex Complete 3-in-1 Laundry Sheets are positioned on multiple benefits. The challenge is to convince customers that one brand can do it all.**

Which Differences to Promote. 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.

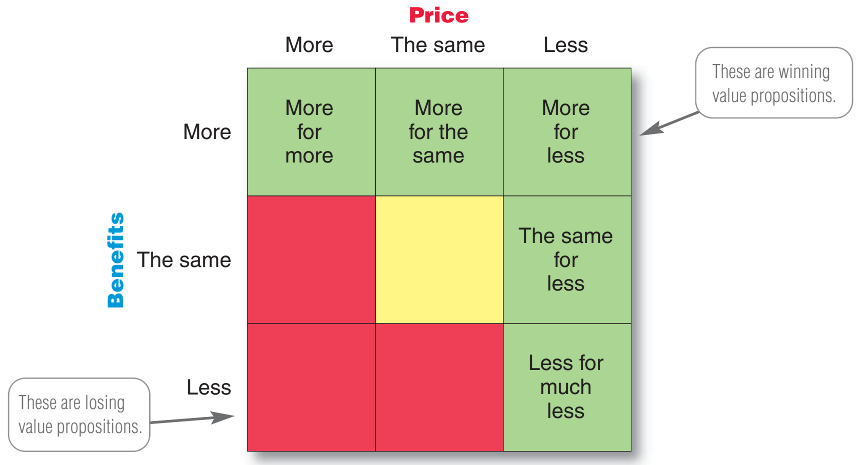
Thus, choosing competitive advantages on which to position a product or service can be difficult, yet such choices may be crucial to success. Choosing the right differentiators can help a brand stand out from the pack of competitors. For example, when carmaker Nissan introduced its novel little Cube, it didn't position the car only on attributes shared with competing models, such as affordability and customization. It positioned it as a "mobile device" that fits today's digital lifestyles.

Selecting an Overall Positioning Strategy

Value proposition
The full positioning of a brand—the full mix of benefits on which it is positioned.

The full positioning of a brand is called the brand's **value proposition**—the full mix of benefits on which a brand is differentiated and positioned. It is the answer to the customer's

FIGURE | 7.4
Possible Value Propositions



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 on 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 on 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. "More-for-more" positioning involves providing the most upscale product or service and charging a higher price to cover the higher costs. Four Seasons hotels, Rolex watches, Mercedes automobiles, SubZero 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, but 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 commodity category. When Apple premiered its iPhone, it offered higher-quality features than a traditional cell phone with a hefty price tag to match.

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. For example, Starbucks now faces "gourmet" coffee competitors ranging from Dunkin' Donuts to McDonald's. Also, luxury goods that sell well during good times may be at risk during economic downturns when buyers become more cautious in their spending. The recent gloomy economy hit premium brands, such as Starbucks, the hardest.

More for the Same. Companies can attack a competitor's more-for-more positioning by introducing a brand offering comparable quality 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 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 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.

The Same for Less. Offering "the same for less" can be a powerful value proposition—everyone likes a good deal. Discount stores such as Walmart and "category killers" such as Best Buy, PetSmart, David's Bridal, and DSW Shoes 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.

Less for Much Less. 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, an attached restaurant, or mints on the pillow. Hotel chains such as Ramada Limited, Holiday Inn Express, and Motel 6 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.

◉ 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—like those here—go out of their way to amuse, surprise, or somehow entertain passengers.

> From the start, Southwest Airlines 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 pretzels. 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 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 low prices, with no extra charges for checked baggage, aisle seats, or other services. 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. 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."

More for Less. 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

Points of difference: Sometimes marketers put a brand in a surprisingly different category. Nissan positions its smallish, funky looking Cube not as a car but as a personal mobile device.

that each company must develop its own winning positioning strategy, one that makes it special to its target consumers.

Developing a Positioning Statement

Company and brand positioning should be summed up in a **positioning statement**. The statement should follow the form: To (target segment and need) our (brand) is (concept) that (point of difference).[27] Here is an example: "To busy, mobile professionals who need to always be in the loop, the BlackBerry is a wireless connectivity solution that gives you an easier, more reliable way to stay connected to data, people, and resources while on the go."

Note that the positioning statement first states the product's membership in a category (wireless connectivity solution) and then shows its point of difference from other members of the category (easier, more reliable connections to data, people, and resources). 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. For example, when Nissan recently introduced its smallish, funky looking city car—the Cube—in the United States, it looked for a way to differentiate the brand in a market already crammed full of small-car models. So Nissan positioned the Cube not as a small *car* but as a personal *mobile device*—something that enhances young target customers' individual, mobile, connected lifestyles. Already hugely popular in Japan, the Nissan Cube was introduced in the United States as a device designed "to bring young people together—like every mobile device they have." It's "a part of a fun, busy life that can be . . . personalized as easily as a cell phone ring or a Web page." Such out-of-category positioning helps make the Cube distinctive.[28]

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).*

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 its 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 Objectives AND KEY Terms

In this chapter, you 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. 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.

Objective 1 Define the major steps in designing a customer-driven marketing strategy: market segmentation, targeting, differentiation, and positioning. (p 190)

A customer-driven marketing strategy begins with selecting which customers to serve and determining 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 segments 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.

Objective 2 List and discuss the major bases for segmenting consumer and business markets. (pp 190–200)

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 even 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 *demographics* (industry, company size), *operating characteristics*, *purchasing approaches*, *situational factors*, and *personal characteristics*. The effectiveness of the segmentation analysis depends on finding segments that are *measurable*, *accessible*, *substantial*, *differentiable*, and *actionable*.

Objective 3 Explain how companies identify attractive market segments and choose a market-targeting strategy. (pp 200–207)

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 one or a few market segments only. 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, the PLC stage, market variability, and competitive marketing strategies.

Objective 4 Discuss how companies differentiate and position their products for maximum competitive advantage. (pp 207–215)

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 on which to build a position, and selecting an overall positioning strategy.

The brand's full positioning is called its *value proposition*—the full mix of benefits on which the brand is positioned. In general, companies can choose from one of five winning value propositions on 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, the positioning concept, and specific points of difference. The company must then effectively communicate and deliver the chosen position to the market.

KEY Terms

OBJECTIVE 1

Market segmentation (p 190)
Market targeting (targeting) (p 190)
Differentiation (p 190)
Positioning (p 190)

OBJECTIVE 2

Geographic segmentation (p 191)
Demographic segmentation (p 191)
Age and life-cycle segmentation (p 191)
Gender segmentation (p 193)
Income segmentation (p 194)
Psychographic segmentation (p 194)
Behavioral segmentation (p 196)
Occasion segmentation (p 196)
Benefit segmentation (p 197)
Intermarket segmentation (p 200)

OBJECTIVE 3

Target market (p 201)
Undifferentiated (mass) marketing (p 201)
Differentiated (segmented) marketing (p 202)
Concentrated (niche) marketing (p 202)
Micromarketing (p 204)
Local marketing (p 204)
Individual marketing (p 205)

OBJECTIVE 4

Product position (p 207)
Competitive advantage (p 210)
Value proposition (p 212)
Positioning statement (p 215)

PEARSON mymarketinglab

- Check your understanding of the concepts and key terms using the mypearsonmarketinglab study plan for this chapter.
- Apply the concepts in a business context using the simulation entitled **Segmentation, Targeting, Positioning**.

DISCUSSING & APPLYING THE Concepts

Discussing the Concepts

1. Briefly describe the four major steps in designing a customer-driven marketing strategy. (AACSB: Communication)
2. Name and describe the four major sets of variables that might be used in segmenting consumer markets. Which segmenting variables does Starbucks use? (AACSB: Communication; Reflective Thinking)
3. Discuss the factors marketers consider when choosing a targeting strategy. (AACSB: Communication)
4. Explain how micromarketing differs from differentiated and concentrated marketing and discuss the two types of micromarketing. (AACSB: Communication)
5. Explain how a company differentiates its products from competitors' products. (AACSB: Communication)
6. Name and define the five winning value propositions described in the chapter. Which value proposition describes Walmart? Neiman Marcus? Explain your answers. (AACSB: Communication; Reflective Thinking)

Applying the Concepts

1. In a small group, visit a grocery store and examine the brands of breakfast cereal. Using the bases for segmenting consumer markets, identify the segmentation variables a specific brand appears to be using. Summarize the segmentation and targeting strategy for each brand. Identify brands with similar positioning strategies. (AACSB: Communication; Reflective Thinking)
2. Assume you work at a regional state university whose traditional target market, high school students within your region, is shrinking. This segment is projected to decrease over the next ten years. Recommend other potential market segments and discuss the criteria you should consider to ensure that the identified segments are useful. (AACSB: Communication; Reflective Thinking)
3. Form a small group and create an idea for a new business. Using the steps described in the chapter, develop a customer-driven marketing strategy. Describe your strategy and conclude with a positioning statement for your business. (AACSB: Communication; Reflective Thinking)

FOCUS ON Technology

Most companies want customers to be heavy users of its products or services. When it comes to the Internet and wireless broadband services, however, that's not necessarily the case. Internet providers, such as Comcast, may block or slow down Internet traffic for some heavy users, such as those who watch a lot of videos on YouTube. In 2009, the Federal Communications Commission (FCC) banned Comcast from blocking video file sharing; this ban was overturned in 2010 by a court ruling that the FCC does not have authority to enforce its "network neutrality" rules. Google, once a champion for unfettered Internet access for all, is changing its tune now that it can profit from favoring some customers over others in the burgeoning wireless broadband arena. Google and Verizon have teamed up to lobby for laws that allow them to favor some Web services over others.

1. Research the concept of net neutrality and write a report on the pros and cons of this principle from the viewpoint of businesses providing Internet and wireless broadband services. (AACSB: Communication; Reflective Thinking)
2. What effect does very heavy usage by some customers have on other customers of broadband services? What are marketers of these services doing to counter the effect of heavy users? (AACSB: Communication; Reflective Thinking)

FOCUS ON Ethics

The obesity rate among children in the United States is 17 percent—triple what it was 30 years ago. Who's to blame? One study reported that 76 percent of parents thought food advertising is a major contributor to childhood obesity but also found that over 80 percent blamed parents, not marketers. Yet, the federal government is homing its sights on marketers. Reminiscent of the 1970s when the FTC proposed banning advertising to children, a provision in the American Recovery and Reinvention Act of 2009 created an Interagency Working Group (IWG) on Food Marketing to Children. Although most regulations regarding marketing to children are limited to children ages 12 and younger, the current IWG guidelines include children up to 17 years old and propose restrictions on food marketing targeted to children. With $1.6 billion spent on food marketing and promotions targeted to children—$745 million of that on television—more than just marketers will be affected by marketing restrictions to this market segment.

1. Are marketers to blame for increasing obesity rates among children? Should the government ban the advertising of food products to children ages 17 and younger? Discuss the consequences of imposing such a ban. (AACSB: Communication; Ethical Reasoning)
2. What actions have food marketers taken to stem the threat of a ban on marketing to children? (AACSB: Communication; Reflective Thinking)

MARKETING & THE Economy

Vanilla Bikes

Portland-based Vanilla Bicycles sells hand-built bikes with price tags ranging from $4,000 to $12,000. But last year, after only nine years in business, owner Sacha White stopped taking orders—not because business had dried up but because he had a five-year waiting list. White and his crew of three make only 40 to 50 bikes each year. Frames are made from exotic metals, are welded with silver alloy, and weigh as little as 30 ounces. No two Vanilla bikes are the same. Each is custom fitted to the client and features intricate metal carvings and an artisan paint job. Amazingly, almost all of these high-end bicycles are sold to middle-class customers. Still, orders did not ebb during the recent economic downturn. In fact, Vanilla could have ramped up production significantly during the heart of the recession and still sold everything it made. However, White claims that ramping up would compromise the special nature of what customers consider works of art. Vanilla bikes are so special that when Portland bike couriers describe something as cool, they routinely say, "That's soooo Vanilla."

1. Based on the segmentation variables discussed in the chapter, construct a profile for Vanilla Bicycle's probable target market.
2. Given that most luxury products suffer in an economic downturn, why has Vanilla still succeeded?

MARKETING BY THE Numbers

When you think of hybrid or electric automobiles, you probably think don't think of the sports car. But the Fisker Karma is about to shatter that stereotype. It's been called the hybrid with sex appeal and is often compared to a Mercedes-Benz roadster. In the increasingly crowded field of new-generation electric vehicles, Fisker Automotive wants to carve out a niche as a high-performance eco-car with lots of style. The Fisker Karma goes from 0 to 60 miles per hour in six seconds, can go up to 125 miles per hour, and can travel 50 miles on electric power and 300 miles on combined electric and gasoline power. All this performance and style does not come cheap; prices range from $87,900 to $106,000. Before bringing it to market, however, the company needs to identify its target market and estimate the market potential in this segment.

1. Identify an appropriate market segment for this product. Discuss variables the company should consider when estimating the potential number of buyers for the high-performance Fisker Karma sports car. (AACSB: Communication; Reflective Thinking)
2. Using the chain ratio method described in Appendix 2, estimate the market potential for the Fisker Karma sports car. Search the Internet for reasonable numbers to represent the factors you identified in the previous question. Assume each buyer will purchase only one automobile and that the average price of automobiles in this market is $100,000. (AACSB: Communication; Use of IT; Analytical Reasoning)

VIDEO Case

Meredith

The Meredith Corporation has developed an expertise in building customer relationships through segmentation, targeting, and positioning. Amazingly, however, it has done this by focusing on only half of the population—the female half. Meredith has developed the largest database of any U.S. media company and uses that database to meet the specific needs and desires of women.

Meredith is known for leading titles such as *Better Homes and Gardens, Family Circle,* and *Ladies' Home Journal*. But that list has grown to a portfolio of 14 magazines and more than 200 special interest publications. Through these magazines alone, Meredith regularly reaches about 30 million readers. By focusing on core categories of home, family, and personal development, Meredith has developed a product mix designed to meet various needs of women. This creates multiple touch points as individual women engage with more than one magazine, as well as with specialty books and Web sites.

After viewing the video featuring Meredith, answer the following questions about segmenting, targeting, and positioning:

1. On what main variables has Meredith focused in segmenting its markets?
2. Which target marketing strategy best describes Meredith's efforts? Support your choice.
3. How does Meredith use its variety of products to build relationships with the right customers?

COMPANY Case

Starbucks: Just Who Is the Starbucks Customer?

By now, you should be familiar with the Starbucks story. After a trip to Italy in the early 1980s, Howard Schultz was inspired to transform Starbucks—then just a handful of coffee shops in Seattle—into a chain of European-style coffeehouses. His vision wasn't based on selling only gourmet coffees, espressos, and lattes, however. He wanted to provide customers with what he called a "third place"—a place away from home and work. As CEO of Starbucks, Schultz developed what became known as the *Starbucks Experience*, built around great coffee, personal service, and an inviting ambiance.

WHAT GOES UP . . .

It wasn't long before Starbucks became a household word—a powerhouse premium brand in a category that previously consisted of only cheaper commodity products. In 20 years time, Schultz grew the company to almost 17,000 stores in dozens of countries. From 1995 to 2005, Starbucks added U.S. stores at an annual rate of 27 percent, far faster than the 17 percent annual growth of McDonald's in its heyday. At one point, Starbucks opened over 3,300 locations in a single year—an average of 9 per day. In one stretch of crowded Manhattan, a person could get their caffeine fix at any of five Starbucks outlets in less than a block and a half. In fact, cramming so many stores so close together caused one satirical publication to run this headline: "A New Starbucks Opens in the Restroom of Existing Starbucks."

For many years, new store growth was what kept Starbucks percolating. As it grew, company sales and profits rose like steam from a mug of hot java. Growth routinely averaged 20 percent or more each year. And Starbucks made investors happy with a 25 percent annual increase in the value of its stock for more than a decade. Schultz confidently predicted that there was no end in sight for the Starbucks boom. Just a few years ago, he announced his intentions to open 10,000 new stores in just four years and then push Starbucks to 40,000 stores.

But not long after Schultz shocked Wall Street and the industry with his projections, Starbucks' steam engine of growth started to slow. Then it started running in reverse. By the end of 2008, the 20 percent annual growth had dropped to 10 percent, with existing-store sales *decreasing* by 3 percent. Total company profits dropped by a scalding 53 percent for the year. And for a second year in a row, Starbucks' stock value dropped by 50 percent to around $10 a share.

The weakened economy certainly played a role. But for years, many industry observers had worried that the company was growing too fast. Revenue and traffic at Starbucks began slowing more than a year before anyone uttered the word *recession*. In a sign of recognizing a problem, Schultz cut back on the number of new store openings. Then he did what had previously seemed unthinkable. In 2008, he announced store closures—first 600, then 300 more. In fact, as Starbucks trimmed its 2009 forecast for new store openings to 310, it projected a *decrease* in its number of outlets for the first time ever.

THE EVOLUTION OF THE STARBUCKS CUSTOMER

There was no shortage of armchair CEOs willing to give their opinions as to what had gone wrong that led to Starbucks' fall from perpetual growth. One issue often mentioned was that Starbucks had developed an identity crisis with respect to its target customer. In its early years, the Starbucks customer profile was clearly defined. The typical customer was wealthier, better educated, and more professional than the average American. The customer was far more likely to be female than male, predominately Caucasian, and between the ages of 24 and 44. It was this customer who fell in love with the *Starbucks Experience.* She was very loyal, often visiting a store every day or even more than once a day. She loved the fact that the barista greeted her by name when she came in and chatted with her while making her custom coffee drink, not caring if it took awhile. She lounged on the comfy furniture, enjoying the perfect mix of music that always seemed to fit her mood. She met friends or just hung out by herself reading a good book.

But the more Starbucks grew, the more the *Starbucks Experience* began to change. With more stores, the place wasn't quite so special. As each location filled with more customers, baristas had more names to put with faces. As the menu expanded with more options, the number of combinations for coffee drinks grew into the hundreds, leaving baristas less time to chat with customers. As the atmosphere in each store turned to "hustle and bustle," it became a less attractive place to hang out.

With all these changes, Starbucks progressively appealed less to the traditional customer and more to a new customer. This customer shift was inevitable; there simply were not enough traditional customers around to fuel the kind of growth that Schultz sought. The new breed of customer was less affluent, less educated, and less professional. Not only was Starbucks drawing in different customers in places where stores already existed, but it was also putting stores in different neighborhoods, cities, and countries.

As the customer profile evolved, the *Starbucks Experience* grew to mean something different. To the new breed of customer, it meant good coffee on the run. It was a place to meet and then move on. The more accessible Starbucks was, the better. Speed of service was more important than a barista who wanted to talk current events. This new customer came in much less frequently than the traditional customer, as seldom as once a month. As a sign of just how much this shift in customer was affecting its business, by 2007, 80 percent of all Starbucks coffee purchased was consumed outside the store.

SOUL SEARCHING

When Starbucks' growth first started tapering off, the executives took notice. In a now famous memo to management, Schultz lamented that "in order to achieve the growth, development, and scale necessary to go from less than 1,000 stores to 15,000 stores and beyond, [Starbucks had made decisions that may] have led to the watering down of the Starbucks experience. Stores no longer have the soul of the past and reflect a chain of stores versus the warm feeling of a neighborhood store."

Starbucks management believed that efforts to recapture that soul would get the company back on track. At first, however, Starbucks was caught between the conflicting goals of reestablishing its image as the provider of a holistic experience and offering better value to the cash-strapped consumer. Starbucks set out to put some water on the fire and get some of its customers back. It added labor hours and time-saving automated machines to stores. It focused on the quality of its coffee with a Coffee Master training program for its baristas and a new line of ultrapremium whole-bean coffees. It even tried free Wi-Fi service and sold its own music.

But none of these actions seemed to address the core problem: Although Starbucks still charged a premium price, it was no longer a special place. As the recession tightened its grip and more people cut back on discretionary purchases, the problem grew worse. Compounding the problem was an increase in competition. For years, if you wanted a latte, Starbucks was about the only option. Not only were Dunkin' Donuts and McDonald's selling premium coffee drinks to the masses, but just about every mini-mart in the country boasted about the quality of its coffee. All of these competitors had prices considerably lower than those of Starbucks, which made the most well-known coffee bar much less justifiable to the "grab and go" crowd. As much as Schultz denied being in direct competition with the lower-status coffee pourers, many critics seemed to be thinking the same thing: Starbucks had shifted from a warm and intimate coffeehouse to little more than a filling station, battling fast-food outlets for some of the same customer dollars.

"VALUE" TO THE RESCUE?

Throughout 2009, Schultz continued to direct activities aimed at increasing growth. Starbucks launched a campaign designed to educate consumers that Starbucks really wasn't as expensive as they thought it was. That was followed by something Schultz held back for as long as possible: price reductions. "Breakfast pairings"—coffee cake, oatmeal, and an egg sandwich—soon followed.

All these tactics helped. By the end of 2009, Starbucks was regaining ground. With same-store sales up 4 percent and profits up 24 percent for the year, Starbucks' stock price doubled versus the previous year. But Schultz made it clear that he was just getting started. "What a difference a year makes. We're going to radically reframe Starbucks growth strategy." He outlined a three-pronged growth strategy to illustrate that Starbucks might have a grip on defining segments of coffee customers after all. In searching for Starbucks' roots and re-creating the Starbucks store experience, Schultz also aimed to reach customers outside the store.

The first prong of the new strategy centers on Via, an instant coffee that Starbucks introduced last year. It is available in single-serve packets at all Starbucks stores and in grocery stores at $1 each or $9.95 for 12 packs. Via lets Starbucks promote a genuine cup of Starbucks coffee for under a buck. Promotions for the new instant have made it clear that Starbucks isn't moving downscale; instant coffee is moving upscale. At a New York taste testing, Schultz told a group of analysts, journalists, and retailers that he was ready for the critics who say, "This is desperate, this is a Hail Mary pass, this is off-brand for Starbucks. We are going to reinvent the category. This is not your mother's instant coffee."

Via is off to a good start, having surpassed company expectations. In fact, Via accounted for more than half of the 4 percent increase in Starbucks' 2009 same-store sales. According to Annie Young-Scrivner, global chief marketing officer for Starbucks, half of all Via serving occasions are at home, 25 percent are in the office, and 25 percent are "on the go." Many Via customers aren't just out for a cheap coffee fix. (You can mix up a cup of Folger's for about 25 cents.) They are people who want premium coffee but are in situations where they don't have access to a store or brewing their own. An ad campaign supporting Via is the first concerted advertising push aimed at grocery customers, who are now accessible through 37,000 retail locations.

The second prong of Starbucks strategy also focuses on the grocery business but through ground-flavored coffees. According to NPD Group, four out of five cups of coffee are consumed at home. Starbucks has a very small share of that market. Via will certainly help. But aiming more directly at the "brew it at home" customer, Starbucks is partnering with Kraft to launch flavored coffees you can brew yourself. Sixty percent of bagged coffee buyers are either drinking flavored coffee or adding flavored creamer. Seventy-five percent of those customers said they would buy a flavored product at the grocery store if Starbucks made one. So after more than two years of testing, this substantial segment of grocery-store buying customers can now get Starbucks Natural Fusions in vanilla, caramel, and cinnamon.

The third prong of Starbucks strategy is its ace in the hole—Seattle's Best Coffee. Starbucks purchased the brand back in 2003 but is just now doing something with it. Rebranding efforts have given Seattle's Best a new look and tagline, "Great Coffee Everywhere." As with Via and Natural Fusions, and now with Seattle's Best, Starbucks is going after customers who don't normally buy Starbucks coffee. It is placing Seattle's Best where Starbuck's customers aren't—in vending machines, coffee carts, fast-food restaurants (Burger King and Subway, among others), theatres, and convenience stores. These are places that Starbucks has avoided for fear of eroding its upscale image. With prices ranging from $1 to just over $2, Seattle's Best also reaches customers who perceive Starbucks as too expensive. Gap has Old Navy. BMW has Mini. Now, Seattle's Best allows Starbucks to go head-to-head with competitors like McDonald's without putting the Starbucks name in the same sentence as downscale competitors.

Michelle Gass, Seattle's Best president, clearly defines the difference versus Starbucks: "Starbucks is a destination coffee experience and an active choice made by the customer. Seattle's Best will instead be brought to the consumer when they make other retail choices." Gass is going to make sure that she has as many of those other retail choices covered as possible. She is taking the brand from 3,000 points of distribution in 2009 to more than 30,000 by the end of 2010.

The three-pronged strategy provides three good reasons to believe that Starbucks growth story will return, even without opening nine stores per day. As icing on the coffee cake, only one-fifth of Starbucks' sales come from outside the United States. The company sees huge potential growth abroad. But perhaps the greatest strength in Starbucks' new strategy is that it will allow the company to go after new customer segments while also restoring the essence of the *Starbucks Experience*.

Questions for Discussion

1. Using the full spectrum of segmentation variables, describe how Starbucks initially segmented and targeted the coffee market.
2. What changed first—the Starbucks customer or the *Starbucks Experience*? Explain your response by discussing the principles of market targeting.
3. Based on the segmentation variables, how is Starbucks now segmenting and targeting the coffee market?
4. Will Starbucks ever return to the revenue and profit growth that it once enjoyed? Why or why not?

Sources: Beth Kowitt, "Can Starbucks Still Be Seattle's Best If It Grows By Hyping Seattle's Best?" *Fortune*, May 25, 2010, accessed at http://money.cnn.com/2010/05/25/news/companies/starbucks_seattles_best.fortune/index.htm; Emily Bryson York, "Why You Are Not Drinking Nearly Enough Starbucks," *Advertising Age*, May 17, 2010, p. 1; Dan Mitchell, "Starbucks Faces Existential Crisis In Downturn," *Washington Post*, March 22, 2009, p. G01; Bruce Horovitz, "Starbucks Perks Up with First Dividend," *USA Today*, March 25, 2010, p. 1B.