CHAPTER 6

Identifying Market Segments and Target Customers

Taj Hotels adopted a new branding strategy to realign its brandscape with distinct brands, each with its own value proposition to suit the different needs of its customer segments
Source: ©THE INDIAN HOTELS COMPANY LIMITED, used with permission

Learning Objectives After studying this chapter you should be able to:

6.1 Explain the essence of targeting.
6.2 Define the key principles of strategic targeting.

6.3 Describe how to effectively communicate and deliver offerings to target customers.

6.4 Explain how to develop strategies to target multiple market segments.

6.5 Describe how to segment consumer markets.

6.6 Describe how to segment business markets.

The Tata group's hospitality arm, Indian Hotels operates one of the most recognizable and decorated chains of luxury hotels and resorts under the brand—Taj Hotels. This iconic company, with a legacy of over hundred years, suffered a double whammy. First, it lost its leadership crown to Marriott group in terms of greater number of rooms.[1] Second, it is facing the brunt of the rapidly growing popularity of digital-first apps like Airbnb and OYO among the profitable millennials.[2] The company has taken conscious steps to better understand this customer base ranging between the age group of 25–35 years—a segment that typically takes at least two annual holidays in 5-star hotels or luxury stays, including at least one international. In the process, the company discovered their growing need for experientials and a seamless integrated digital experience.

The company started offering curated packages that consists of tailored services and unique experiences to match guests' expectations. Personalizing the experiences, through a deep understanding, created opportunities for guests to immerse in the local art, craft and culture, interact with the locals and enjoy unique experiences from dining to wellness. Aligning with the growing trend of guests using digital and social media platforms during all stages of their journey from planning, booking, and communicating with hotels, the company invested heavily in digital infrastructure. Integrating all its digital touch points, including the upgraded website, a new mobile app and creating active social media handles on Facebook and Instagram, helped improve the guest experience while planning, booking, pre-arrival, stay, review sharing and loyalty program. Its new social media command centre—Taj.Live—

enabled social media listening, omni-channel trend tracking and analysis to improve engagements with its target segments.

In 2017 the group adopted a new branding strategy to realign its brandscape with distinct brands, each with its own value proposition to suit the different needs of its customer segments.[3] The new portfolio includes 'Taj Hotels, Resorts and Palaces'—positioned as the hallmark of luxury hospitality, 'SeleQtions'—a named collection of landmark hotels with legacy and charm for the experiential traveler to celebrate individuality by offering unique experiences, 'Vivanta'— a smart collective of sophisticated upscale hotels for smart travelers, and 'Ginger'—a chain of lean luxe hotels for millennials and centennials to seamlessly switch between work and play. Its branded homestay service —'amã Stays & Trails'—offers a group of heritage bungalows, guesthouses and home-stays at unique locations across the country.

All these initiatives helped the company win the coveted rank as the strongest global hotel brand in 2021 by Brand Finance, the UK-based brand valuation consultancy.[4]

Companies cannot connect with all customers in large, broad, or diverse markets. They need to identify the market segments they can serve effectively. Identifying these market segments requires a keen understanding of consumer behavior and careful strategic thinking about what makes each segment unique and different. Identifying and uniquely satisfying the right market segments are key to marketing success. Taj Hotels is one of many companies trying to come to grips with the younger Millennial consumer.

To compete more effectively, many companies are now embracing target marketing. Instead of scattering their marketing efforts, they're focusing on those consumers they have the greatest chance of satisfying. Effective targeting requires that marketers:

1. Identify distinct groups of buyers who differ in their needs and wants (segmentation).
2. Select one or more market segments to enter (targeting).

3. For each target segment, establish, communicate, and deliver the right benefit(s) for the company's market offering (developing a value proposition and positioning).

This chapter will focus on the first two steps: how to segment the market and identify target customers. Chapter 10 discusses the third step: how to develop a value proposition and positioning to build viable market offerings that grow over time and withstand competitive attacks.

IDENTIFYING TARGET CUSTOMERS

There are many techniques for identifying target customers.[5] Once the firm has identified its market opportunities, it must decide how many and which ones to target. Marketers are increasingly combining several variables in an effort to identify smaller, better-defined target groups in order to develop an offering that can fulfill these customers' needs better than the competition. Thus, a bank may not only identify a group of wealthy retired adults but also, within that group, distinguish several segments depending on current income, assets, savings, and risk preferences. This has led some market researchers to advocate a *needs-based targeting approach*.

Targeting is the process of identifying customers for whom the company will optimize its offering. Simply put, targeting reflects the company's choice of which customers it will prioritize and which customers it will ignore when designing, communicating, and delivering its offering. The logic of identifying target customers and the strategic and tactical aspects of this process are discussed in more detail in the following sections.

THE LOGIC OF TARGETING

In **mass marketing**, the firm ignores segment differences and goes after the whole market with one offer. It designs a marketing program for a product with a superior image that can be sold to the broadest number of buyers via mass distribution and mass communications. Undifferentiated marketing is appropriate when all consumers have roughly the same preferences and the market shows no natural segments. Henry Ford epitomized this strategy when he offered the Model-T Ford in one color, black.

The argument for mass marketing is that it creates the largest potential market, which leads to the lowest costs, which in turn can lead to lower prices or higher margins. The narrow product line keeps down the costs of research and development, production, inventory, transportation, marketing research, advertising, and product management. The undifferentiated communication program also reduces costs. However, many critics point to the increased splintering of the market and the proliferation of marketing channels and communication, which make it difficult and increasingly expensive to reach a mass audience.

When different groups of consumers have different needs and wants, marketers can define multiple segments. The company can often better design, price, disclose, and deliver the product or service and also fine-tune the marketing program and activities to better counter competitors' marketing. In targeted marketing, the firm sells different products to all the different segments of the market. Cosmetics firm Estée Lauder markets brands that appeal to women (and men) of different tastes: The flagship brand, the original Estée Lauder, appeals to older consumers; Clinique and M·A·C cater to young women; Aveda to aromatherapy enthusiasts; and Origins to eco-conscious consumers who want cosmetics made from natural ingredients.[6]

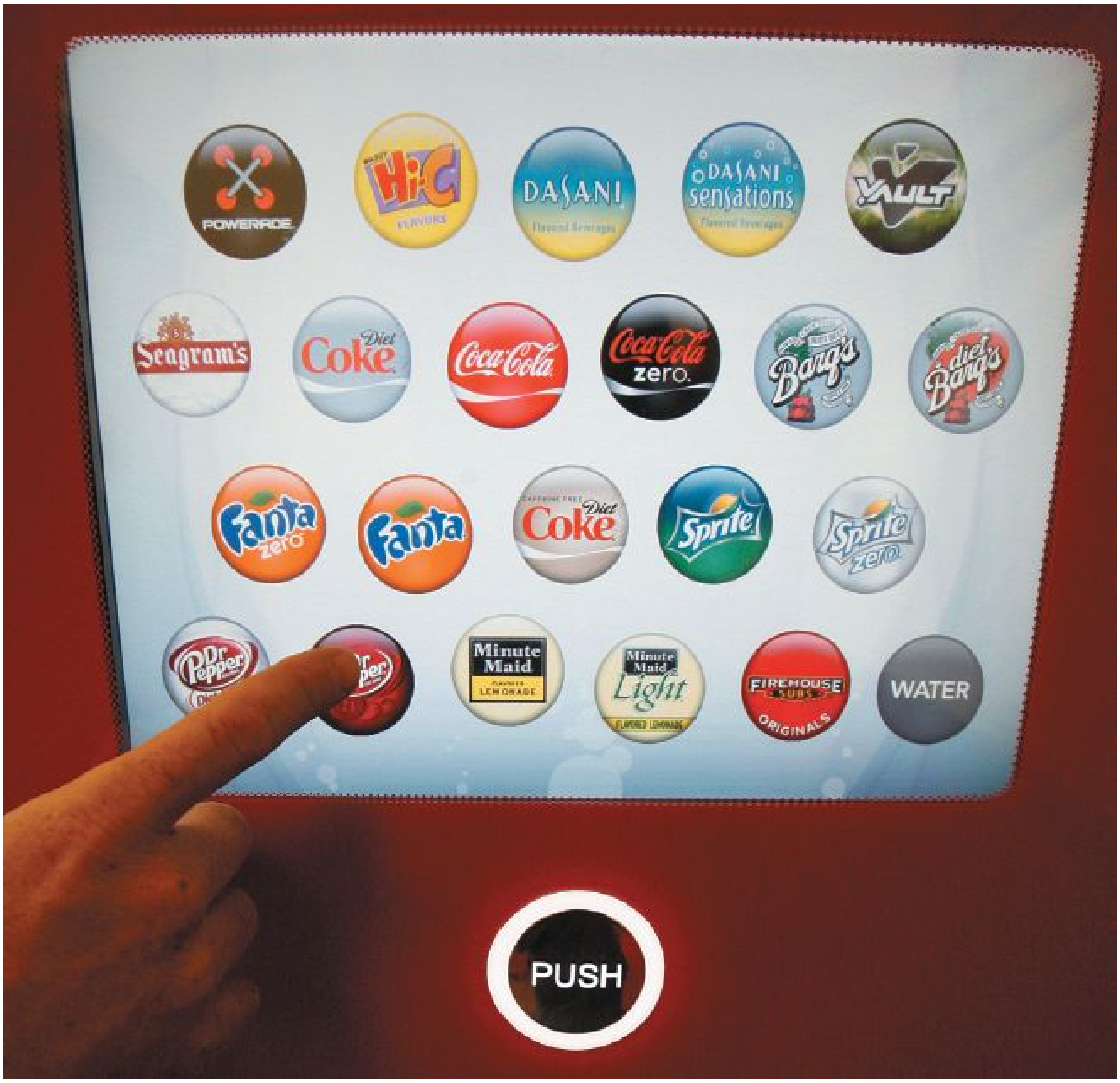
The ultimate level of targeting is the *one-to-one approach* in which each market segment comprises a single customer.[7] As companies have grown proficient at gathering information about individual customers and business partners (suppliers, distributors, retailers), and as their factories have been designed more flexibly, they have increased their ability to individualize market offerings, messages, and media.

Consumers can buy customized jeans, cowboy boots, and bicycles that cost thousands of dollars. Peter Wagner started Wagner Custom Skis in Telluride, Colorado, in 2006. His company now makes about 1,000 snowboards and pairs of skis a year, with prices that start at $1,750. Each ski or snowboard is unique and precisely fitted to the preferences and riding style of its owner. Strategies such as using NASA-like materials and making adjustments of thousands of an inch send a strong performance message, matched by the attractive aesthetic of the skis.[8]

One-to-one marketing is not for every company. It works best for firms that normally collect a great deal of individual customer information and carry a lot of products that can be cross-sold, need periodic replacement or upgrading, and offer high value. For others, the required investment in information collection, hardware, and software may exceed the payout. The cost of goods is raised beyond what the customer is willing to pay.

Mass customization is the ability of a company to meet each customer's requirements—to prepare on a mass basis individually designed products, services, programs, and communications.[9] MINI Cooper's online "configurator" enables prospective buyers to virtually select and try out many options for a new MINI. Coke's Freestyle vending machine allows users to choose from more than 100 Coke brands or custom flavors, and even to create their own.

Services are also a natural setting for customized marketing. Airlines, hotels, and rental car agencies are attempting to offer more individualized experiences. Even political candidates are embracing customized marketing. On Facebook, politicians can find an individual's preferences by observing the groups or causes he or she joins. Then, using Facebook's ad platform, the campaign team can test hundreds of ad messages designed to reflect the theme of these other interests. Hikers may get an environmentally themed message; members of particular religious groups may get a Christian-themed message.



As part of a broad trend toward personalization, Coca-Cola has introduced Freestyle dispensing machines that allow users to customize their soft drink choices.
Source: Scott Keeler/ZUMAPRESS/Newscom

STRATEGIC AND TACTICAL TARGETING

Targeting can be strategic or tactical based on the criteria a company uses to zero in on target customers. **Strategic targeting** focuses on customers whose needs the company can fulfill by ensuring that its offerings are customized to their needs. *Tactical targeting* identifies the ways in which the company can reach these strategically important customers. Strategic and tactical targeting are not mutually exclusive; they are two integrally related components of the process of identifying target customers.

The goals of strategic and tactical targeting, however, do differ. Strategic targeting calls for a trading market size that yields a better fit between the offering's benefits and the customers' needs. Thus, rather than trying to reach the target audience with one offering that endeavors to lure a wide range of customers with diverse needs, strategic targeting is based on the deliberate choice to ignore some customers to better serve other customers with an offering that matches their specific needs. Tactical targeting takes the opposite approach. Rather than excluding any potential customers, tactical targeting strives to reach *all* strategically important customers in an effective and cost-efficient manner.

Because of their divergent goals, strategic and tactical targeting have different priorities. Whereas the focus of strategic targeting is on the *value* that the company can create for and capture from target customers, tactical targeting concentrates on the *means* the company can use to reach these customers. Together, strategic and tactical targeting seek to answer two questions, the first focusing on strategy and the second on tactics: *Who* are the customers that the company can establish a mutually beneficial relationship with? and *How* can the company reach these customers most effectively and efficiently?

The two aspects of targeting, strategic and tactical, are discussed in more detail in the following sections.

STRATEGIC TARGETING

Identification of target customers is directed by the company's capability to develop an offering that can meet the needs of these customers more effectively than the competition, while also creating value for the company.[10] This requires that strategic targeting start with pinpointing the customer need(s) that the company's offering will be designed to fulfill.

Effective strategic targeting requires the company to make an important but difficult tradeoff: the calculated decision to deliberately forgo some potential customers to more effectively meet the needs of other customers. Companies have failed because of their unwillingness to sacrifice market breadth and focus only on customers for whom their offering could create superior value. Targeting is not based solely on identifying customers that the company intends to serve: It must also be based on a meaningful assessment of customers it deliberately chooses *not* to serve, and without such an assessment, a viable market strategy is impossible.

A manager must address two key questions when evaluating the viability of a particular customer segment: *Can the company create superior value for these customers? Can these customers create superior value for the company?*

The answer to the first question hinges on the degree to which company resources are compatible with target customers' needs. The company must have the assets and competencies necessary to design an offer that creates customer value. The answer to the second question is determined by the attractiveness of the target customers. That is, do they have the ability to create value for the company? These two principles of strategic targeting—target compatibility and target attractiveness—are discussed in greater detail in the following sections.

TARGET COMPATIBILITY

Target compatibility is a reflection of the company's ability to outdo the competition in fulfilling the needs of target customers—in other words, to create superior customer value. Target compatibility is a function of the company's resources and its capacity to use these resources in a way that creates value for target customers. The right resources are important because they allow the company to create an offering that can deliver superior value to customers in a manner that is both effective and cost efficient.

Essential resources for the success of a company's targeting strategy include factors such as:

- **Business infrastructure**, which includes assets such as manufacturing infrastructure that houses the company's production facilities and equipment; service infrastructure like call centers and customer relationship management solutions; supply-chain infrastructure that includes procurement infrastructure and processes; and management infrastructure that encompasses the company's business management culture.
- **Access to scarce resources** gives the company a distinct competitive edge because it restricts the strategic options of competitors. For example, securing unique natural resources, prime manufacturing and retail locations, and a memorable web domain can be highly beneficial for the company.
- **Skilled employees** with technological, operational, and business expertise—especially those involved in research and development, education, and consulting—are prime strategic assets.
- **Technological expertise**, the expertise required to develop an offering that addresses a particular customer need, includes a company's proprietary processes, its technological processes, and its intellectual property such as patents and trade secrets.
- **Strong brands** enhance value by conferring unique identification on the offering and generating meaningful associations that create value over and above the value created by the offering's attributes. Brands are of particular importance in commoditized industries where only minor differences exist among the competitive products and services.
- **Collaborator networks** include vertical networks of collaborators in the company's supply chain (suppliers and distributors) and horizontal networks of research and development, manufacturing, and promotion collaborators that help the company create its offering and inform customers about it.

An important aspect of assessing a company's resources is identifying its core competencies.[11] A **core competency** has three characteristics: (1) it is a source of competitive advantage and makes a significant contribution to perceived customer benefits, (2) it has applications in a wide variety of markets, and (3) it is difficult for competitors to imitate.[12] Companies today outsource less critical resources if they can obtain better quality or lower cost. Many textile, chemical, and computer/electronic product firms use offshore manufacturers and focus on product design and development and marketing, their core competencies. The key to success is to own and nurture the resources and competencies that make up the *essence* of the business.[13]

Although the ability of a company to create value for target customers is an essential component, successful targeting necessitates another important criterion: Target customers also must be able to create value for the company, meaning the target must be attractive to the company. The following section discusses the main factors involved in evaluating target attractiveness.

TARGET ATTRACTIVENESS

Target attractiveness reflects the ability of a market segment to create superior value for the company. Thus, the company must carefully select customers for whom to tailor its offering based on the degree to which they can contribute value to the company and assist the company in reaching its goal. Target customers can create two kinds of value for a company: *monetary* and *strategic*.

Monetary Value. Monetary value consists of the capability of customers to engender profits for the company. Monetary value includes both the *revenues* a particular customer segment generates and the *costs* of serving these customers.

- **Customer revenues** involve money received by the company from customers for the right to own or use its offering. A number of market and customer factors influence revenue volume. These include market size and rate of growth, as well as the buying power of customers, their brand loyalty, and their price sensitivity; the pricing power of the company; the intensity of competition in the market; and context factors such as the economy, government regulations, and the physical environment.
- **Costs of serving target customers** include the expense of tailoring the offering's benefits to the needs of target customers, along with communicating and delivering the offering to them. In addition, the cost of serving target customers can include the expense of acquiring and retaining these customers, providing them with post-purchase support, and offering incentives and loyalty programs.

Many companies tend to focus almost exclusively on the monetary aspect of value created by target customers because customer revenues and costs are more easily quantified. By espousing this narrow view, they overlook the fact that the strategic value that target customers create can be a significant factor in the value they contribute to the company.

Strategic Value. Strategic value refers to nonmonetary benefits that customers bring to the company. The three main types of strategic value are *social value*, *scale value*, and *information value*.

- **Social value** reflects the influence of target customers on other potential buyers. Customers might be as attractive to the company for their social networks and ability to impact the opinions of other buyers as for the revenues they offer to the company. Companies routinely target opinion leaders, trendsetters, and mavens because of their capacity to promote and endorse the company's offering via social networking.
- **Scale value** denotes the benefits derived from the scale of the company's operations. The economics of its business model might lead a company to target low-margin or sometimes even unprofitable customers, as is the case with airlines, hotels, and cruise lines that have large fixed costs and smaller variable costs. A company in its early growth stages might decide to target low-margin customers to build a product and user base that will serve as a platform for future growth. The rapid growth of Uber, Airbnb, Microsoft, eBay, and Facebook illustrates the benefits of building large-scale user networks.
- **Information value** is the worth of the information that customers provide. One reason why a company might target customers is for the wealth of data they can furnish the company about their needs and profile. This information can help the company design, communicate, and deliver value to other customers with similar needs. A company might also target customers who are likely to be early adopters of the company's offering, preceding mass market adoption. These "lead users" allow the company to glean feedback on how it can modify and enhance the offering to attract more buyers.

Assessing the strategic value of different customer segments is more challenging than assessing their monetary value. Strategic value is not as readily observable and can be difficult to quantify. A customer's ability to influence others often cannot be discerned directly, and even if it can be quantified by assessing the number of followers on social media, the customer's impact on the preferences of others is difficult to gauge. In spite of the difficulty of determining strategic value, when choosing target customers it cannot be overlooked, either as a complement to their monetary value or as the main component of their value to the company. Some highly influential customers who might never generate a dollar for the company directly may exert significant influence on broader and more profitable segments of the market that decide to purchase the company's offering.

TACTICAL TARGETING

Although **tactical targeting** involves identifying target customers, as does strategic targeting, it has a different objective: to determine which customers to target and which to ignore, and to determine how the company's offering can be effectively and cost-efficiently communicated and delivered to the target customers that have already been selected. The following sections discuss the key aspects of tactical targeting in more detail.

DEFINING THE CUSTOMER PROFILE

After the company decides on a strategically viable target market, it must garner information on the profile of these customers to communicate the offering's attributes and deliver it to them. Tactical targeting identifies the most cost-effective ways to accomplish this by linking the customer need that the offering wants to fulfill with observable customer characteristics. These observable factors—the **customer profile**—involve demographic, geographic, behavioral, and psychographic descriptors.

- **Demographic factors** include age, gender, income, occupation, level of education, religion, ethnicity, nationality, employment status, population density (urban or rural), social class, household size, and stage in the life cycle. If the company's target customers are not individuals but other companies, they are identified by factors referred to as firmographics, which include size, organizational structure, industry, growth, revenues, and profitability.
- **Geographic (geolocation) factors** reflect the physical location of target customers. Geographic data describe *where* the customers are located, in contrast to demographic data, which describe *who* the target customers are. Some geographic indicators can be relatively enduring (e.g., a customer's permanent address), whereas other geolocation factors are dynamic and change frequently (e.g., the current location of a customer at a particular time). The ubiquity of mobile devices that identify individual customers and can pinpoint their exact location in real time has dramatically increased the importance of geographic factors in targeting.
- **Behavioral factors** describe customers' actions. These factors can include customers' prior experience with the company's offering, which can be as current customers, competitors'

customers, or new-to-the-category customers. Behavior factors also categorize customers by the frequency with which they purchase the offering, the quantity they purchase, their price sensitivity and sensitivity to the company's promotional activities, their loyalty, their online versus offline purchases, and the retail outlets they patronize most often. Other behavioral factors of interest are customers' role in the decision process (e.g., as initiator, influencer, decider, buyer, or user), and what stage of the customer decision journey they are in. Behavioral factors can also include the manner in which customers learn about new products, how they socialize, and what they do in their spare time.

- **Psychographic factors** involve aspects of an individual's personality—such as attitudes, value system, interests, and lifestyle. Psychographics link observable and unobservable characteristics of target customers, which is where they differ from demographic, geographic, and behavioral factors. Whereas values, attitudes, interests, and lifestyles can be established by directly questioning customers, psychographic factors often are not readily discernable and must be inferred from the observable characteristics and behavior of customers. A customer's interest in sports, which is a psychographic factor, can be confirmed by behaviors such as subscribing to sports magazines, viewing sports programming, membership in a tennis club, and the purchase of sports equipment and tickets to sports events.

The importance of psychographics, like that of geolocation factors, has been sharpened by the proliferating use of online communication and e-commerce, which have made the moral values, attitudes, interests, and lifestyles of customers more transparent to companies. Social media companies such as Facebook, Google, YouTube, and Twitter can construct actionable psychographic customer profiles from the demographic, geographic, and behavioral data of their customers. The same can be said for traditional media companies, credit card providers, and online retailers that accrue data linking individuals' demographics, geographics, and behavioral profiles with their value system, attitudes, interests, and lifestyle.

ALIGNING CUSTOMER VALUE AND CUSTOMER PROFILE

An essential element of tactical targeting is ascertaining the profile characteristics of strategically important customer segments. Although strategic targeting's focus on creating market value is crucial to the success of the company's offering, it has an important disadvantage: Value is not observable, which means it cannot readily be acted on to reach target customers. Tactical targeting addresses this shortcoming by identifying the demographic, geographic, psychographic, and behavioral characteristics of strategically selected target customers so that the company can reach out to them. Thus, strategic and tactical targeting are complementary and inseparable facets of the process of identifying target customers.

An example of this process is a company that decides to launch a new credit card with a loyalty program that rewards customers with travel benefits such as airline tickets and hotel stays. The company's strategically important customers are those who want a credit card and would appreciate the card's travel benefits (customer value), would use the card frequently, and would not default on payments (company value). Because customer needs are unobservable, it is difficult to pinpoint those consumers who might enjoy the travel benefits offered by the card. Also unobservable are customers' future use of the credit card and the likelihood that they will not default on paying for their purchases. In addition to complicating the process of targeting attractive and compatible customer segments, these unobservable characteristics make it harder for the company to effectively communicate with and deliver the card to target customers.

Solving this dilemma entails linking the value-based customer segment with the observable characteristics of customers in this segment. To identify customers who would probably use the card often without defaulting on payments, the company might consider customers' credit scores, demographics, and geolocation, as well as their purchase behavior, including buying patterns, type and quantity of items purchased, and frequent payment by credit card. To identify those customers seeking travel rewards for whom it can create value, the company might look for customers who read travel magazines, watch travel shows, purchase luggage, frequent online travel sites, and seek the help of travel agents. Thus, the company might use travel-related communication channels to promote its new card and its offerings. By focusing on customers with profiles that are aligned with the value-based target segment, a company can optimize its targeting activities.

To achieve optimal outcomes when evaluating the company's tactical targeting options, marketing managers should follow the two main principles of tactical targeting: *effectiveness* and *cost efficiency*. The effectiveness principle reflects the degree to which the company is able to reach *all* strategically viable customers whose needs can be fulfilled in a way that benefits the company and its collaborators, make them aware of the company's offering, and give them access to the offering. The cost-efficiency principle mandates that the company's communication and distribution reach *only* the customers it has targeted. The goal of the cost-efficiency principle is to curtail the waste of resources on customers whose needs the company's offering cannot effectively address and who are unable to create value for the company.[14]

BRINGING TARGET SEGMENTS TO LIFE WITH PERSONAS

To bring all their acquired information and insights to life, some researchers develop personas. **Personas** are detailed profiles of one, or perhaps a few, hypothetical target consumers, imagined in terms of demographic, psychographic, geographic, or other descriptive attitudinal or behavioral information. Photos, images, names, or short bios help convey how the target customer looks, acts, and feels so that marketers can incorporate a well-defined target-customer point of view in all their marketing decision making. Many software companies have used "personas" to help improve user interfaces and experiences, and marketers have broadened the application. For example:

> Unilever's biggest and most successful hair care launch, for Sunsilk, was aided by insights into the target consumer the company dubbed "Katie." The Katie persona personified the 20-something female's hair care needs along with her perceptions and attitudes and the way she dealt with her everyday "dramas."
>
> Specialty tool and equipment maker Campbell Hausfeld relied on the many retailers it supplied, including Home Depot and Lowe's, to help it keep in touch with consumers. After developing eight consumer profiles, including a female do-it-yourselfer and an elderly consumer, the firm was able to successfully launch new products such as drills that weighed less or that included a level for picture hanging.

Although personas provide vivid information to aid marketing decision making, it's important not to overgeneralize. Any target market may have a range of consumers who vary along a number of key dimensions, so marketers often account for these differences by developing multiple personas, each reflecting the characteristics of a particular consumer segment. Using quantitative, qualitative, and observational research, Best Buy developed five customer personas to guide the redesign and relaunch of GeekSquad.com, its national computer-support service: "Jill"—a suburban mom who uses her computer daily and depends on the Geek Squad as on a landscaper or plumber; "Charlie"—a 50-plus male who is curious about technology but needs an unintimidating guide; "Daryl"—a technologically savvy, hands-on experimenter who occasionally needs a helping hand; "Luis"—a time-pressed small business owner whose primary goal is to complete tasks as expediently as possible; "Nick"—a prospective Geek Squad agent who views the site critically and needs to be challenged.

Clearly, the customer persona does not represent all target customers. Characterizing the target segment with a representative individual, however, makes it easier to visualize the company's target customers and better understand how likely they are to respond to the company's offering.[15]

SINGLE-SEGMENT AND MULTI-SEGMENT TARGETING

The discussion so far has focused on a scenario in which a firm identifies and targets a single customer segment. Single-segment marketing, however, is the exception rather than the rule. Most offerings exist as part of a product line, with different offerings targeting different customer segments. Single-segment and multi-segment targeting, as well as the key principles underlying the decision to target multiple segments, are discussed in the following sections.

SINGLE-SEGMENT TARGETING

With single-segment concentration, the firm markets to only one particular segment. Porsche concentrates on the sports car enthusiast and Volkswagen on the small-car market; its foray into the large-car market with the Phaeton was a failure in the United States. Through concentrated marketing, a firm gains deep knowledge of the segment's needs and achieves a strong market presence. It also enjoys operating economies by specializing its production, distribution, and promotion.

Companies targeting single segments often focus on smaller, well-defined groups of customers that seek a distinctive mix of benefits. For example, whereas Hertz, Avis, Alamo, and others specialize in airport rental cars for business and leisure travelers, Enterprise has focused on the low-budget, insurance-replacement market by primarily renting to customers whose cars have been wrecked or stolen. By offering low cost and convenience in an overlooked niche market, Enterprise has been highly profitable. Another up-and-coming niche marketer is Allegiant Air.

Allegiant Air When the prolonged recession that began in 2008 wreaked havoc on the financial performance of all the major U.S. domestic airlines, up-and-comer Allegiant Air managed to turn a profit quarter after quarter. Founded in Eugene, OR, in 2007, Allegiant has developed a highly successful niche strategy by providing leisure travelers with affordable nonstop flights from smaller markets such as Great Falls, MT; Grand Forks, ND; Knoxville, TN; and Plattsburgh, NY, to popular vacation spots in Florida, California, and Hawaii and to Las Vegas, Phoenix, and Myrtle Beach. By staying off the beaten track, it avoids competition on all but a handful of its 100-plus routes. Much of its passenger traffic is additive and incremental, attracting tourist travel that might not otherwise have happened. If a market doesn't seem to be taking hold, Allegiant quickly drops it. The carrier carefully balances revenues and costs. It charges for services—such as in-flight beverages and overhead storage space—that are free on other airlines. It also generates additional revenue by cross-selling vacation products and packages. Allegiant owns its 64 used MD-80 planes and also cuts costs by flying to specific destinations only a few times a week, instead of a few times a day like most airlines. It even fixes its seats at a pitch halfway between fully upright and fully reclined, because adjustable seats add weight, burn fuel, and are a “maintenance nightmare.”[16]

What does an attractive niche segment look like? Niche customers have a distinct set of needs; they will pay a premium to the firm that best satisfies them. The niche market is fairly small but has size, profit, and growth potential. It also is unlikely to attract many competitors, and it gains certain economies through specialization. As marketing efficiency increases, niches that seemed too small may become more profitable.

While major U.S. airlines suffered during the recession that began in 2008, Oregon-based Allegiant Air stayed profitable with a niche strategy that offered affordable nonstop flights from smaller markets to popular vacation spots, skirting the competition and attracting customers who otherwise might not have traveled at all.
Source: Michael Matthews/Alamy Stock Photo

TARGETING MULTIPLE SEGMENTS

As markets become more fragmented, an increasing number of companies develop offerings targeting a greater number of smaller customer segments. Even companies that start with a single offering aimed at a specific target market achieve wider customer adoption over time. As their customer base becomes more diverse, these companies transition from a single offering to a product line containing offerings that fit the needs of the diverse customers it serves.

The process of identifying multiple customer segments is similar to that of identifying a single customer segment, the main difference being that the targeting analysis yields several viable segments. Thus, a direct consequence of the decision to target multiple customer segments is the need to develop unique offerings that satisfy the disparate requirements of each segment. Indeed, because different customer segments vary in their needs and in the value they can create for the company, the company must develop a portfolio of offerings that address these distinct needs in a way that benefits the company.

With selective specialization, a firm selects a subset of all the possible segments, each objectively attractive and appropriate. There may be little or no synergy among the segments, but each segment promises to be a moneymaker. When Procter & Gamble launched Crest Whitestrips, for example, initial target segments included newly engaged women and brides-to-be, as well as gay males. The multi-segment strategy also has the advantage of minimizing the firm's risk by diversifying its offerings across different customer segments.

A firm can increase the appeal of its offerings to target customers by focusing on different products and/or markets. With *product specialization*, the firm sells a certain product to several different market segments. A microscope manufacturer, for instance, sells to university, government, and commercial laboratories, making different instruments for each and building a strong reputation in the specific product area. The downside risk is that the product may be supplanted by an entirely new technology. With *market specialization*, on the other hand, the firm concentrates on serving many needs of a particular customer group, such as by selling an assortment of products only to university laboratories. The firm gains a strong reputation among this customer group and becomes a channel for additional products its members can use. A firm that excels in developing differentiated products of its target customers is Hallmark Cards.

> **Hallmark** Hallmark's personal expression products are sold in more than 40,000 retail outlets nationwide and in 100 countries worldwide. Each year the company produces 10,000 new and redesigned greeting cards, as well as related products including party goods, gift wrap, and ornaments. Its success is due in part to its vigorous segmentation of the greeting card business. In addition to popular sub-branded card lines, such as the humorous Shoebox Greetings, Hallmark has introduced lines targeting specific market segments. Fresh Ink targets 18- to 39-year-old women. The Simple Motherhood line targets moms, with designs featuring fresh photography and simple, relatable sentiments. Hallmark's four ethnic lines — Eight Bamboo, Golden Thread, Uplifted and Love Ya Mucho—target Chinese, Indian, African American and Latino consumers, respectively. Specific greeting cards also benefit charities such as (PRODUCT) RED™, UNICEF, and the Susan G. Komen Race for the Cure. Hallmark has also embraced technology. Musical greeting cards incorporate sound clips from popular movies, TV shows, and songs. Hallmark recently introduced its Magic Prints line of interactive products, with "magic mitt" technology that lets kids leave an imprint of their hand on an insert in a card or other keepsake for parents or grandparents. Online, Hallmark offers e-cards as well as personalized printed greeting cards that it mails for consumers. For business needs, Hallmark Business Expressions offers personalized corporate holiday cards and greeting cards for all occasions and events.[17]

When targeting multiple customer segments, some companies make the mistake of not aligning the attributes of their offerings with the distinct value sought by target customers in each segment. This often occurs when companies create offerings based on their product development capability and production capacity, instead of devising offerings designed to satisfy explicit customer needs. Such an approach is problematic, because unless the company is clear on how its individual offerings will address the needs of each segment targeted, the offerings may end up competing for the same customer segment(s) while the needs of other segments are ignored. In addition, target customers might be confused and find it difficult to distinguish among multiple offerings that lack the ability to deliver the specific value they seek. Thus, it is essential to the success of the company's multi-segment targeting strategy to tailor the attributes of the company's offerings to the needs of each customer segment targeted.

Hallmark's worldwide line of greeting cards—which range from the sentimental, humorous, and musical to online and interactive greetings—are aimed at specific market segments that include new mothers, parents, grandparents, and customers of different ethnic backgrounds, as well those who want to benefit charities such as UNICEF.
Source: store_signs/Alamy Stock Photo

SEGMENTING CONSUMER MARKETS

Market segmentation divides a market into well-defined slices. A market segment consists of a group of consumers who share a similar set of needs and/or profile characteristics. Common types of segmentation include demographic, geographic, behavioral, and psychographic. We discuss these types of segmentation in the following sections.

DEMOGRAPHIC SEGMENTATION

One reason variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality, and social class are so popular with marketers is that these variables are often associated with consumer needs and wants. Another is that they're easy to measure. Even when we describe the target market in non-demographic terms (say, by personality type), we may need to link back to demographic characteristics in order to estimate the size of the market and the media we should use to reach it efficiently.

Here's how marketers have used certain demographic variables to segment markets.

Age. Marketers often group customers based on their age into different generations. For example, one of the commonly used demographic factors is that of generation, such as the Silent Generation (1925–1945); Baby Boomers (1946–1964); Generation X (1965–1981); Generation Y, also referred to as Millennials (1982–2000); and Generation Z (2001–present). Each *generation* is profoundly influenced by the times in which it grows up—the music, movies, politics, and defining events of that period. Members share the same major cultural, political, and economic experiences and often have similar outlooks and values. Marketers may choose to advertise to a cohort by using the icons and images prominent in its experiences. They can also try to develop products and services that uniquely meet the particular interests or needs of a generational target.

For example, nutrition supplement companies develop different products based on consumers' age. Centrum—a brand of multivitamins produced by Pfizer—markets two different types of vitamins: Centrum Adults that targets adult men and women and Centrum Silver Adults that is designed for adults 50+. Centrum Silver Adults contains multivitamins that are age adjusted with a broad spectrum of micronutrients that help support the health of older adults. Other age-specific products include diapers, baby foods, college loans, and retirement communities.

Stage in the Life Cycle. People in the same part of the life cycle may still differ in their life stage. Life stage reflects a person's major concern, such as going through a divorce, entering a second marriage, taking care of an older parent, deciding to cohabit with another person, and buying a new home. These life stages present opportunities for marketers who can help people cope with the accompanying decisions.

For example, the wedding industry attracts marketers of a vast range of products and services. It's no surprise that the average U.S. couple spends close to $40,000 on their wedding.[18] Marketers know marriage often means that two sets of shopping habits and brand preferences must be blended into one. Procter & Gamble, Clorox, and Colgate-Palmolive include their products in "Newlywed Kits," distributed to couples applying for a marriage license. Marketers pay a premium for newlywed name lists to assist their direct marketing because of the high expected return on their promotional efforts.

But not everyone goes through that life stage at a certain time—or at all, for that matter. More than a quarter of all U.S. households now consist of only one person—a record high. It's not surprising that this $1.9 trillion market is attracting interest from marketers: Lowe's has run an ad featuring a single woman renovating her bathroom; De Beers sells a "right-hand ring" for unmarried women; and at the recently opened, ultra-hip Middle of Manhattan 63-floor tower, two-thirds of the occupants live alone in one-bedroom and studio rental apartments.[19]

> **Singles Day** Singles Day is a popular Chinese holiday on which young people celebrate their pride in being single. The holiday was named Singles Day because its date, November 11 (11/11), consists of four "ones." The holiday has become the largest offline and online shopping day in the world, with the Chinese e-commerce giants Alibaba and

> JD.com generating around $115 billion in sales for the duration of the sales event running from November 1 to midnight on November 12. Alibaba and other retailers and manufacturers have embraced the holiday as a means to reach single young adults and have launched a barrage of targeted promotions to persuade them to shop. Taobao, the world's biggest e-commerce website (owned by Alibaba), even added a feature to its app to show how users' spending that day ranked against that of other people in their area.[20]

Gender. Men and women have different attitudes and behave differently, based partly on genetic makeup and partly on socialization.[21] Research shows that women have traditionally tended to be more communal minded and men more self-expressive and goal directed; women have tended to take in more of the data in their immediate environment, and men have tended to focus on the part of the environment that helps them achieve a goal.

Extensive consumer research and market testing of a razor crafted to meet the unique shaving needs of women resulted in Gillette's Venus razor garnering more than 50 percent of the global female shaving market.
Source: Roman Tiraspolsky/Alamy Stock Photo

Gender differences are shrinking in some other areas as men and women expand their roles. One Yahoo survey found that more than half of men identified themselves as the primary grocery shoppers in their households. Procter & Gamble now designs some ads with men in mind, such as ads for Gain and Tide laundry detergents, Febreze air freshener, and Swiffer sweepers. On the flip side, according to some studies, women in the United

States and the United Kingdom make 75 percent of decisions about buying new homes and purchase 60 percent of new cars.[22]

Nevertheless, gender differentiation has long been applied in clothing, hairstyling, and cosmetics categories. Avon, for one, has built a $6 billion-plus business by selling beauty products to women. Gillette has found similar success with its Venus razor. More recently, however, a number of companies have begun to question the value of gender differentiation and eliminate gender traits from their products in response to consumers' skepticism about the benefit of gender-differentiated products. For example, Bic introduced Made For YOU, a line of genderless razors and grooming products, joining companies like Non Gender Specific, Aēsop, and MALIN+GOETZ that offer gender-neutral skin care products.[23]

> **Venus Razor** Gillette's Venus razor has become the most successful women's shaving line ever—holding more than 50 percent of the global women's shaving market—as a result of insightful consumer research and extensive market testing of product design, packaging, and advertising. The razor was a marked departure from earlier designs, which had essentially been colored or repackaged versions of men's razors. Venus was designed specifically to meet women's needs. Extensive research identified unique shaving needs for women, including a shaving surface that is nine times greater than the male face, as well as shaving in a wet environment and across the curves of the female body. The resulting design included an oval shaped cartridge to better fit into tight areas like underarms and the bikini area and additional lubrication for better glide. Furthermore, after discovering that women change their grip on a razor about 30 times during each shaving session, Gillette designed the Venus razor with a wide, sculpted, rubberized handle offering superior grip and control. It also commissioned Harris Interactive (now Harris Insights & Analytics) to conduct an online study among more than 6,500 women in 13 countries that found seven of 10 wanted so-called goddess skin, defined as smooth (68 percent), healthy (66 percent), and soft (61

percent), leading to the introduction of the new Gillette Venus & Olay razor.[24]

Income. Income segmentation is a long-standing practice in such categories as automobiles, clothing, cosmetics, financial services, and travel. However, income does not always predict the best customers for a given product. Despite the high price of early color television sets, blue-collar workers were among the first to purchase them; it was cheaper for them to buy a television than go to movies and restaurants.

Income-based segmentation has always been a challenge in India due to non-availability of verifiable data. So, brand managers and market research agencies rely on surrogates for income. The Socio-Economic Classification (SEC) ratified by the Market Research Society of India (MRSI) in 1988 has been a popular segmentation system. It classified households into groups based on a combination of education and profession of the main earner to estimate the household income and wealth. In 2018, MRSI introduced ISEC, an updated version that accounts for the changing demographics, especially education of the female members of households. ISEC proved to be more stable and differentiable system with a clear distinction between the urban and rural households that account for differences in their profession and education levels, respectively.

ISEC incorporates 3 key parameters—Occupation of the Chief Earner, Education level of the highest educated male adult, and Education level of the highest educated Female adult. Occupation is classified under 6 heads: Labour, Farmer, Worker, Trader, Clerical/ Sales/ Supervisor and Managerial/ Professional. Education is categorized under 6 heads: No formal education, up to class 5, class 6 to 9, class 10 to 11, degree regular and degree professional. Based on a combination of the 3 parameters, 12 classification levels (ISEC 1–12) have been created and categorized into 5 classes: High (ISEC 1–6), Upper Middle (ISEC 7–8), Middle (ISEC 9–10), Lower Middle (ISEC 11) and Low (ISEC 12).

The ISEC system's simplicity in terms of understanding and application makes it easy to administer during data collection. Respondents answer more willingly as the questions are not intrusive.[25]

INDIAN SOCIO-ECONOMIC CLASSIFICATION PARAMETERS

ISEC Segmentation Basis/Classes	Occupation of Chief Earner	Education of best educated Male adult	Education of best educated Female Adult						
			No Female Adult	No Formal Education	< Class 5	Class 6-9	Class 10-14	Degree Regular	Degree Professional
Low (ISEC 12)	Labor	No Male Adult							
Lower Middle (ISEC 11)	Farmer Worker	No Formal Education							
Middle (ISEC 9-10)	Trader	<Class 5							
Upper Middle (ISEC 7-8)	Clerical/ Sales/ Supervisor	Class 6-9							
		Class 10-14							
High (ISEC 1-6)	Managerial/ Professional	Degree Regular							
		Degree Professional							

GEOGRAPHIC SEGMENTATION

Geographic segmentation divides the market into geographic units such as nations, states, regions, counties, cities, or neighborhoods. The company can operate in one or a few areas, or it can operate in all areas while heeding local variations. In that way, it can tailor marketing programs to the needs and wants of local customer groups in trading areas and neighborhoods, and it can even cater to the needs of individual customers. Going online to reach customers in a particular geographic location can open a host of local opportunities, as Yelp has found out.

> **Yelp** Founded in 2004, Yelp.com wants to "connect people with great local businesses" by targeting consumers who seek or want to share reviews of local businesses. Almost two-thirds of the website's millions of

> vetted online reviews are for restaurants and retailers. Yelp was launched in San Francisco, where monthly parties with preferred users evolved into a formal program, Yelp Elite, now used to launch the service in new cities. The company's mobile app allows it to bypass the internet and connect with consumers directly; more than half of searches on the site now come from its mobile platform. Yelp generates revenue by selling designated Yelp Ads to local merchants via hundreds of salespeople. The local advertising business is massive, with digital ads overtaking traditional ads in local markets. Local businesses also benefit from Yelp: Several research studies have demonstrated the potential revenue payback from having reviews of their businesses on the site.[26]

Regional differences matter. Consider the following facts: People in Salt Lake City (and Utah) eat the most Jell-O; Long Beach, CA, residents eat the most ice cream; and New York City dwellers buy the most country music CDs.[27] Regional marketing increasingly means marketing right down to a specific zip code. Many companies use mapping software to pinpoint the geographic locations of their customers, learning, say, that most customers are within a 10-mile radius of the store and are further concentrated within certain zip+4 areas.

Local advertising allows Yelp.com or the Yelp app to share millions of reviews from customers who want to relate their experiences with local businesses with those who are looking for specific services and products such as restaurants and retailers.
Source: bigtunaonline/Alamy Stock Photo

Some approaches combine geographic data with demographic data to yield even richer descriptions of consumers and neighborhoods. Market research and data analytics company Claritas has developed a geoclustering approach called PRIZM Perimeter that defines households with 68 demographically and behaviorally distinct segments reflecting consumers' likes, dislikes, lifestyles, and purchase behaviors. The 68 segments are defined according to socioeconomic rank, including characteristics such as income, education, occupation, home value, urbanization, age, socioeconomic rank, and presence of children at home.[28] The inhabitants in a segment are presumed to lead similar lives, drive similar cars, have similar jobs, and read similar magazines.

Geoclustering helps capture the increasing diversity of the U.S. population. Geoclustering segmentations such as PRIZM have been used to answer a variety of questions: Which neighborhoods or zip codes contain our most valuable customers? How deeply have we already penetrated these segments? Which distribution channels and promotional media work best in reaching our target clusters in each area? By mapping the densest areas, the retailer can rely on *customer cloning,* assuming the best prospects live where most of the customers already come from.

BEHAVIORAL SEGMENTATION

In **behavioral segmentation**, marketers divide buyers into groups on the basis of their actions. Many marketers believe variables related to users or their usage—user status, usage rate, buyer-readiness stage, loyalty status, and occasions—are good starting points for constructing market segments.

- **User status.** Based on their prior experience with the company's offering, consumers can be classified into nonusers, potential users, first-time users, regular users, and ex-users. Understanding customers' experience with the company is important because different types of experience tend to require different marketing strategies. Included in the potential-user group are consumers who will become users in connection with some life stage or event; for example, mothers-to-be are potential users who will turn into heavy users. The key to attracting potential users, or possibly even nonusers, is understanding the reasons why they are not using. Do they have deeply held attitudes, beliefs, or behaviors? Or do they just lack knowledge of the product or brand benefits?
- **Usage rate.** We can segment markets into light, medium, and heavy product users. Heavy users often are a small slice but account for a high percentage of total consumption. Heavy beer drinkers account for 87 percent of beer consumption—almost seven times as much as light drinkers. Many marketers would rather attract one heavy user than several light users. A potential problem, however, is that heavy users often are either extremely loyal to one brand or never loyal to any brand and always looking for the lowest price. They may also have less capacity to expand their purchasing and consumption. Light users, on the other hand, may be more responsive to new marketing appeals.[29]
- **Buyer-readiness stage.** Some people are unaware of the product, some are aware, some are informed, some are interested, some desire the product, and some intend to buy. To help

characterize how many people are at different stages and how well they have converted people from one stage to another, marketers break the market into buyer-readiness stages. The proportions of consumers at different stages have a significant effect on the design of a marketing program. Suppose a health agency wants to encourage women to have an annual Pap test to detect cervical cancer. At the beginning, most women may be unaware of the Pap test. The marketing effort should launch awareness-building advertising using a simple message. Later, the advertising should dramatize the benefits of the Pap test and the risks of not getting it. A special offer of a free health examination might motivate women to actually sign up for the test.

- **Loyalty status.** Based on brand loyalty status, consumers can be divided into four main segments: hard-core loyal consumers who buy only one brand all the time, split-loyal consumers who are loyal to two or three brands, shifting-loyalty consumers who move from one brand to another, and switchers who show no loyalty to any brand. Accordingly, a company might focus its efforts on (1) retaining loyal customers and increasing their usage rate and (2) increasing the company's share of purchases among the segments who are less loyal.
- **Occasions.** Consumers buy a company's products and services for different reasons. We can distinguish buyers according to the occasions when they develop a need, purchase a product, or use an offering. For example, air travel is triggered by occasions related to business, vacation, or family. Flowers can be purchased as a gift or for decorating one's own home. Wine can be used for drinking or for cooking. Understanding usage occasions is important because different occasions are associated with different needs, and the value that a product or service can create for customers is likely to vary across occasions.

PSYCHOGRAPHIC SEGMENTATION

In **psychographic segmentation**, buyers are divided into groups on the basis of psychological traits, lifestyle, or values. Psychographic segmentation is important because demographic, geographic, and behavioral characteristics of consumers do not always accurately reflect their underlying needs. For example, people within the same demographic group can exhibit very different psychographic profiles: Some older consumers may be psychologically young, as Honda's experience shows.

> **Honda Element** To target 21-year-olds with its boxy Element, which company officials described as a "dorm room on wheels," Honda ran ads depicting sexy college kids partying near the car at a beach. So many Baby Boomers were attracted to the ads, however, that the average age of Element buyers turned out to be 42! With Baby Boomers seeking to stay young, Honda decided the lines between age groups were getting blurred.

After sales fizzled, Honda decided to discontinue sales of the Element. When it was ready to launch a new subcompact called the Fit, the firm deliberately targeted Gen Y buyers as well as their empty-nest parents.[30]

After ads for Honda's Element targeting 20-somethings also attracted the attention of Baby Boomers, boosting the average buyer age to 40-plus, the car company deliberately marketed its subcompact Fit not only to Gen Y buyers but also to their empty-nest parents.
Source: Drive Images/Alamy Stock Photo

One of the oldest marketing classification systems based on psychographic measurements is the VALS framework. VALS is based on people's psychological traits and classifies U.S. adults into eight primary groups in terms of their responses to a questionnaire featuring four demographic and 35 attitudinal questions.[31] The main dimensions of the VALS segmentation framework are consumer motivation and consumer resources. Consumers are inspired by one of three primary motivations: ideals, achievement, and self-expression. Those primarily motivated by ideals are guided by knowledge and principles. Those motivated by achievement look for products and services that demonstrate success to their peers. Consumers whose motivation is self-expression desire social or physical activity, variety, and risk. Personality traits such as energy, self-confidence, intellectualism, novelty seeking, innovativeness, impulsiveness, leadership, and vanity—in conjunction with key demographics—determine an individual's resources. Different levels of resources enhance or constrain a person's expression of her or his primary motivation. Although the VALS approach can provide a richer understanding of consumers, some marketers fault it for being somewhat removed from actual consumer behavior.[32]

Psychographic segmentation can also be based on consumers' sexual orientation and gender identification. The lesbian, gay, bisexual, and transgender (LGBT) market is estimated to make up around 7 percent of the population and to have approximately $917 billion in buying power.[33] More than 75 percent of LGBT adults and their friends, family, and relatives say they would switch to brands that are known to be LGBT friendly. Many firms have recently created initiatives to target this market. American Airlines created a Rainbow Team with a dedicated LGBT staff and a website that has emphasized community-relevant services such as a calendar of gay- and lesbian-themed national events. Volvo, Nike, Kimpton, AT&T, Target, P&G, General Mills, and Kraft are also often identified as among the most gay- and lesbian-friendly businesses. Hyatt's online appeals to the LGBT community target social sites and blogs where customers share their travel experiences. Some firms worry about backlash from organizations that criticize or even boycott firms supporting gay and lesbian causes. Although Pepsi, Campbell, and Wells Fargo all experienced such boycotts in the past, they continue to advertise to the gay and lesbian communities.

SEGMENTING BUSINESS MARKETS

We can segment business markets with some of the same variables that we use in consumer markets—for example, geography, benefits sought, and usage rate—but business marketers also use other variables. Some of the common segmentation variables for business markets are as follows:[34]

- **Demographic factors** such as industry (e.g., Which industries should we serve?), company size (e.g., What size companies should we serve?), and location (e.g., What geographic areas should we serve?)
- **Operating variables** such as technology (e.g., What customer technologies should we focus on?), user or nonuser status (e.g., Should we serve heavy users, medium users, light users, or nonusers?), and customer capabilities (e.g., Should we serve customers needing many or few services?)
- **Purchasing approaches** such as purchasing-function organization (e.g., Should we serve companies with a highly centralized or a decentralized purchasing organization?); power structure (e.g., Should we serve companies that are engineering dominated? financially dominated?); nature of existing relationship (e.g., Should we serve companies with which we have strong relationships or simply go after the most desirable companies?); general purchasing policies (e.g., Should we serve companies that prefer leasing? service contract? systems purchases? sealed bidding?); and purchasing criteria (e.g., Should we serve companies that are seeking quality? service? price?)
- **Situational factors**, such as urgency (e.g., Should we serve companies that need immediate delivery or service?); specific application (e.g., Should we focus on a certain application of our product rather than all applications?); and size of order (e.g., Should we focus on large or small orders?)
- **Personal characteristics** such as buyer–seller similarity (e.g., Should we serve companies whose people and values are similar to ours?); attitude toward risk (e.g., Should we serve risk-taking or risk-avoiding customers?); and loyalty (e.g., Should we serve companies that show high loyalty to their suppliers?)

The previous list identifies major questions that business marketers should ask in determining which segments and customers to serve. A rubber-tire company can sell tires to manufacturers of automobiles, trucks, farm tractors, forklift trucks, or aircraft. Within a chosen target industry, it can further segment by company size and set up separate operations for selling to large and small customers. A company can segment further by purchase criteria. Government laboratories need low prices and service contracts for scientific equipment, university laboratories need equipment that requires little service, and industrial labs need equipment that is highly reliable and accurate.

Business marketers may divide the marketplace in many different ways to choose the types of firms to which they will sell. Finding the sectors with the greatest growth prospects, most profitable customers, and most promising opportunities for the firm is crucial, as Timken found out.

Timken When Timken, which manufactures bearings and rotaries for companies in a variety of industries, saw its net income and shareholder returns dip compared with those of competitors, the firm became concerned that it was not investing in the most profitable areas. To identify businesses that operated in financially attractive sectors and would be most likely to value its offerings, it conducted an extensive market study and discovered that some customers generated a lot of business but offered little profit potential, whereas for others the opposite was true. As a result, Timken shifted its attention away from the auto industry and into the heavy-processing, aerospace, and defense industries. It also addressed customers that were financially unattractive or minimally attractive. A tractor manufacturer complained that Timken's bearings prices were too high for its medium-sized tractors. Timken suggested that the firm look elsewhere but continued to sell bearings at the higher price for the manufacturer's large tractors—to the satisfaction of both sides. By adjusting its products, prices, and communications to appeal to the right types of firms, Timken experienced record revenue despite a recession.[35]

marketing INSIGHT

Behavioral Decision Theory

The advent of online commerce, made possible by technology and epitomized by Amazon.com, eBay, iTunes, and Netflix, has led to a shift in consumer buying patterns, according to Chris Anderson, editor-in-chief of *Wired* magazine and author of *The Long Tail*.

In most markets, the distribution of product sales conforms to a curve weighted heavily to one side—the "head"—where the bulk of sales are generated by a few products. The curve falls rapidly toward zero and hovers just above it far along the X-axis—the “long tail”—where the vast majority of products generate very little sales. The mass market traditionally focused on generating “hit” products that occupy the head, disdaining the low-revenue market niches that the tail comprises. The Pareto principle–based “80–20” rule—that 80 percent of a firm’s revenue is generated by 20 percent of a firm’s products—epitomizes this thinking.

Anderson asserts that, as a result of the growth of e-commerce, the long tail holds significantly more value than before. In fact, he argues, the internet has directly contributed to the shifting of demand “down the tail, from hits to niches” in a number of product categories including music, books, clothing, and movies. According to this view, the rule that now prevails is more like “50–50,” with lower-selling products adding up to half a firm’s revenue.

Anderson’s long-tail theory is based on three premises: (1) lower costs of distribution make it economically easier to sell products without precise predictions of demand; (2) the more products available for sale, the greater the likelihood of tapping into latent demand for niche tastes unreachable through traditional retail channels; and (3) if enough niche tastes are aggregated, a big new market can result.

Anderson identifies two aspects of e-commerce that support these premises. First, the increased inventory and variety afforded online permit greater choice. Second, the search costs for relevant new products are lowered as a consequence of the wealth of information online; the filtering of product recommendations based on user preferences, which vendors can provide; and the word-of-mouth network of internet users.

With a new ability to match potential customers to niche offerings tailored to their tastes, a number of companies have started to derive increasing value from the long tail. Larger companies have benefited from the long tail by being able to offer increasingly varied products that remain viable even at relatively low sales volumes. And thanks to the lower costs of designing, communicating, and delivering their offerings, smaller companies have benefited by being able to enter the market with products that cater to niche tastes. Still, not every market has been transformed by the long tail. In categories that involve highly complex production or very high inventory costs, offerings remain limited. For example, the automotive, aircraft, and shipbuilding industries remain largely reliant on a relatively small number of mass-produced offerings, each serving larger customer segments.

Some critics challenge the notion that old business paradigms have changed as much as Anderson suggests. Especially in entertainment, they say, the “head” where hits are concentrated is valuable not only to the content creators but also to consumers. One critique argued that “most hits are popular because they are of high quality,” and another noted that the majority of products and services making up the long tail originate from a small concentration of online “long-tail aggregators.”

Although some academic research supports the long-tail theory, other research is more challenging, finding that poor recommendation systems render many very-low-share products in the tail so obscure and hard to find that they disappear before they can be purchased frequently enough to justify their existence. For companies selling physical products, the inventory, stocking, and handling costs can outweigh any financial benefits of such products.[36]

SUMMARY

1. *Targeting* is the process of identifying customers for whom the company will optimize its offering. Targeting reflects the company’s choice of which customers it will prioritize and which customers it will ignore when designing, communicating, and delivering its offering. Targeting involves two types of decisions: strategic and tactical.
2. *Strategic targeting* involves identifying which customers (segments) to serve and which to ignore. Strategic targeting is guided by two key factors: target compatibility and target attractiveness.
3. *Target compatibility* reflects a company’s ability to create value for customers. It is a function of a company’s resources, including business infrastructure, scarce resources, skilled employees, collaborator

networks, know-how, strong brands, an established ecosystem, and capital.

4. *Target attractiveness* reflects customers' potential to create value for the company. It is a function of monetary factors such as the revenues generated by a particular customer segment and the costs associated with serving this segment, as well as strategic factors such as a segment's social value, scale value, and information value.
5. A key principle of strategic targeting is that the company should be able to create superior value for its customers relative to the competition. To this end, a company must identify markets in which it has superior resources relative to the competition.
6. *Tactical targeting* involves identifying effective and cost-efficient ways to reach strategically viable customers. Tactical targeting links the (typically unobservable) value-based segments to specific observable and actionable characteristics. Such observable characteristics, also referred to as the *customer profile*, include demographic (e.g., age, gender, and income), geographic (e.g., permanent residence and current location), psychographic (e.g., moral values, attitudes, interests, and lifestyle), and behavioral (e.g., purchase frequency, purchase quantity, and price sensitivity) factors.
7. Tactical targeting is guided by two key factors: effectiveness (a company's ability to reach all target customers) and cost efficiency (a company's ability to deploy its resources in a way that reaches only its target customers).
8. *Segmentation* is a categorization process that groups customers by focusing on those differences that are relevant for targeting and ignoring those differences that are irrelevant. Segmentation enables managers to group customers into larger segments and develop offerings for the entire segment, rather than for each individual customer.

marketing SPOTINSIGHT

L'ORÉAL

L’Oréal was founded in Paris over 100 years ago by a young chemist, Eugene Schueller, who sold his patented hair dyes to local hairdressers and salons. By the 1930s, Schueller had invented beauty products such as suntan oil and the first mass-marketed shampoo. Today, the company has evolved into the world’s largest beauty and cosmetics company, with distribution in 150 countries, more than 84,000 employees, 34 global brands, and over €26 billion in sales. Well known for its 1973 advertising tagline—”Because I’m Worth It”—L’Oréal is the leader in beauty products around the world. The company spends approximately €4 billion in advertising each year, making it the third largest advertiser in the world.

Source: Emma Vagnone/Alamy Stock Photo

Much of the company’s early international expansion is credited to Sir Lindsay Owen-Jones, whose strategic vision and precise brand management transformed L’Oréal from a small French business into an international cosmetics phenomenon. During his almost 20 years as CEO and chairman, Owen-Jones divested the firm of weak brands, invested heavily in product innovation, acquired ethnically diverse brands, and expanded into markets no one had dreamed of, including China, South America, and the former Soviet Union. His quest was to achieve diversity, “meet the needs of men and women around the globe, and make beauty products available to as many people as possible.”

L'Oréal has a richly endowed portfolio of international brands that responds to the diverse needs of consumers the world over. Its brands are grouped into four divisions based on the profile of its target customers:

- *Consumer Products* produces 52 percent of sales and offers a wide range of competitively priced, mass-marketed hair-care, makeup, and skin-care products. Its brands include L'Oréal Paris, Magic, Garnier, Maybelline New York, African Beauty Brands, Essie, Nyx Professional Makeup, and Niely. These brands are distributed in mass-retailing channels, including hypermarkets, supermarkets, drugstores, and traditional stores.
- *L'Oréal Luxe* makes up 27 percent of sales and offers upscale skin-care, makeup, and perfume brands that include Lancôme, Giorgio Armani, Yves Saint Laurent Beauté, Biotherm, Kiehl's, Ralph Lauren, Shu Uemura, Cacharel, Helena Rubinstein, Clarisonic, Diesel, Viktor&Rolf, Yuesai, Maison Margiela, Urban Decay, Guy Laroche, Paloma Picasso, Atelier Cologne, House 99, It Cosmetics, and Proenza Schouler. L'Oréal Luxe products are available at department stores, cosmetics stores, travel retail stores, as well as own-brand boutiques and dedicated websites.
- *Professional Products* is responsible for 14 percent of sales and offers professional-quality products to hairdressers and skin care professionals. Brands include L'Oréal Professionnel, Kérastase, Redken, Matrix, Pureology, Shu Uemura Art of Hair, Mizani, Decléor, Carita, Biolage, and Seed Phytonutrients. These brands are distributed to hair care and skin care salons worldwide.
- *Active Cosmetics*, which accounts for 7 percent of sales, is the world leader in dermocosmetics. Its brands include Vichy, La Roche-Posay, Skinceuticals, Roger & Gallet, Sanoflore, and CeraVe. These highly complementary brands are developed and endorsed by health professionals—dermatologists, pediatricians, cosmetic doctors—to meet a range of skin-care needs from normal to blemish-prone. The Active Cosmetics brands are sold in health care outlets worldwide, including pharmacies, drugstores, and medi-spas.

L'Oréal believes that precise target marketing—hitting the right audience with the right product and message at the right place—is crucial to its global success. Owen-Jones explained, "Each brand is positioned on a very precise [market] segment, which overlaps as little as possible with the others."

The company has built its portfolio primarily by purchasing local beauty companies all over the world, revamping them with strategic direction, and expanding the brand into new areas through its powerful marketing arm. For example, L'Oréal instantly became a player (with a 20 percent market share) in the growing ethnic hair-care industry when it purchased U.S. companies Soft Sheen Products in 1998 and Carson Products in 2000 and merged them. L'Oréal believed the competition had overlooked this category because it was previously fragmented and misunderstood. Backed with a deep portfolio of brands and products, SoftSheen-Carson is now the market leader in the ethnic hair-care industry.

L'Oréal also invests significant money and time in its 20 research centers grouped into six regional hubs in the United States, Japan, China, India, Brazil, and South Africa. The company spends close to €900 million on R&D, more than one percentage point above the industry average, researching and innovating products that meet the local needs of each region. Understanding the unique beauty routines and needs of different cultures, climates, traditions, and physiologies is critical to L'Oréal's global success. Hair and skin differ greatly from one part of the world to another, so L'Oréal listens to and observes consumers across the globe to gather a deep understanding of their beauty needs.

L'Oréal scientists study consumers in laboratory bathrooms and in their own homes, sometimes achieving scientific beauty milestones. In Japan, for example, L'Oréal developed specially formulated Wondercurl mascara to curl Asian women's eyelashes, which are usually short and straight. Within three months, Wondercurl mascara had become Japan's number-one-selling mascara, and girls excitedly lined up in front of stores to buy it. L'Oréal continued to research the market and developed nail polish, blush, and other cosmetics aimed at this new generation of Asian girls.[37]

Questions

1. Review L'Oréal's brand portfolio. What are the different customer segments targeted by these brands?
2. What are the keys to successful local product launches (e.g., Maybelline's Wondercurl in Japan)?

3. What’s next for L’Oréal? Who are its biggest competitors? If you were its CEO, how would you sustain the company’s leadership position?

marketing SPOTINSIGHT

MJUNCTION

mjunction, a business-to-business (B2B) e-marketplace, was established in 2001 as a joint venture between Tata Steel and Steel Authority of India (SAIL). Set as an e-auction portal for steel, it has steadily transformed into one of India’s largest business B2B e-commerce companies and an end-to-end value service provider. It offers a diversified range of services in over a dozen categories including steel, coal, oil, recyclables, agro produce, media rights, natural resources, minerals, real estate, forest produce, among others. The company supports its clients by enabling them to sell and procure better by leveraging its expertise in process re-engineering, technology, analytics and knowledge of products and markets.[38]

Source: ©mJunction, used with permission

mjunction entered the B2B market in 2001 as one of India's first e-auction platform to sell steel and a pioneer in e-auction of coal in India. With its transparent and value-based business model, mjunction became one of the fastest growing B2B e-commerce companies. The company recognized lack of transparency and dearth of fair transactions as the key pain points in offline business trading due to multiple intermediaries leading to information asymmetries. mjunction's e-bidding platform connected buyers and sellers directly, sidestepping the intermediaries. This direct platform added value to both the buyers and sellers with faster conversion of inventory, fair prices and access to multiple buyers and sellers.[39]

In a short span of time, mjunction became the leading e-auction company in India specializing in steel, coal recyclables, and minerals. The firm continued its growth by expanding to other categories, like oil and gas, agro products, etc., to capture these untapped market segments. Regulatory requirements for transparency met by online auctions, attracted the government and public sector companies which soon turned into one of the key segments for mjunction. Its growing partnership with the public sector helped mjunction capture some of the biggest opportunities in natural resources including coal, minerals, oil and gas. In 2015, mjunction was the largest e-commerce player in India with e-transactions worth ₹1.51 trillion (₹151,108 crore). The platform had enabled cumulative e-transactions of over ₹3.5 trillion since its inception in 2001.

The company continued its leadership position in key categories such as steel, coal and minerals with an annual growth rate of 25%. Soon it tapped the growing international market by setting up operations in Asia and Europe. mjunction started customized offerings in various categories such as real estate, tea, and ocean vessel chartering contracts.

Leveraging the evolving business landscape driven by growing popularity of digitalization and e-commerce, mjunction transformed into an integrated e-marketplace. Its technology-based trading solutions in diversified product categories are integrated with associated services such as transport, procurement and finance. Its tie-ups with multiple banks facilitates end-to-end demand and supply solutions with funding options for its clients.

mjunction's advanced offering—mjPRO—is a cloud-based procurement service that combines artificial intelligence and machine learning. In 2018, the company shifted from software licensing to a cloud-based software as a service model for its e-procurement application. The model that allows pay-per-use, helps clients save on the upfront capital investments in hardware and licensing, and lets them configure the system to align with their procurement work flow and rules.[40] Insights from the platform's analytical tools help clients improve their procurement and save costs.

The expertise of its 900 personnel operating from 60 offices are increasingly used to offer develop solutions for over 300,000 business entities after onboarding 200 client companies. Today, mjunction's service offerings span the entire B2B e-commerce spectrum including e-sales, e-sourcing, e-procurement, e-finance, and loyalty solutions.[41] As this two decades old brand looks forward to expanding its presence globally with its diversified products,[42] it continues to explore and serve new categories such as forest produce and sports.

In addition to being the world's largest e-marketplace for steel and coal, mjunction operates multiple business units offering B2B e-commerce services for diverse industry verticals.[43] The company is betting on India's e-commerce boom by turning into a one-stop-shop to enterprises for procuring a wide range of products such as fasteners, pumps, compressors, bulbs, and light fittings as well as for their maintenance, repair & overhaul (MRO) requirements. The Jorhat Tea e-auction center cum e-marketplace by mjunction is India's first Integrated e-platform where every service required for buying and selling tea from the upper Assam Area is available on a web platform.[44] Competitive prices for quality products, delivered on time by digitally connecting sellers, including SMEs, with enterprise buyers have enabled mjunction to successfully grow and expand its portfolio.[45]

Interestingly, many of mjunction's public sector clients use the government's e-market (GeM) platform set up in 2016. The GeM platform's e-bidding, reverse e-auction, and demand aggregation are extensively used for procurement by central and state government departments. The rapidly growing platform enabled orders worth ₹37,000 crore in 2021.[46] It has clocked an impressive compound annual growth rate (CAGR) of 93% over five years from launch. The mandated buying of goods and services on GeM platform for public sector units and government departments, and GeM's expansion into new areas like construction projects, makes it a competitor that mjunction will need to watch closely.

Questions

1. Who are the target customers for mjunction? What are the key value and profile characteristics of these customers?
2. What value does mjunction create for its business customers?

3. Would mjunction continue to be attractive to its customers if others start offering similar services?