CHAPTER 6

Identifying Market Segments and Target Customers

When canned soup consumption dropped along with its share of the market, Campbell set out to study the habits of Millennial consumers face-to-face, which resulted in a new line of ready-to-eat, more exotically flavored soups promoted entirely online.

Source: Radu Bercan/ Alamy Stock Photo

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. Campbell is one of many companies trying to come to grips with the younger Millennial consumer.

>>> Campbell Soup Company's iconic red-and-white soup cans represent one of the most famous U.S. brands and were even the subject of an Andy Warhol portrait. Several years ago, though, the century-and-a-half-old company suffered a double whammy: Overall consumption of canned soup declined 13 percent, and Campbell's market share dropped from 67 percent to 53 percent due to the popularity of fresh and premium soups. To stop the sales slide, Campbell set out to better understand the 18-to-34-year-olds who make up 25 percent of the U.S. population and will profoundly affect the company's future. Adopting an anthropological research approach, Campbell sent executives to study Millennial consumers face to face in "hipster market hubs" such as London; Austin,

TX; Portland, OR; and Washington, DC. The executives engaged in "live-alongs," where they shopped and ate at home with young consumers, and "eat-alongs" where they dined with them in restaurants. The key insight? Millennials loved spices and ate more exotic food than their parents. They just couldn't cook it at home! Campbell's solution was a new line—Campbell's Go! Soup ready-to-eat meals in six flavor varieties, such as Moroccan Style Chicken with Chickpeas, Spicy Chorizo and Pulled Chicken with Black Beans, and Coconut Curry and Chicken with Shiitake Mushrooms. Sold in pouches rather than cans to convey freshness and at a price ($3) more than three times the basic red-and-white soups, the product line was promoted entirely online, including on music and humor sites, gaming platforms, and social media. Campbell also sells Swanson broths and stocks; V8 vegetable juices; Pace salsa, sauces, and dips; and Prego pasta sauce. Yet soups account for half its revenue, so marketing success for the new line was crucial.[1]

To compete more effectively, many companies are now embracing target marketing. Instead of scattering their marketing efforts, they're focusing on those consumers they have the greatest chance of satisfying. Effective 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.[2] 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.

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 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.[3]

The ultimate level of targeting is the *one-to-one approach* in which each market segment comprises a single customer.[4] 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.[5]

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.[6] 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.

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.

Source: Scott Keeler/ZUMAPRESS/Newscom

<< As part of a broad trend toward personalization, Coca-Cola has introduced Freestyle dispensing machines that allow users to customize their soft drink choices.

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.[7] 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.[8] 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.[9] 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.[10]

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.[11]

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.[12]

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."[13]

Source: Michael Matthews/Alamy Stock Photo

<< 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.

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.

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

>> 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

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.[14]

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.

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.[15] 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.[16]

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.[17]

Gender. Men and women have different attitudes and behave differently, based partly on genetic makeup and partly on socialization.[18] 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.

Source: Roman Tiraspolsky/Alamy Stock Photo

>> 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.

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.[19]

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.[20]

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.[21]

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.

Many marketers are deliberately going after lower-income groups, in some cases discovering fewer competitive pressures or greater consumer loyalty. Procter & Gamble launched two discount-priced brand extensions in 2005—Bounty Basic and Charmin Basic—which have met with some success. Other marketers are finding success with premium-priced products. When Whirlpool launched its pricey Duet washer line, sales were double their forecasts in a weak economy, thanks primarily to middle-class shoppers who traded up.

Increasingly, companies are finding their markets are hourglass-shaped, as middle-market U.S. consumers migrate toward both discount *and* premium products. Companies that miss out on this new market risk being "trapped in the middle" and seeing their market share steadily decline. After recognizing that its channel strategy emphasized retailers like Sears selling primarily to the middle class, Levi-Strauss introduced premium lines such as Levi's Made & Crafted to upscale retailers Bloomingdales and Saks Fifth Avenue, and the less-expensive Signature by Levi Strauss & Co. line to mass market retailers Walmart and Target.

Race and Culture. Multicultural marketing reflects awareness that different ethnic and cultural segments have sufficiently different needs and wants to require targeted marketing activities and that a mass market approach is not refined enough for the diversity of the marketplace. Consider that McDonald's generates a significant share of its U.S. revenues with ethnic minorities. A recent survey showed that 25 percent of African American respondents, 24 percent of respondents of Hispanic origin, and 20 percent of Asian American respondents stated that McDonald's is the fast-food restaurant they eat at most often. The company's highly successful "I'm Lovin' It" campaign was rooted in hip-hop culture but has had an appeal that transcended race and ethnicity.[22]

The Hispanic American, African American, and Asian American markets and their numerous submarkets are growing at two to three times the rate of non-multicultural populations, and their buying power is expanding. Multicultural consumers also vary in whether they are first, second, or a later generation and whether they are immigrants or were born and raised in the United States. Accordingly, marketers need to factor the norms, language nuances, buying habits, and business practices of multicultural markets into the initial formulation of their marketing strategy rather than adding these as an afterthought. All this diversity also has implications for marketing research; it takes careful sampling to adequately profile target markets.

Multicultural marketing can require different marketing messages, media, channels, and so on. Specialized media exist to reach virtually any cultural segment or minority group, although some companies have struggled to provide financial and management support for fully realized programs. Fortunately, as countries become more culturally diverse, many marketing campaigns targeting a specific cultural group can spill over and positively influence others. To launch its new Explorer model, Ford developed a TV ad featuring comedian Kevin Hart that initially targeted the African American market, but it also became one of the key ads for the general market launch.[23]

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.[24]

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.[25] 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.

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.[26] The inhabitants in a segment are presumed to lead similar lives, drive similar cars, have similar jobs, and read similar magazines.

>> 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

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.[27]
- **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.[28]

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.[29] The main dimensions of the VALS segmentation framework are consumer

Source: Drive Images/Alamy Stock Photo

<< 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.

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.[30]

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.[31] 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:[32]

- **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.[33]

marketing INSIGHT Chasing the Long Tail

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

In most markets, the distribution of product sales conforms to a curve weighted heavily to one side—the "head"—where the bulk of sales are generated by a few products. The curve falls rapidly toward zero and hovers just above it far along the X-axis—the "long tail"—where the vast majority of products generate very little sales. The mass market traditionally focused on generating "hit" products that occupy the head, disdaining the low-revenue market niches 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.[34]

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 SPOTLIGHT

Superdry

Source: Flo Smith/Alamy Stock Photo

Superdry is a popular fashion brand in the United Kingdom that markets clothes made of premium fabrics for men and women. Stylish, casual, sporty, washed-out yet modern, and bearing intricate, hand-drawn graphics, the brand represents a true instance of cultural blending—it combines American vintage-style fashion, Japanese graphics, and a British focus on quality and design detail.

Superdry was founded in 2003 as a partnership between Julian Dunkerton and James Holder in Cheltenham, in the United Kingdom. Dunkerton began his own journey in the fashion industry with a small stall in the Cheltenham market that sold vintage American-inspired clothing, which grew into the brand Cult Clothing. Meanwhile, Holder had an interest in design, typography, and screen printing, which lead to the creation of the skate-wear brand Bench. When the two entrepreneurs met, they were impressed by each other's interests in product design, fabric, vintage fashion, and graphics. They decided to blend their creative ideas and went on an inspiration trip to Tokyo. The brand name

Superdry and its logo were created during a brainstorming session in a Tokyo bar, where Holder and Dunkerton noticed that the word “super” was used on the packaging of nearly every Japanese product they saw. Since then, the word “super,” written in Japanese kanji, has been a part of their clothing brand and its logo.

From a collection of five T-shirts, Superdry has grown to become a global brand with over 500 branded stores around the world and a cult celebrity following—it has been worn by celebrities such as David Beckham, Justin Bieber, and Kate Winslet. Its marketing strategy has included advertising, sales promotions, digital marketing programs, sponsorships, collaborations, as well as events such as the Superdry Sound Summer Music Festival. In the first decade of its launch, Superdry’s popularity grew immensely, especially among younger consumers, but the company also wanted to increase its appeal among the older segments. In 2015, Superdry launched a 250-piece premium range called IDRIS in collaboration with 42-year-old British actor Idris Elba, who was voted one of *GQ*’s Best Dressed Men in the United Kingdom that same year. Superdry and Elba went on to produce a documentary titled *Cut from a Different Cloth*, which presented a new side of the actor as a designer and entrepreneur.

In 2018, the brand had annual sales of over $1.8 billion, with an online presence in 148 countries and stores in more than 60. Its online division accounted for more than 25 percent of its retail revenue, and the company now referred to itself as a “global digital brand.” Superdry used YouTube for sales promotions to drive online and in-store sales on Black Friday, Cyber Monday, and Christmas in 2018. It believed that its customers did not make a significant distinction between online and offline channels and moved smoothly between the two. For Superdry, YouTube became an important part of its communication mix, as it could engage the brand’s audience online while supporting its in-store sales. Superdry’s “This Is the Jacket” video on YouTube was based on the idea that the amount of time someone spends wearing their jackets in winter becomes part of their identity. The campaign was a success, helping to increase brand engagement and achieve measurable sales responses.

After 16 years of rapid growth, in 2019, the brand’s sales started to slow down. Some consumers said that the brand was not as trendy as it used to be, while industry experts said that it lacked social engagement with its target audience. For example, Superdry only had a tenth of the follower count that Hollister, a competing brand, enjoyed on Instagram. Superdry decided to reemphasize its coolness factor by focusing more on influencer marketing through social media and by developing new campaigns like Summer or Nothing, which targeted the youth. Launched across all of Superdry’s Digital platforms globally, the campaign aimed to build a strong connection with Millennials by depicting the various fun possibilities that summer has to offer, like surfing, beach ball, skateboarding, pool parties, and cliff jumping.

In August 2019, Superdry expanded its communication strategy to include TikTok in its marketing program. When it invited three Australian TikTok influencers to one of its store openings, the result was a huge lineup of more than 300 people outside the store. For Christmas 2019, Superdry launched its One for Me, One for You TikTok campaign in Australia and New Zealand. In this promotion, popular TikTok influencers gifted matching pairs of Superdry Slides to each other for Christmas. It was a huge success—even before its launch, the campaign had achieved an organic reach of 2.8 million across the influencer channels. Superdry has clearly been able to connect successfully with its target audience with a solid communication mix, one that not only encourages interactive engagement but, by driving store visits and purchases, also influences direct behavioral responses.[35]

Questions

1. Discuss Superdry’s IMC strategy. Going forward, what type of communication objective should it pursue?
2. Discuss the pros and cons of using celebrities as message sources. Do you think it should do more celebrity endorsements and collaborations like it did with Idris Elba?
3. Discuss the effectiveness of Superdry’s social media strategy of using YouTube and TikTok.

marketing
SPOTLIGHT

Source: Nicole Glass Photography/ Shutterstock

Chase Sapphire

Chase Bank, a commercial and consumer banking subsidiary of the largest U.S. bank, JPMorgan Chase, offers services such as personal banking, credit cards, mortgages, and auto financing. Chase Bank is known for its high customer satisfaction rating, ranking the highest among the six largest U.S. banks. Serving nearly half of U.S. households, Chase Bank has over 93 million cardholders and 5000 branches nationwide.

In 2006, Chase Bank initiated a substantial market research project in order to strengthen its credit card operations. The project focused on deeply understanding the various consumer segments in the credit card market. When segmenting the market, credit card companies often use two types of demographics: age group and asset amount. In addition, credit cards are differentiated by factors such as the annual fee, rewards such as cash back and proprietary rewards (points), and factors such as interest rates, credit lines, and creditworthiness. Chase's market research project showed that competing in the affluent customer segment of the consumer credit card market would be valuable in building a stronger presence for the company. According to the research, this demographic represented 15 percent of U.S. cardholders at the time but generated over 50 percent of total credit card spending.

In 2009, Chase Bank introduced five primary sub-brands in its credit card portfolio to address different market segments. These included JP Morgan for private banking customers, Chase Sapphire for affluent consumers, Chase Ink for small business owners, Chase Freedom for consumers who prioritized cash back, and Chase Slate for consumers focused on paying off credit card debt. Chase Sapphire appealed to affluent consumers by offering competitive rewards and top-tier customer service. At the time, this portion of the market was dominated by American Express. Amex's Platinum Card offered perks such as 24-hour customer service, access to exclusive clubs, and amenities at hotels, resorts, and restaurants worldwide. These features were attractive to the businesspeople and vacationers who made up a significant portion of the affluent segment. To gain entry into the market, Chase offered Sapphire with no annual fee. Customers earned 2 points per dollar spent on airline travel and 1 point per dollar spent elsewhere. Customers who spent $500 on the card during the first three months would also receive 10,000 bonus points, easily redeemed for rewards on a user-friendly web page called Ultimate Rewards. In addition, all calls made by Chase Sapphire cardholders were answered by live advisors without customers having to enter their credit card number. By the end of the year, over 905 of Sapphire cardholders reported overall satisfaction with the card, and 85 percent indicated they would recommend it to others.

Building on the success of Sapphire, Chase introduced a new card called the Chase Sapphire Preferred in 2011 to obtain a larger share of the affluent market. This new card had an annual fee of $95 but offered cardholders 50,000 points if they spent over $4,000 in the first three months. Preferred cardholders also enjoyed better points-per-dollar conversion rates on dining and travel and could redeem points for exclusive events called Chase Experiences. Unlike most credit cards at the time, the Chase Sapphire Preferred card had a metal core between the two plates of plastic, making it heavier and more substantial. Customers reported that the card made a satisfying "thunk" when placed down for payment, giving the card a unique identity.

The cornerstone of the Chase Sapphire portfolio, the Sapphire Reserve card, came about when further research showed that a portion of consumers within the affluent segment, mainly 25- to 44-year-olds with incomes of more than $150,000, heavily prioritized travel benefits and utilized point rewards. Chase not only had to design its new card to distinguish it from the Sapphire Preferred card but also had to appeal to Millennials and deter the behavior of those it called "churners." By 2013, many Millennials were careful about applying for new credit cards because of the significant student loan debt they had amassed. However, Chase found that Millennials were also attracted by reward systems and that a substantial enough incentive could change their attitude. Churners were those who signed up for multiple credit cards to take advantage of sign-on bonuses and low introductory rates; these credit cards would often go unused after the rewards were spent.

The new Chase Sapphire Reserve card was launched in August 2016. It carried a $450 annual fee, offered 3 points per dollar spent on travel and dining, a greater points-per-dollar conversion rate toward travel, annual travel credit, and access to Chase Experiences. For Millennials, this represented a credit card that was flexible and perfect for a traveling lifestyle. At launch, Chase offered an unprecedented 100,000-point bonus, earned after a customer spent $4,000 within the first three months. Chase recognized that Millennials were more easily persuaded by social media influencers than traditional television advertising. To advertise the card Chase partnered with directors, designers, and models to deliver their shared experiences across social media, which created a greater sense of exclusivity than mass advertising.

Demand for the Sapphire Reserve card greatly exceeded Chase's expectations. Within 10 days of the launch, Chase had run out of the metal alloy sandwiched within their cards. Call centers were overwhelmed with interested applicants. The card reached its new customer acquisition goal within two weeks of launch. The high sign-on points bonus racked up big costs for Chase. Months later, Chase announced that the sign-on bonus would be reduced to 50,000 points. However, Chase viewed the costs as an investment that dedicated and engaged customers would pay off in the years to come. This sentiment was confirmed after one year, when Chase revealed that the Reserve renewal rate was extremely high at approximately 90 percent, thus addressing the churner issue.

Chase found itself at the top of the premium credit card market through understanding the behavior and demographics of its target customers. Chase recognized that Millennials were bargain minded and that they looked for experiences over material things. The Sapphire line perfectly addressed this—from the weight of the card to the excellent customer service and market-leading rewards programs. Chase created a cult-brand by designing an attractive product that fit into the Millennial lifestyle.[36]

Questions

1. Who are the customers targeted by Chase with the Sapphire card? What are the key value and profile characteristics of these customers?
2. What value does the Sapphire card create for customers? From a customer's perspective, what are the pros and cons of the Sapphire card compared to other credit cards?
3. What role did promotional incentives such as the bonus points play in creating customer demand? Would Millennials remain loyal customers once they had taken advantage of the initial offer? Would the Sapphire card continue to be attractive to Millennials if its promotional incentives were reduced and became similar to other credit card offerings?