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Brief Contents

INTRODUCTION

INDIVIDUAL PROCESSES AND BEHAVIOR

INTERPERSONAL PROCESSES AND BEHAVIOR

ORGANIZATIONAL PROCESSES AND STRUCTURE

Contents

PART 1
INTRODUCTION

CHAPTER 1
What Marketing is About 1

CHAPTER 2
Trade, Tradeoffs, and Marketing Systems 31

Preface

What makes an individual behave in consistent ways in a variety of situations? Personality is an individual difference that lends consistency to a personís behavior. Personality is defined as a relatively stable set of characteristics that influence an individualís behavior. Although there is debate about the determinants of personality, we conclude that there are several origins. One determinant is heredity, and some interesting studies have supported this position. Identical twins who are separated at birth and raised apart in very different situations have been found to share personality traits and job preferences. For example, about half of the variation in traits like extraversion, impulsiveness, and flexibility was found to be genetically determined; that is, identical twins who grew up in different environments shared these traits.5 In addition, the twins held similar jobs.6 Thus, there does appear to be a genetic influence on personality.

Another determinant of personality is the environment a person is exposed to. Family influences, cultural influences, educational influences, and other environmental forces shape personality. Personality is therefore shaped by both heredity and environment.

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Professor Iacobucci

CHAPTER 2

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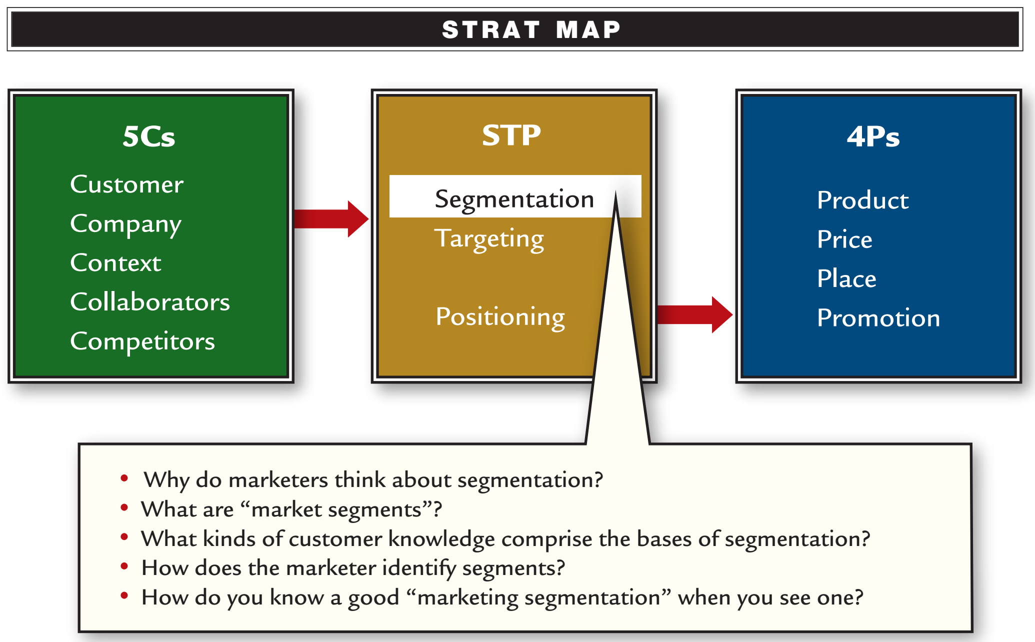
Marketing Segmentation



LEARNING GOALS

1. Why do marketers think about segmentation?
2. What are "market segments"?
3. What kinds of customer knowledge comprise the bases of segmentation?
4. How does the marketer identify segments?
5. How do you know a good "marketing segmentation" when you see one?

WHY SEGMENT?

Think about the last time you went to a movie with a couple of your friends. Afterward, when you talked about the movie, how did people respond? Was everyone in complete agreement about whether they liked the movie? Did everyone agree on the acting or special effects or music? Probably not. Even among friends, who tend to be similar to us, people's tastes and opinions vary. No one is right or wrong (well, okay, you were right and your friends were wrong); it's just a matter of differences in preferences and attitudes.

According to economists, there is "imperfect competition"—that is, consumers have unique needs and desires, so collectively a marketplace of consumers is heterogeneous. Differences in perceptions and preferences require that different products be provided to satisfy the different segments' needs. When a large, heterogeneous market is segmented into smaller, homogeneous markets, the demand can become less price elastic—that is, consumers are willing to pay more to get something that is closer to what they want (more on this in the pricing chapter).

Why segment?
Because customers vary.

According to psycholo-

Segments are homogeneous groups of customers

gists, people have different motivations, e.g., Maslow's hierarchy ranges from the human requirement to satisfy basic biological needs to more abstract needs regarding well-being. Consumers purchase products to fulfill their needs; hence consumers who are price conscious make purchase decisions using value as a primary attribute, whereas consumers with value systems surrounding material possessions and social approval are driven to purchase brands to garner the approval of family and friends.

In marketing, we deal with differences among customers through segmentation. An entrepreneur might create a new gadget, or a brand manager a new line extension, or a consultant a new piece of software, and each might hope that the whole world will like and buy their market offerings. But it won't happen. And it's not smart marketing to go after the whole market. Why not?

>> How could you provide a product that is high enough quality to satisfy premium customers and yet priced low enough for price sensitive customers?

>> How could you afford to place your advertisement in the disparate media that different customers enjoy, e.g., online, in teen magazines, car magazines, and cooking magazines, on network television, etc.; and how many versions of the ad could you afford to create so as to communicate effectively to those different audiences?

>> How could you develop a brand image that appeals to the masses who seek comfort in conformity while simultaneously appealing to fashion-setters or mavericks or other customers who seek to express their individualism—these goals are incompatible.

Instead of trying to appeal to the entire marketplace, the smart marketer and smart company will try to find out what kinds of customers might like what they have to offer, and get the product into their hands. That strategy begins with market segmentation.

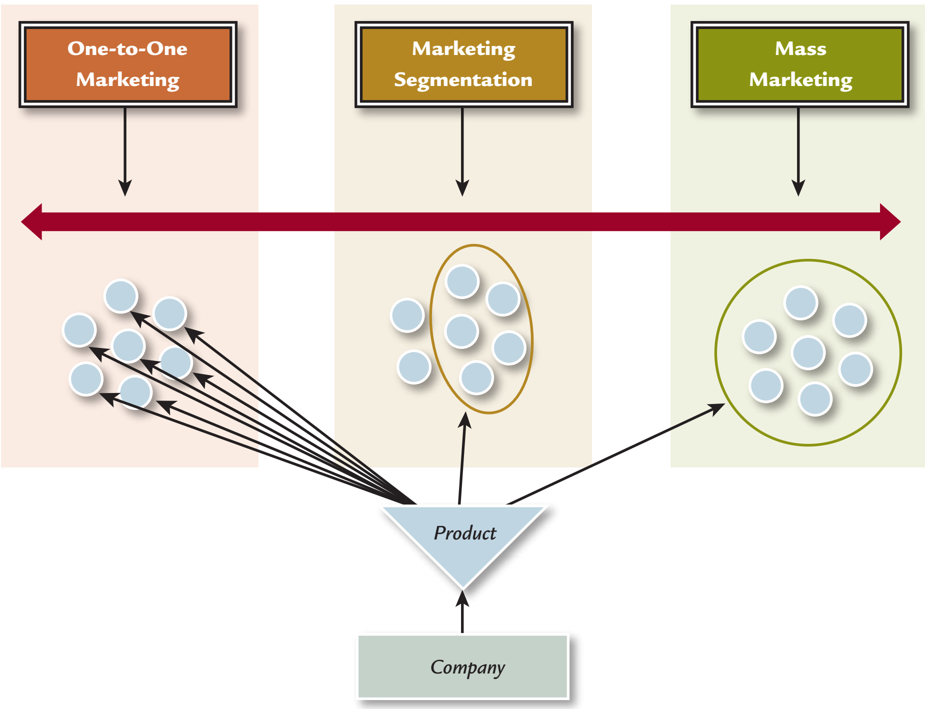
WHAT ARE MARKET SEGMENTS?

A market segment is a group of customers who share similar inclinations toward your brand. Think of a continuum with the extremes being "mass marketing" and "one-to-one marketing," with market segmentation in the middle (*see Figure 1*).

Mass marketing means that all customers would be treated the same. This approach might sound attractive because it simplifies the marketing task (i.e., only one product needs to be offered), but it is usually unrealistic (because customers differ). Think of a simple, commodity product like flour. We should be able to mass market flour—flour's flour, right? Au contraire, Pierre. There is flour, unbleached flour, wheat flour, brown rice flour, buckwheat flour, organic soy flour, whole grain oat flour, self-rising flour, etc. Different types of flour are available to meet the distinct needs of the flour-using segments.

At the other extreme, **one-to-one marketing** means that each customer serves as his or her own segment. This approach sounds appealing from the customer point of view because the product would be tailored specially for each person's idiosyncratic desires. Manufacturers of computers and cars increasingly let you design your own models. But are these companies truly offering one-to-one tailored products? Dell's website may seem to do so, but they allow you only to choose from short lists of features.

FIGURE 2.1 Marketing Segmentation: Groups of Customers



The number of possible combinations of products that may be created from those features is large, and perhaps the result is approaching one-to-one marketing ideals, but in fact, the consumer is constrained by the selections Dell makes available.

Companies that have experimented with the one-to-one marketing approach have been scaling back in their attempts to achieve mass customization because it is not cost effective (though increasingly technology offers the hope of benefits of scales of economy). General Mills no longer supports mycereal.com which was intended to allow consumers to create their own cereal mix and have it delivered. Reflect.com used to offer customized beauty care products but folded when the customization business model turned out to be implausible.

TABLE 2-1 Databased Segmentation on Consumers

Demographics	• Gender • Age, household membership, stage in household life cycle • Education • Income
Geographic	• Countries • Cultures • Urban vs. rural
Psychological	• Attitudes • Knowledge and awareness • Wants and needs • Affiliations, e.g., political party • Traits, e.g., extraversion • Expertise and involvement, e.g., hobbies • Brand attributes sought, e.g., premium quality vs. low price

Between these two extremes is the typical concept of **segmentation**. The marketplace is thought of as comprised of several segments, each of which is more (or less) favorable to your brand. The segments that like your brand might not be the customers you want, but that is a marketing issue of targeting and positioning, topics to be addressed in subsequent chapters.

As the contrasts of mass and one-to-one illustrate, segments become more heterogeneous as they increase in size. As a result, they are more difficult to satisfy with the same product (the problem with "mass"). The goal of homogeneity in customers' likes or dislikes is more likely to be achieved as the segment size gets smaller, but if the segment is too small, it might not be profitable to serve (the problem with "one-to-one"). So we need to understand how to find optimal, serviceable segmentation schemes.

Niche marketing is a type of segmentation in which the company strategically focuses, targeting a smaller market, with particular needs that the company can serve well. In Figure 1, niches would fall between the 1to1 and segment strategies. They're not different in spirit from segments, they're just usually smaller, by definition.

Potayto, potahto

There are numerous examples of identical products being positioned differently to different segments:

- By age ➔ Alka Seltzer is essentially formulated the same now as it was when your parents were growing up, but while young people today think of Alka Seltzer as a cold remedy, the product had been advertised to older people as a cure for hang-overs.
- By country ➔ Mercedes produces the same cars, and advertises the cars' "quality" in Germany, and their "prestige" in China.
- By customer desires ➔ There are pregnancy tests that are chemically identical, but pitched differently to two different segments. For the segment of consumers hoping to become pregnant, the brand name is "Maybe-Baby!," the package shows a picture of a cute healthy baby, and the product is sold in the grocery aisle near baby supplies. For the segment hoping not to be pregnant, the brand name is "KnowNow," it's packaged with a picture of an attractive couple in an embrace, and the test is sold near condoms. Different strokes for different folks.

SOURCES: B. Powell et al., *"25 Rising Stars. What Will the World Look Like a Decade or Two from Now?"* Fortune (May 14, 2000): 140; W. Liao, The Essence of T'ai Chi, (Boston: Shambhala, 1995)

Ethnic Identity—Factoids

African Americans
- Large minority group: 38million, 13% of U.S. population
- Buying power: over $725 billion
- Largest urban presence growth: Atlanta, Washington, D.C., and New York City
- Dominant magazines: Jet, Black Enterprise, Ebony, Essence

Asian Americans
- Size of this minority group: over 13million, 5% of U.S. population
- Buying power: over $250 billion
- Relatively more education (50% have bachelor's degree, compared to the U.S. average of 30%)
- 90% come from: China, India, the Philippines, Vietnam, Korea, and Japan

Hispanic Americans
- Largest growing minority group: over 38million, 13% of U.S. population
- Large and growing buying power: over $650 billion
- Quickly growing online presence
- With assimilation (e.g., second generation vs. first generation Hispanic Americans), preferences begin to resemble those of non-minorities

WHAT ARE SOME BASES FOR SEGMENTATION?

Demographics

All kinds of information about customers have been used as the basis of a marketing segmentation (*see Table 1*). Some customer attributes are easily identified. For example, there are many product categories where a company produces two varieties, one for men and one for women, such as razors, vitamins, running shoes, television channels, and colognes. Sometimes the products are constructed differently, e.g., four blades on razors for shaving those he-man whiskers, vs. a razor shaped to fit in the palm of a woman's hand to facilitate shaving sensitive areas. Sometimes the product formulations are identical, but the perceptual factors differ in the marketing appeals. Alternatively, a company might focus on serving only the men's or the women's market.

Other easily identified demographic qualities of customers include their age, household composition, and stage in the life cycle. Young adults are more likely to be interested in music technologies than in purchasing diapers for their as yet nonexistent children. Young couples buy furniture and vacations together. Families start financial planning to support their kids' college educations. Older couples who are empty nesters start dreaming of spending their greater discretionary income on travel and hobbies. Still older people investigate health care options and charitable giving. Much is frequently made of the baby boomers (in the U.S. and worldwide)—it seems like an old topic, but it's mentioned a lot because this group of customers is so huge that it affects the sales of nearly every product category. A note to the budding entrepreneur: make something that older people like or need because these boomers are heading in that direction.

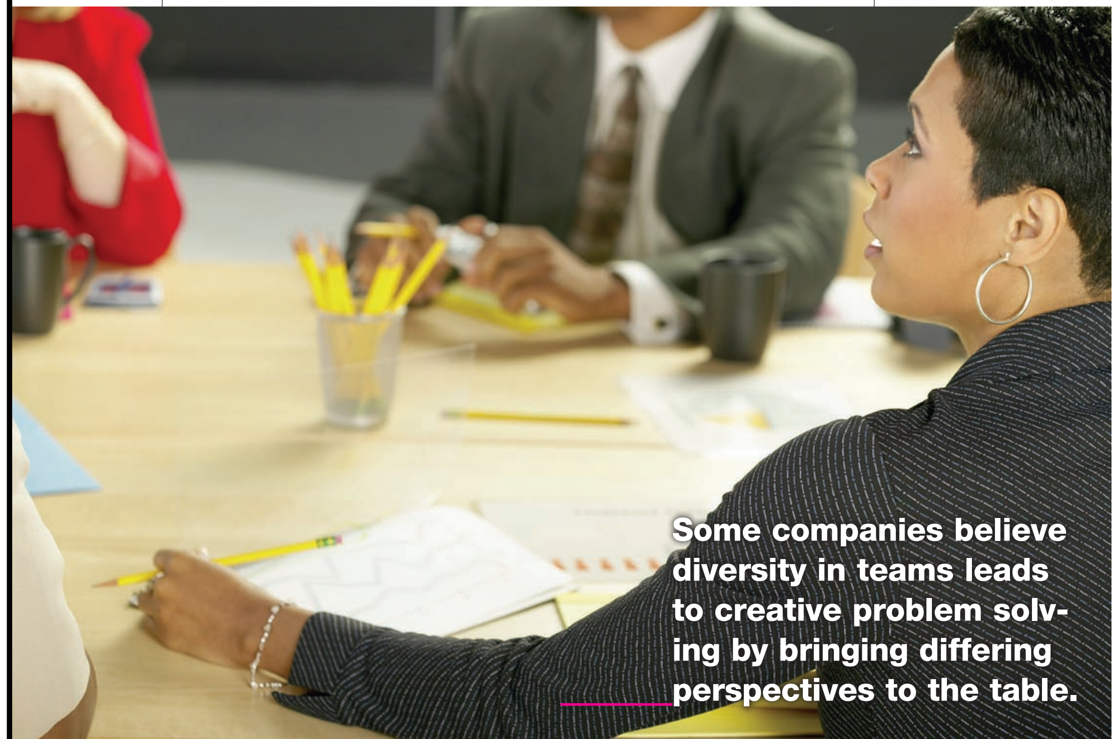
Segments are homogeneous groups of customers

Two additional easily identified demographic characteristics frequently used in segmentation studies include education, which help shape consumer preferences (e.g., opera vs. opry), and income, which facilitates certain consumer choices (e.g., Four Seasons vs. Motel 6). You've heard it said, "time is money," but in fact, time seems to be negatively correlated with money—families with higher household incomes hire more service workers (e.g., lawn care, nannies) to help with their daily needs because of their time draught.

Ethnicity is clearly important. In the U.S. the African American and Hispanic American populations each number about 40 million, and Asian Americans are at about 12 million. Any one of these groups is sizeable enough to influence any market.

> *"Finished files are the result of years of scientific study combined with the experience of years."*

Many more demographic variables have been used in segmenting consumer markets—any demographic has potential depending on its relevance to the product category. While these demographics have an advantage of being clear and easy to recognize, they sometimes border on being simplistic stereotypes. Think of your male friends—are they all alike in the clothes they wear, the cars they drive, the foods they eat? No; ditto for your female friends. Analogously, some older people are uncomfortable with technologies like ATMs and the Internet, but others are online and as savvy as you. So what sense would it make to segment the market into men and women, or older and younger people, if there are at least as many differences within the groups as between the groups? You, the marketer, are seeking: the men…who like your product, and the women…who like your product. So some quality other than gender is driving whether men or women like your product. That's the quality we have to find and use as the segmenting variable.



Some companies believe diversity in teams leads to creative problem solving by bringing differing perspectives to the table.

©Photodisc/Getty Images

Geographic

Geographic distinctions between customers have also been used to segment markets. For example, given societal differences, international tourist destinations can wreak havoc with logistics, e.g., while Brits and Germans tend to be orderly in queuing, customers from many other countries and cultures are less so. There can be cultural differences within a country, e.g., a spicy salsa in the southwest U.S. is very hot, whereas it is formulated milder for customer palates in the northeast. Urban living affords certain elements of entertainment, and smaller towns offer still different kinds of amusement. Climate offers still another consideration; snow-blowers tend to sell better in the north than in the south whereas the reverse is true for sales of chlorine.

Geographic segmentation schemes share with demographic ones the qualities of being easy to identify but also bordering on too simple a picture of the marketplace. One service that has tried to go beyond a geographic-based stereotyping is "Prizm," which posits that yuppies, say, who live in Austin have a lot more in common with yuppies in Phoenix, than they do with lower socio-economic class people who live nearby in Austin (*e.g., see Figure 2*). In essence, the logic combines the geographic information with the demographic income information.

Psychological

What would be ideal would be to get inside the heads and hearts of your customers—what do they want? Do they know? Could they be persuaded to like what you've got to offer? Could you change what you've got to offer to match their interests better?

Like market segments based on demographic or geographic data, some psychological groupings may be more or less insightful when it comes to issues of marketing and brands. For example, Democrats and Republicans are predictably different in several key ways, and while their differences might translate into some consumption differences, perhaps those political identifications don't affect other categories (e.g., cereal consumption? cell phone plans? theme park attendance?).

Other classic psychological traits are similarly limited; for example, do extraverts and introverts differ in their purchases? Perhaps some, e.g., vibrant colors of clothing, or tendencies to throw dinner parties vs. attend book club readings. But do they differ in the pets they own, the res-

The Vals psychographic-based segmentation is based on the idea that:

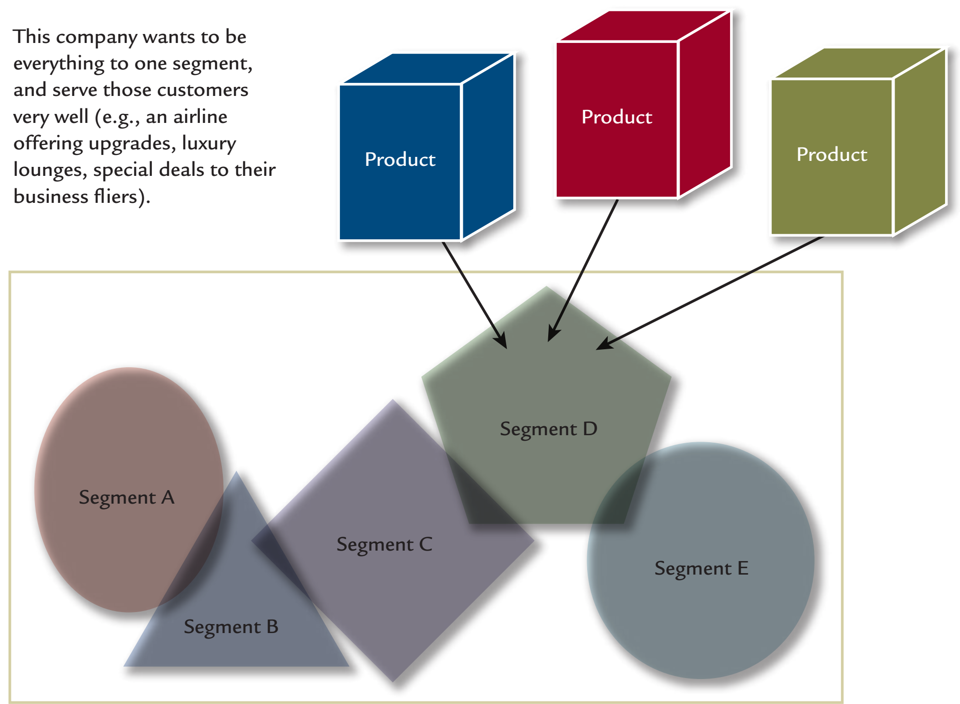
Consumers are inspired by one of three primary motivations: ideals, achievement, and self-expression (www.sric-bi.com):

- Consumers who are primarily motivated by ideals are guided by knowledge and principles.
- Consumers who are primarily motivated by achievement look for products and services that demonstrate success to their peers.
- Consumers who are primarily motivated by self-expression desire social or physical activity, variety, and risk.

taurants they frequent, or the investments they buy?

It would be more useful to the marketer to understand the psychological and lifestyle choices that are more relevant to the brands the marketer is pitching. For example, if we know a consumer is a gardener, or wine aficionado, or weekend mountain biker, we know something more about what the consumers enjoy, their social orientation, and the classes of purchases they'd be easily enticed to make. We can cross sell mud boots, sun visors, and decorative stepping stones to the gardeners; expensive refrigerators and trips to Argentina to the wine connoisseurs; and rain ponchos and racing shoes to the biker.

FIGURE 2.7 Depth Strategy: Serving One Segment Well



A popular tool for segmenting using psychographic data is called Vals. The idea is that one's attitudes and value system determine one's orientations toward certain product categories and brands. For example, Vals identifies people called "strivers"—they're trendy and fashionable to impress others, and are often impulsive buyers. The marketer would communicate differently to the segment called "achievers"—customers who are devoted to work and family, who are risk averse in their purchases and often seek products and services to save them time. Vals has been used, for example, to identify potential customers for cosmetic surgery—who would be most interested, and who could afford such elective surgery.

Customers vary in their marketing-oriented attitudes as well. Hobbies are examples of purchase categories in which customers vary in their level of expertise (some being newbies, others being experienced and quite sophisticated). Customers vary in their levels of involvement with the purchase category (how near and dear it is to their hearts). If customers are known for their expertise and involvement in a category, and if they've demonstrated a willingness to share information and give advice, they will be perceived by others as opinion leaders, innovators, or market "mavens" and would be ideal persons for the marketer to identify as potential generators of word-of-mouth. Some customers are "early adopters," caring about new developments in their category, seeking out new products. Other customers either care less about that category or they are more risk averse, waiting for someone else to try the new gadget or get the kinks out of the beta testing before considering purchasing the item for themselves.

Managers who always have their eye on their next job rarely establish more than superficial relationships with peers and coworkers.

All of the qualities that marketers care about may be mapped onto segments in any product category—for any purchase, there will be a segment of customers who seeks premium purchases, another that is brand conscious, and another that is price sensitive. And of course, just to provide us with a challenge, a customer who seeks quality benefits in one category (e.g., clothing) might be price sensitive in another (e.g., travel).

In addition to understanding who customers are, and what kinds of activities they enjoy, it is also important to gauge who customers wish to become. These aspirations help us predict the new categories they will enter.

The Institute for the Study of Business Markets surveyed B2B practitioners, and they found that the marketers' #1 concern was to "Expand their understanding of customer needs, market segments and the drivers of customer value" (smeal.psu.edu/isbm).

For example, when a person picks up a "how to" book (remodeling, cooking, tips on poker), they will likely buy more such books before moving on to learn a new skill. Someone enrolling in "beginner's tennis lessons" will start noticing brands and attributes of tennis equipment and start gearing up. One reason celebrity spokespeople are thought to be effective is that ordinary people aspire to be like the celebrity, in whatever manner that is achievable—if not the celebrity's full lifestyle, then perhaps the hairstyle, or brand of sunglasses.

Behaviors

Beyond attitudes, psychographics and lifestyles, marketers would like to know what customers purchase, not just what they report they intend to purchase. Grocery scanner data are an example of compiled behaviors—a customer might report to be eating healthy foods, but evidence of their M&M purchases would belie their good intentions.

Behaviors are important in and of themselves (e.g., to help us make predictions regarding future purchasing). In addition, watching what consumers do tells us something about who they are—attitudes are not directly observable, but we can use behaviors to infer attitudes and psychological states.

One behavioral segment of great importance to the marketer is the "current user" of the focal brand. It is relatively easy to communicate to this group (e.g., from messages on soup packaging to direct marketing on a favorite website, it depends on the level of relationship the company has with its customers), and they've already shown an affinity for the brand. Some current users may be high maintenance, but most will be worth trying to keep satisfied.

In contrast, it is more challenging to identify, obtain information on, and woo customers who are currently using a competitor's brand, or who aren't even purchasers in the category altogether. The first group asks, "why should I switch; why is your brand better than what I'm familiar with and relatively happy with?" and the second groups asks, "why do I want to buy this?" In addition, when given the choice, customers vary in their preferred means of contact and access—shopping online, or through catalogs or at the malls.

Within the current or competitor's user groups, there also exist variations on the extent of loyalty, or ease with which customers may be lost and gained, as well as frequency of usage, which can have impact on revenues but also logistics costs. You've heard of "80:20" meaning 80% (or so) of your sales come from 20% (or so) of your customers. You've also heard the rules of thumb about how "It costs 6 times more to acquire a new customer, compared with retaining a loyal customer." Thus, these behavioral tendencies—frequency, loyalty, etc.—are worth knowing, so we'd like to be able to identify frequent users.

Marketers also study patterns of co-purchasing—that skis are purchased or rented with boots, snow suits, lift tickets, hotel rooms, and spiked cocoa. An increasingly popular means of using co-purchasing patterns to generate sales are Internet recommendation agents. Providers like Amazon examine what you've bought (and clicked on to view), and make suggestions by comparing your data with what other customers have bought, e.g., given that many customers buy mysteries by both writers Whodunnit and Thebutler, then when you buy a book by the former, you'll be recommended a book by the latter.

B2B

While we have been focusing on categories of segmentation data that are

Segments can be formed with any info, from Age to Zipcode

How to be Quadri-lingual

If you're this:	and you want to say that customers vary, you'd say:
Economist:	"The market is *heterogeneous.*"
Psychologist:	"Consumers exhibit *individual differences.*"
Statistician:	"There is *variance* in the customer data."
➔ Marketer:	"We have to look at customer *segments.*"

particularly useful for consumer studies, marketers segmenting their business clients most frequently use "size." First, note that size can be defined in a number of ways: company sales, market share, number of employees, client's share of provider's business, etc. Businesses plan for, and interact differently with their larger clients than with their smaller ones. They assign more client service personnel, and extend more relationship management efforts, because these customers are worth it—larger clients tend to be profitable ones.

However, size does not always correlate with future growth potential, nor with costs associated with high maintenance clients, who might not be worth retaining regardless of the size of their orders. So, per Figure 3, there are other bases for segmenting business customers as well. Note the analogies with the consumer concepts.

The primary distinction between segmenting businesses and consumers is that the data sources tend to be different. There aren't scanner data prevalent for businesses, for example. On the other hand, the number of businesses who comprise one's customer base will be far fewer than the potentially millions of consumers. In addition, there tends to be good corporate knowledge about business customers, in part because such transactions typically rely upon a sales force, so there is a knowledgeable front-line interacting with the business customer. Of course, companies could do a better job of systematizing the sales force knowledge, which would provide a clearer data base for segmentation studies and other purposes.

AN ILLUSTRATION

Chapter 13 describes the actual cluster analysis technique used to form segments, once the marketer has these demographic, geographic, psychographic or behavioral variables. Here is an example from the automobile insurance industry, which is huge and competitive, and not surprisingly therefore, companies turn to segmentation to help get an edge.

This particular company begins with survey data on its customers. Their first segmentation analytical question is simply an attempt to find survey ques-

©Photodisc/Getty Images

Whole Foods restructured its management's bonus program so that it was more closely tied to customer satisfaction.

tions where there is variability in how respondents think about an issue. If there is not, such a result would mean that most of the customers are homogeneous in their perceptions. It would not be fruitful to carry forward such a variable for the purposes of a segmentation study because finding segments requires some differences across customers.

For example, in Figure 4, the survey question at the left indicates that most customers like the convenience of consolidating and working with a single company as their

Geek Alert! Cluster Analysis

The major marketing research technique used to segment customer data is cluster analysis. Clustering models identify groups of customers who are similar to each other vis-à-vis demographic, attitudinal, and behavioral data. Customers in one cluster differ from those in another cluster/segment.

Some cluster models begin with the "one to one" segmentation scheme (all customers in their own clusters), and cluster customers together whose data show similarities, aggregating repeatedly until the extreme of "mass" segmentation (all customers in one cluster) is achieved. The marketer then has all the partitions between these extremes (e.g., 3 clusters, 25 clusters, etc.).

More sophisticated cluster models assign customers to multiple segments. For example weights are assigned indicating the probability that the customer belongs to each cluster/segment (e.g., p=0.8 that you're in the "conservative business school student looking for a job" cluster, and p=0.2 that you're in the "but I like to cut loose on the weekends" cluster).

For more info on cluster analysis, see Chapter 13, and research by Professors Phipps Arabie and J. Douglas Carroll (Rutgers), Wayne DeSarbo (Penn State), and for additional techniques to help identify segments, see research by Greg Allenby (OSU) and Wagner Kamakura (Duke).

source of insurance for their home and car, if possible. While that information is interesting, it is not useful for segmenting, because most of the customers are in agreement.

In contrast, the survey question about the discount (*on the right*) shows much greater promise as a variable that would help distinguish segments. These data indicate that there are two groups, one who would switch to save a mere 10% (the price sensitives) and one who would not (the brand loyals or the inertias). This variable will be more useful to the company in formulating a segmentation analysis of insurance customers.

HOW DO MARKETERS SEGMENT THE MARKET?

Marketers identify segments best when iterating between two approaches—a managerial, top-down ideation and a customer-based, bottom-up customer needs assessment. Marketers begin with some knowledge base about the marketplace—the customers, competitors, and the company's own strengths, and they can gather information to understand the customer perspective.

Knowledge of the marketplace will clearly also enter into the decision of which of the segments the company should eventually target. A market segment may look desirable in terms of its size and even future growth potential, but it may already be saturated with offerings by other competitors. There may be richer potential opportunities in other segments. The managerial perspective is also clearly important in terms of assessing the extent to which the servicing of a particular segment is consistent with corporate goals.

As an example of the required integration between the managerial and customer perspectives in formulating segments, consider the service industry of personal investment advisors. These professionals know that their client base may be divided by certain demographic variables, such as income level, as well as psychological traits such as risk-aversion. They can obtain geographic data as a proxy for income, to conduct a cost-effective direct mailing to zip codes that are known to be proportionally wealthier. Upon identifying sales prospects, the financial advisor can give the potential clients surveys to measure their comfort level with risk. The advisor is using extant knowledge and data (e.g., about income and zip codes) in a manner to prime more favorable responses, and complements this knowledge with personal evaluations (e.g., comfort with risk) to know which financial products might seem most appealing to the client.

The iteration between the managerial and customer perspectives is also important because sometimes a marketing manager might hold beliefs that are not consistent with the customer data. For example, say a marketer for a London theatre production company believes that some customer behavior such as income is predictive of the behavior of interest, the purchase of theatre subscriptions. That belief might be based on years of anecdotal data (listening to friends, overhearing transit conversations, etc.). But those anecdotes were not systematically gathered data and probably do not represent an unbiased selection of customers. Thus, the marketer's beliefs would need to be reconsidered when confronted with real, better data that in fact the correlation between income and theatre-going isn't that strong. Empirically it turns out that arts-related behaviors (such as subscriptions to certain hoity toity magazines, or the frequency of museum attendance) are better predictors of who belongs to the theatre-goer segment.

HOW TO EVALUATE THE SEGMENTATION SCHEME

The iteration between marketing managers' good sense and the customer-based data continues when evaluating potential segmentation scenarios. A set of segments may be very clear from a statistical perspective, but they need to be useful from the managerial point of view. So the question is, "How do you know a good marketing segmentation when you see one?"

Data to identify segments

If one element of an iterative segmentation is a smart marketer, the other element is good customer data. Are there data available of the sort you'd like to identify the customer segments? For example, census data are always

Efficient time management is essential to being an effective manager.

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Some companies believe diversity in teams leads to creative problem solving by bringing differing perspectives to the table.

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available but they might not be stored in refined categories and so they prove too rough to be useful. Commercial data, such as Prizm or Vals data are available, at a cost, and if you have a large budget, you're fine, but if you're an entrepreneur, you might need to approximate their results on your shoestring budget. If you're seeking surveys of very specific topics, such as consumer reactions to electronics, the data may be trickier to locate.

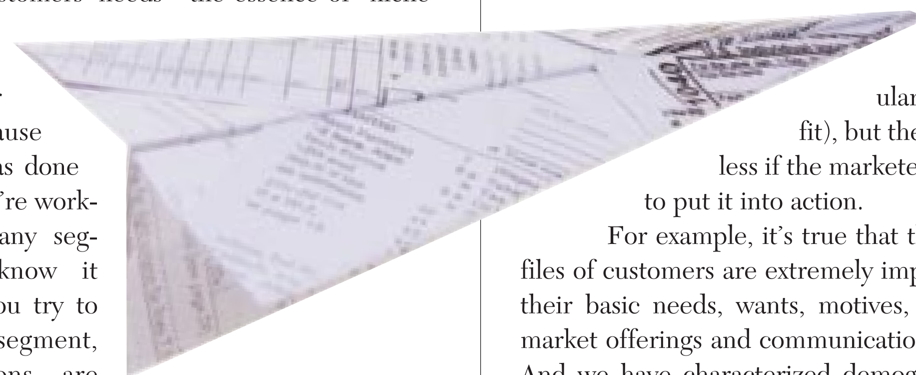
Databases to access segments

A related question is whether data bases are available that identify potential customers because after you identify segments, you'll want to have access to the customers in the target segments. If you want to communicate to people who own homes in NY and Palm Beach, how will you do so—are there listings of such people, and do you have access? If you don't have immediate data on your segments, could you find indirect access? For example, you could find out which web sites your potential customers keep bookmarked and advertise there. You could advertise in the in-flight magazines for airliners carrying passengers between those cities, or sponsor promotions with the two cities' rental car, limo, and taxi agencies.

> **Cultural**
>
> It's not complicated enough that people within a country vary, but most of our marketplaces are international, and country and cultural differences can be tremendous. Here are several examples:
>
> - In Figure A, we see a B2B segmentation of countries' preferences for various marketing tools:
>   - sales promotions are dominant everywhere except the UK
>   - interactive marketing (online) is still coming into its own (is not popular everywhere yet)
>   - direct mail is big in the US and UK ("impersonal" countries?) but not as big in the countries typically characterized as communal, caring about interpersonal relations (i.e., Asia or Latin America).
> - Figure B is a simple baseline of consumers' use of credit. This simple index would be good background for many B2B or consumer financial services considering entering any of these environments. These customer bases will differ in experience, and are likely to differ in attitudes of risk, for example.
> - Figure C is no surprise to Asians, but outsiders (of any group) tend to think group members are more homogeneous than they really are. Here we see stunning population and economic differences. These co-exist with surprisingly similar attitudinal patterns, e.g., longing for luxury and high-tech goods. Naturally there are attitude differences as well, e.g., preference for foreign brands and value-seekers.

Profitability matters

Most marketers are curious about the relative sizes of the identified segments, but it's not size that matters so much as how profitable the segment is, or is likely to be. Segment size is just numbers of customers, but profitability is smarter information: how frequently do the customers purchase, how deep ($) is their purchase, how price (in)sensitive are they, how stable is the segment, what is its growth potential, etc. Together, the numbers and profits information can be used to project the value of approaching any of the segments. Sometimes small segments can be highly profitable if the marketer pays attention and satisfies those customers' needs—the essence of "niche" marketing.



Sometimes segments appear small only because the clustering was done too finely. If you're working with too many segments, you'll know it because when you try to describe each segment, their descriptions are blurred. For example, if Segment A is a fashionista who is young, female, cares about shoes and hair but not cars, and Segment A' is all that but she cares about her car marginally more, do you have distinct segments you're working with, or minor variants on a theme? If you're Saks, you'll assume the former and combine the segments; if you're Jiffy Lube, you would take advantage of the latter and keep the groups distinct.

Fit with corporate goals

Clusters and segments can be clear but unattractive with respect to providing solutions to the existing marketing objectives. For example, an upscale segment is always a tempting one for marketers to target because they assume that those are customers who can afford to purchase their goods or services, with a little less price sensitivity than other customers. However, if your marketplace image is one of being a store with EDLP (every day low prices), you'd confuse the extant customer base by trying to appeal to a high-end customer with some new SKUs. Further the new target of a high-end customer might not be primed to pay attention to your ads because to date, your offerings hadn't interested them.

Another strategic question regarding segment selection has to do with the strength of competition devoted to that same segment. The ideal goal for the marketer is to find an untapped (or at least relatively underserved) group of customers whose needs they can easily and profitably meet; if others have beat you to that group, or could easily redirect their efforts after watching your success, the segment becomes one that gets divided, effectively reducing its size and profitability.

Actionable

Lots of segmentation schemes fail because marketers focus on the wrong criteria. Specifically, the statistics and clusters might be crystal clear (e.g., four clear clusters of customers), and even the interpretation and managerial meaning might be clear (e.g., one segment in particular seems to be a great fit), but the segmentation is useless if the marketer is at a loss as to how to put it into action.

For example, it's true that the psychological profiles of customers are extremely important to understand their basic needs, wants, motives, so as to shape your market offerings and communications to appeal to them. And we have characterized demographics as simplistic, bordering on stereotyping. However, the marketer needs to know a complementary mix of this information.

While the attitudes help the marketer understand the "why" of the customer, the demographics and behaviors help the marketer understand the "who" and "where" of the customer. The "who" information helps inform advertising creatives in depicting the target in ads (e.g., gender, age, income level), and the "where" helps inform the design of the channel structure (e.g., where do the customers live and shop). A good segmentation scheme should come alive—you should be able to imagine your customer segments, know what they look like, and know what they'd like to talk about.

It's not unusual to see a segmentation study comprised of some usage variable (e.g., heavy vs. light users) or some attitudinal variable (e.g., positively inclined toward our brand vs. is loyal to a competitor) in a cross-tab with some demographic variable (e.g., gender or age in some break-downs like the census: 18-25, 26-45, 46-65 etc.). While we already know that the demographic cuts are too rough, and we'd prefer the behavior usage or attitude information as being more relevant, the demographics are easier to identify and act upon (e.g., in selecting media for advertisements). The hope is to find relationships among these variables—that it's the men who tend to like our brand, or it's the middle-agers who tend to be loyal to a competitor, etc. Then, the variables of gender or age become our workable proxies for the attitudinal variables that we really want.

We'll close with a preview of what marketers do with segments. Figure 5 depicts several segments identified in a marketplace. Figure 6 illustrates a company who is trying to reach more than one segment with its product. Figure 7 illustrates a strategy whereby a company has decided they want to be everything to a particular segment, serving those customers very well. Figure 8 depicts a strategy of customizing the market offerings, different products for different segments. Any of these strategies can be smart and sustainable, depending on the company's strengths and the marketplace environment (e.g., competitors).

A final thought is illustrated in Figure 9. If you currently market primarily to women roughly between 25 and 55 years old, by placing ads in women's magazines, but are finding that no matter what you do, sales are flat, and so your company is considering market expansion, which way would you go? Would you advertise via multiple media to the same segment of women? Would you try to shape the product and imagery to be compatible with men's goals? Would you try to extend your market base by age, appealing to even younger, and even older consumers than your current purchasers? Clearly profitability analyses and questions of corporate fit must be addressed, and these issues are clarified by a good, basic understanding of the segmentation structure of the marketplace.

IN CLOSE

Segments don't have to be huge, but they must be large enough to be profitable, otherwise, why vary your marketing mix. Instead, you would just fold this group in with another segment and offer the same product to both groups. The marketer must be able to identify the segment, hence the reliance upon demographic and behavioral data as a proxy for attitudes and purchase intentions. Segments must also be accessible, that is, there must be some media that will reach them, hopefully in a cost efficient manner. And last but not least, the segments to be selected must match the company—its position in the marketplace, and its marketing and production capabilities.

Unlike the claim by Gecko, the Michael Douglas character in the movie, Wall Street, greed is not good. It's not just a value-judgment; it's not good business. Rather than trying to capture the entire market, the smart marketer—the smart company—will segment the market and be selective in which groups it targets. There is research that suggests that success can bring on its own problems. With success presumably comes more sales from more customers. As the segment sizes grow, the groups become more heterogeneous, nearly by definition given human nature. It then becomes increasingly difficult to serve such a large diverse segment well, and in fact, it may be worth investing in a new segmentation study to refine further the current known segment structures.

If a company can look for smaller (not necessarily "niche"-sized) segments, that are homogeneous in their desires, the company can deliver and meet and exceed those expectations and hopes. It is also known that customers are frequently willing to pay a premium for goods and services that are tailored to meet their particular needs, so the segmentation can lead to profitable results.

To summarize the key concepts of marketing segmentation:

>> Marketers think about segmentation because customers vary in their preferences, and it is usually impossible to please all customers with one product.

>> Market segments are groups of customers whose reactions to the company's product portfolios are likely to be fairly similar.

>> Segments can be formed on nearly any kind of differentiating information, e.g., demographics, geographics, psychological attitudes, and marketplace behaviors.

>> Segments are best created as an iterative function between the managerial understanding of the marketplace and good data which may be processed (e.g., via cluster analysis) to identify similarities in likely purchasing propensities.

>> The resulting segmentation scheme should be one which is based on data, sustained by a database to help access the customers, be profitable enough to serve, be sensible with respect to the larger corporate goals and planning, and finally, may be implemented.

CHAPTER 2 In Review

Discussion Questions and Applications

1. Say one of your early jobs oversees brand managers at a Coca-Cola-sized beverage company. A team of MBAs who aren't as well-trained as you says that the project their group is developing will for sure appeal to the entire market, just like Coca-Cola itself. As a result, there's no need for segmentation. What's your reaction?
2. Your next job is in the marketing branch for a major sports club. You have to think about how to segment both consumer-fans and business-fans. What variables are relevant? How do you test whether a particular variable is useful?
3. Now you're older and you're the boss. You're overseeing a marketing research staff conducting a segmentation study. They come to you with their findings and you're trying to evaluate their study before making recommendations to your boss. How do you know if the segmentation has splintered the market into too many segments that are too small? Conversely, how do you know if the segments are too big and perhaps should be broken into more segments that are a little smaller?
4. Go online to 5 corporate homepages. Choose companies that are all in the same industry. Find their mission statement and try to discern a description of the segments they believe they are serving. How do their statements about their target segments make you see the overall positioning of these 5 companies in this industry?

Marketing Plan Questions

These questions continue to build toward a marketing plan. Save them and add them to the document or spreadsheet that you began to build in Chapter 1.

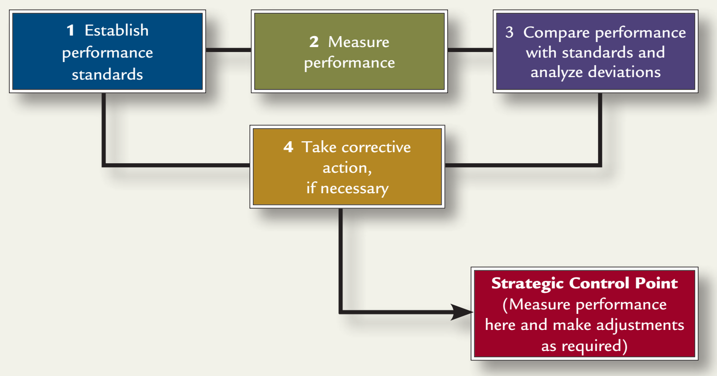
Segmentation: **fill in descriptions here:**

Base segments on data; gather marketing research to conduct cluster analyses; Describe marketplace in terms of demographics, psychographics, buyer behaviors: ____________________

First, identify describe current customers: *Segment1* ____________________

Next, describe non-users: *Segment2* ____________________

Finally, describe ideal customers: *Segment3* ____________________



CHAPTER 2 Case Prep

How to Prep a Case

Why cases? Cases are used all over B-schools. The idea behind cases is that you'll sort of temporarily work for the company that's featured, and you'll get to practice at playing CMO or CEO. The cases tell a scenario based on some real life management situation. Cases begin by describing the company and industry and then some dilemma is posed that you're supposed to address (and often, figuring out what the dilemma is, is part of the problem). You'll do cases in classes and sometimes on job interviews (especially for consultants). While you probably want a good grade in class, or a chance at the job, the point of a case is to immerse you into a simulated managerial decision setting, without there being terribly serious real world ramifications; i.e., before someone hires you and lets you loose in the real world, empowering you to possibly destroy a brand or bring your ROI crashing down (sort of kidding), they want to see how you think and behave in this practice world first.

How to proceed? First, read the case like you were taught to read your texts—that is, first skim it, looking at the opening paragraph or two, the section headers, peruse the exhibits (tables and figures at the end), to get a lay of the land. In particular, the exhibits will usually fall into one of three categories: background ("What a yawn"), some key depictions ("Isn't that cool!"), and some in between ("What am I supposed to make of this?"). And again, part of your job will be figuring out what is what. For example, for marketing classes, the first tables in a case often contain financial data as "background" information—to give you a sense of how the company seems to be doing. Check to see whether the numbers are moving steadily over time, or are dropping precipitously somewhere, are the numbers proportionate over segments, etc., depending on how the numbers are presented.

At this point, some very rough, very fuzzy questions are probably forming in your head. Some marketing professors suggest that you begin taking notes, e.g., by writing down your questions even at this perusal stage. That would be great, but I've been teaching long enough to know that this suggestion will fall on deaf ears. J Besides, it's quite conceivable that you can barely articulate your questions at this point.

Use the marketing framework!! Now, start to read the case more carefully. If you use our familiar marketing framework—5Cs, STP, 4Ps, it will help you to think systematically. In turn, the marketing framework you've learned from this book will help you identify the problem and potential solutions more readily.

Step 1 is a "Situation Analysis"—in layperson's terms, that means, "What's going on here?" The situation is analyzed primarily through the 5Cs. You'll describe your company, your current customer base, the actions of the competition, your collaborations, and the industry context as the setting in which all this business action occurs. Let's break that down a bit… You can't do a good marketing case analysis without nailing the customer and company Cs—they're central to the marketplace exchange—how we define marketing (reread Chapter 1 if you must!). Your competition might well be doing something in the case that is setting up the central problem. If not, then competition might be something you only thing about toward the end of the case, after you identify the problem, and suggest your solution(s), you'll want to consider which competitors might respond to your actions, how they'll respond, how you'll re-respond, etc. Similarly, in many cases, except those that focus on distribution channels, your collaborators might not play a key role in some cases—when that is true, mention them to show you've considered them and then dismiss it as a nonissue if that's true. Finally, the context is often a driving force underlying these cases, e.g., something is changing in the business or economic environment, more e-commerce, more global initiatives bringing more legal entanglements, more green requests of consumers hence a need to address these issues, etc. The identification of the relevant contextual trends and their impacts will probably be something you'll need to incorporate in most case analyses.

In Step 2, you'll identify the case problem. Often several problems may be identified in a case. Then you'll have to prioritize—which is the central issue and which are relatively peripheral (but perhaps bear on the central issue, or will help shape your recommendations). If you're not certain what the central problem is, that's okay—write down all the problems you see in a 'laundry list' and priorities will sort out as you proceed.

For marketing cases, start with STP. The key goal for marketers is to keep their customers coming back—repeat purchase and/or upgraded purchases and/or word-of-mouth, etc. So, who are those customers and just what do they want? Are you delivering better quality (or value or service) or are your competitors doing so? Have you chosen the ideal segment(s) to serve, according to your company's strengths? These last couple of questions imply the next great tool for problem identification is a SWOT analysis (c'mon, you know the acronym!).

Step 3 is to propose solutions to your central problem (and if you and time and space, to the peripheral problems also). Here too, it's okay to begin with a collection of random thoughts, but you're going to want to work toward a more impressive statement of not only "Here's what the company should do," but also a defense of "…and here's why…" Thus, you'll be generating solutions but you'll also need to decide the criteria along which you'll judge the proposals. For consistency, these criteria should be tied to the problems you've identified; e.g., if you're concerned about losing

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