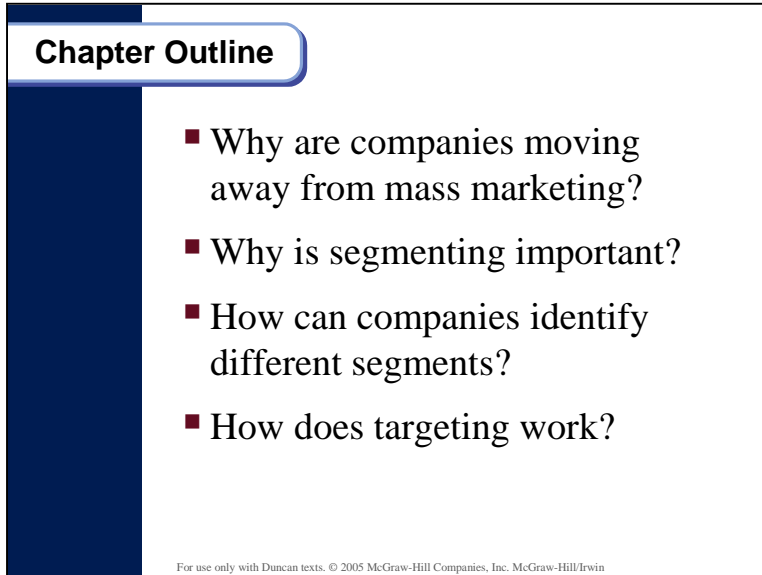


# CHAPTER 7: SEGMENTING AND TARGETING

## Chapter Objective

To discuss the importance of segmenting and targeting and how organizations use these concepts to build relationships with their most valued customers.

## Chapter Key Points

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**Chapter Outline**

- Why are companies moving away from mass marketing?
- Why is segmenting important?
- How can companies identify different segments?
- How does targeting work?

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This chapter addresses four fundamental issues:


- 1) How and why are companies moving away from mass marketing to smaller yet more profitable customer segments?
  - The chapter explains the reasons why mass marketing is becoming an increasingly expensive and impractical way to reach an organization's best customers and prospects.
- 2) Why is segmenting to find your most profitable customers important?
  - The chapter discusses the major benefits that can be gained by using segmentation.
- 3) How characteristics can companies use to identify different types of customer segments?
  - The chapter identifies several types of segmentation techniques that organizations employ.
- 4) How does targeting work to implement segmentation strategies?
  - The chapter explains how organizations use targeting to deliver messages to the segments they have identified as most critical to their success.

## Chapter Perspective


Chapter Perspective

**Targeting “everyone” is:**

- Expensive
- Wasteful
- Nearly impossible



**Teenagers**



**A more sensible approach:**

- Identify smaller segments who are most likely to consider your brand (segmentation) and target them with specifically designed MC messages

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Some marketers believe it is important to reach as many potential customers as possible; they don't want to pass up a single one. Although this might seem to make sense, it ignores the factor of cost efficiency. Reaching “everyone” costs money and sends lots of unwanted messages to people who aren't customers (and are not likely to ever be). It makes more sense to narrow the audience to people who are most likely to buy.

Segmenting identifies those groups of customers and prospects who are most likely to respond to marketing communication messages. When looking for new customers, one segmentation strategy is to profile a brand's current profitable customers, then look for those that are similar. Targeting prioritizes the identified segments and selects segment characteristics that can help in creating MC messages and selecting media to reach the targeted segments. A segment that should always be targeted is current customers because it costs significantly less to create a transaction with them than with a prospect.

Because different customers and prospects have different needs, wants, and desires, brand communications must differ accordingly. In other words, segmenting and targeting are interrelated strategic decisions. This chapter is organized around four main topics: reasons for segmenting and targeting, segmentation strategies, types of market segmentation, and how targeting works.

## Opening Case: Barina

### Opening Case: The Barina



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### Opening Case: The Barina

#### Challenge:

Reposition the car as “cool” in key segment

#### Answer:

An IMC campaign featuring:

- Target audience of early 20s females characterized as “early adopters”
- “BG”—Barina Girl animated character & logo
- Multiple media including TV, radio
- Unique media like a comic strip and festivals

#### Results:

- 97% in the target liked the campaign
- 30% sales increase

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Challenge: Reposition the car as “cool” in key segment

Answer: An IMC campaign featuring:

- Target audience of early 20s females characterized as “early adopters”
- “BG”—Barina Girl animated character and logo
- Multiple media including TV, radio
- Unique media like a comic strip and festivals

**Results:**

- 97% in the target liked the campaign
- 30% sales increase

**Discussion Starters:**

- 1) Start with a question that immediately will demonstrate different segments the classroom: ask men and women to identify the car they each think is “coolest.”
- 2) Write the responses to (1) on the board and then ask the men to comment on the choices made by the women and vice versa.
- 3) Now, narrow down the board list to the top two choices for women and the top two for men. Then ask each woman and each man to explain why they did not choose one of the top two (this will hopefully illustrate that they perceive themselves to be in a different segment)

## Lecture Outline

### I. What’s The Point of Segmenting and Targeting?

Why Are Companies Moving Away From Mass Marketing?

**Mass marketing:** An attempt to sell the same thing to a wide range of customers

**Segmenting:** Grouping customers or prospects according to common characteristics



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- A. Mass marketing ...
  - i. *An attempt to sell the same thing to a wide range of customers*
- B. ...vs. Segmenting
  - i. *Grouping customers or prospects according to common characteristics*



## TALES FROM THE REAL WORLD

### Tales From the Real World

Clients often say “we have to target everyone”

Unless they’re Wal-Mart, that’s not true. It’s time to dig deeper into the behavior of their consumers. Chances are, segmentation will save them money—and focus their message on their best customers...

Clients often say “we have to target everyone”

Unless they’re Wal-Mart, that’s not true. It’s time to dig deeper into the behavior of their consumers. Chances are, segmentation will save them money—and focus their message on their best customers. It’s amazing how true the 80/20 rule is in the real world...

### C. Most Brands Focus on Niche Segments

#### Coricidin Targets a Niche Segment

There's a cold and flu medicine specially formulated for people with high blood pressure.

Did you know that all cold and flu medicines that contain decongestants can raise high blood pressure even higher, and interfere with your blood pressure treatment? That's why Coricidin<sup>®</sup> (specially formulated) is the only cold and flu medicine that doesn't contain decongestants. Coricidin<sup>®</sup> is effective cold and flu relief for people with high blood pressure. Don't let a cold or flu get in the way of your blood pressure treatment. Use Coricidin for real relief from your cold and flu symptoms.

**CORICIDIN<sup>®</sup>**  
Cold and flu medicine for people with high blood pressure


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- i. Example: Coricidin is targeted to:
  - 1. Individuals with colds...
  - 2. ...who also have high blood pressure

D. Technology is moving toward the ultimate segmenting: one-to-one marketing

- i. Possible with:
  - 1. Mass customization

### Mass Customization

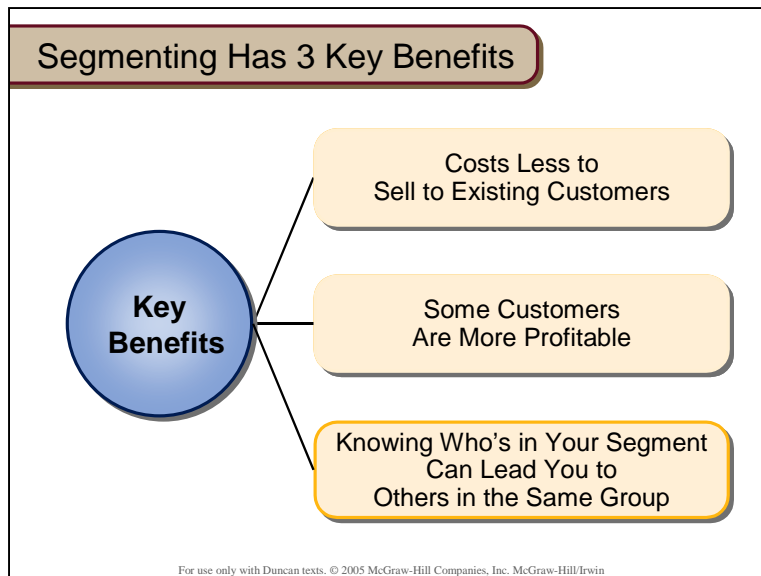


**Mass customization:**  
A manufacturing process that is programmed to choose ingredients/parts to produce custom designed goods

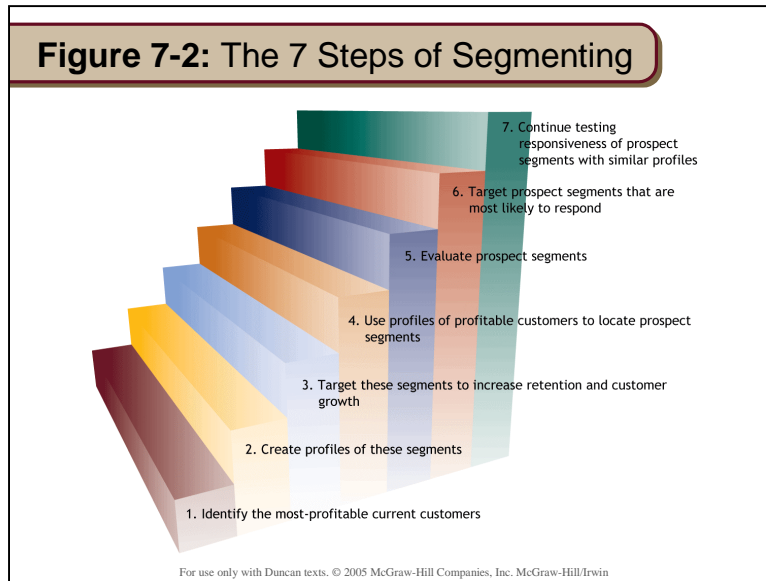
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*a. A manufacturing process that is programmed to choose ingredients/parts to produce custom designed goods*

## II. How Are Segmentation Strategies Determined?



- A. Segmenting has 3 key benefits:
- i. Costs less to sell to existing customers
    1. 5-10 times less than new users (Chapter 2)
  - ii. Some customers are more profitable
    1. 80/20 rule (Chapter 3)
  - iii. Knowing who's in your segment can lead you to others in the group
- B. 7 steps of segmenting and targeting



- i. Identify most profitable current customers
- ii. Create profiles of these segments
- iii. Target these segments to increase retention and customer growth
- iv. Use profitable-customer profiles to locate prospect segments
- v. Evaluate prospect segments
- vi. Target prospect segments that are most likely to respond
- vii. Continue testing prospect segments with similar profiles

## IMC In Action: Midas

### IMC In Action: Midas



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### IMC In Action: Midas

#### Challenge:

Identify and target the best customer segments

#### Answer:

Conduct research into customer service expectations and satisfaction

#### Results:

Midas now targets two equal segments

- Car lovers with a "good maintenance" message
- Utilitarians with a "no nonsense" message

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Challenge: Identify and target Midas' best customer segments

Answer: Conduct research into customer service expectations/satisfaction

Results:

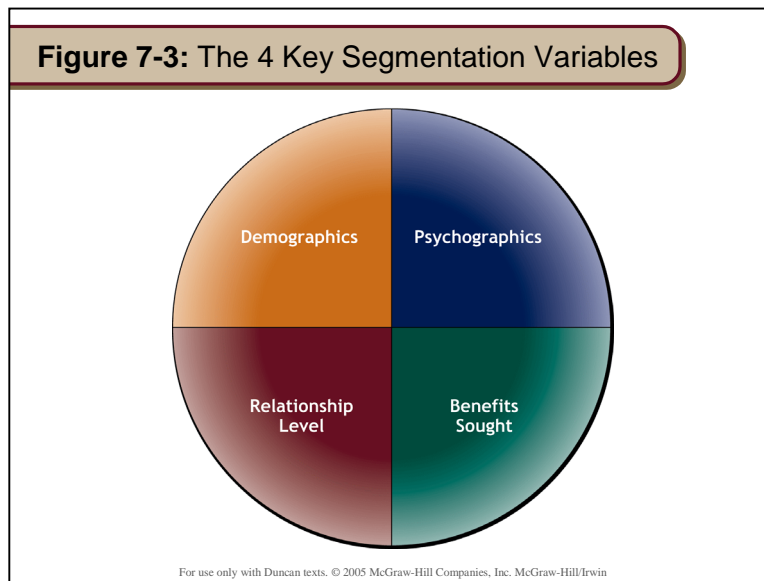
- Midas now targets two equal segments
  - Car lovers with a "good maintenance" message
  - Utilitarians with a "no nonsense" message



Discussion Starters:

- 1) Poll students to see how many identify themselves as a “car lover” vs. a “utilitarian.”
- 2) Ask the “car lovers” what is important to them about their vehicles; then ask the “utilitarians” the same question.
- 3) Then ask each of these segments which car repair facility they prefer and keep track of the scores on the board separately for each segment.

III. Types of Segmentation



A. 4 basic variables are used

i. Behavioral/Benefit

1. *Based on product usage and product related behavior ...*
  - a. Examples: Heavy, medium, light users
2. *...or benefits customers seek as the result of using a brand*
  - a. Examples: business vs. leisure hotels

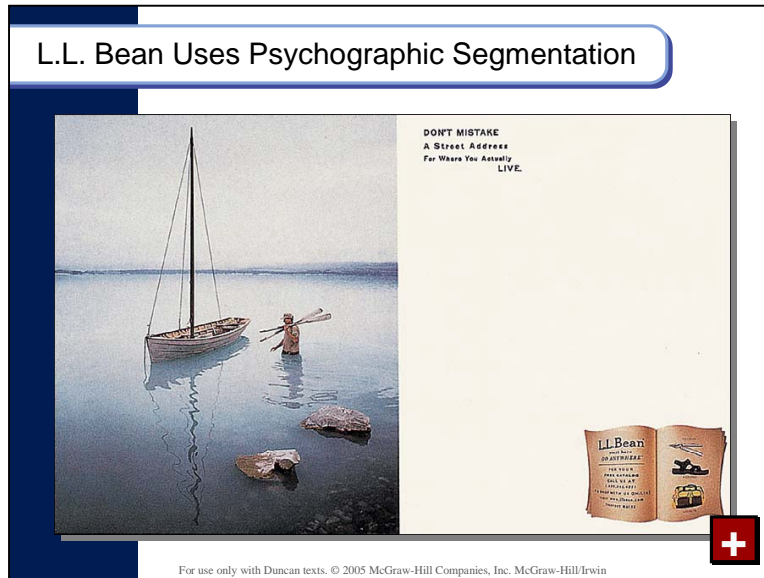
ii. Demographic

1. *Definable statistical measures, such as age, gender, and ethnicity*
  - a. Examples: gender, education, income, occupation
2. Other demos:
  - a. Age-related
    - Examples: Boomers, Xers, Gen Y
  - b. Ethnic
    - Example: Incomes of ethnic minorities are growing faster than total U.S.

c. GeoDemographic

- Example: drug firms target different individuals in different regions with different allergy problems

iii. Psychographic



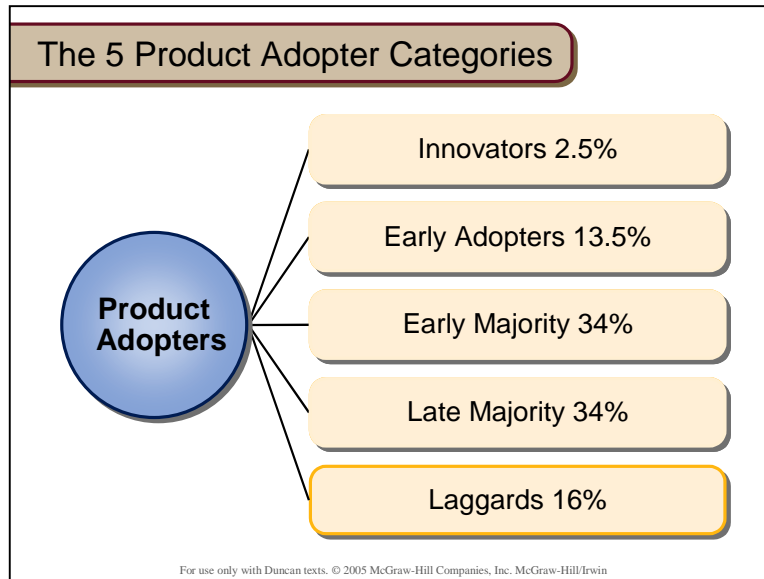
1. *Measures that classify customers in terms of their attitudes, interests, and opinions as well as their lifestyle activities*
  - a. Examples: beliefs, activities, hobbies

2. The 8 VALS 2 segments
  - a. Actualizers
  - b. Fulfilleds
  - c. Achievers
  - d. Experiencers
  - e. Believers
  - f. Strivers
  - g. Makers
  - h. Strugglers

iv. Relationship

1. *Based on customers' perceptions of their relationships with a company and their behavior within that relationship*

## 2. Product Adoption



a. *Based on differences in people's attitudes toward innovation*

## IV. How Does Targeting Deliver On Segmentation Strategies?

How Does Targeting Work?

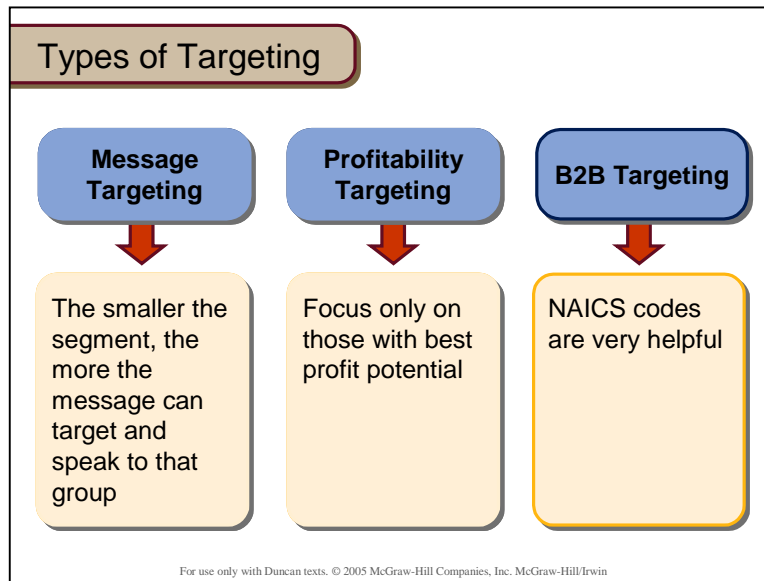
**Targeting:** The process used to identify which segments MC messages should be designed to reach and to determine how much MC spending should be used to reach each segment

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### A. Targeting

- i. *The process used to identify which segments should MC messages be designed to reach and to determine how much MC spending should be used to reach each segment*

## B. Types of targeting



### i. Message targeting

1. Message speaks directly to an identified interest of the target audience
  - a. Example: the headline in an ad

### ii. Profitability Targeting

1. Focus only on those with best profit potential

## ▷ INSTRUCTOR IN-DEPTH INSIGHT: ACTIVITY-BASED COSTING

### Insight: Activity-Based Costing



Some firms go even further than simple profitability targeting and track all costs associated with each customer's every contact with the firm—even the organization's cost for the time a customer service rep spends on a phone call from the customer

The most precise way of determining customer profitability is done by activity-based costing, a process for capturing and allocating the cost of handling each customer on a customer-by-customer basis.

For example, when a customer calls into a company for technical support, the amount of time company representatives take to discuss and provide responses is recorded, and a cost is calculated based on their hourly billing rate. If the customer wants a special report, the costs of locating the report, making copies, and sending it are also allocated to that customer. Customer-specific marketing and sales costs associated with entertaining, special merchandising materials, sales calls, and so on are allocated to each customer accordingly. Each customer's total costs, including cost of products sold to that customer, are then subtracted from his or her total purchases (revenue). The difference is the gross profit per customer.

Companies then identify the unprofitable customers and analyze why they are not profitable. If the analysis shows, for example, that they are demanding too many support services, the company can institute service fees accordingly. It is up to sales and marketing to explain any new charges in a way that maintains customer goodwill.

### iii. B2B Targeting

1. NAICS codes are very helpful

## V. Final Note

### Final Note:

Segmenting and targeting calls for a careful balancing of two objectives:

- Acquisition (attracting new customers)
- Retention (keeping current customers happy)



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- A. Segmenting and targeting calls for a careful balancing of the two objectives of acquisition (attracting new customers) and retention (keeping your current customers happy)

## Answers to Review Questions

### 1) Moving Away from Mass Marketing

- a. Distinguish between segmenting and targeting.

*Answer: Segmenting means grouping customers or prospects according to common characteristics. Targeting goes the next step analyzing, evaluating, and prioritizing those market segments deemed most profitable to pursue.*

- b. List and describe the steps in the segmentation process.

*Answer: There are seven steps in the process of segmenting and targeting consumers. They are typically followed in this order: 1) Identify your most profitable current customers by looking at sales data and other information; 2) Create profiles of these segments using standard types of segmentation tools such as demographics and psychographics; 3) Target these segments to increase retention and customer growth; 4) Use profiles of current profitable customers in an effort to locate prospect segments that fit some of the same characteristics; 5) Evaluate these prospect segments, and; 6) Target the prospect segments that are most likely to respond. Finally, it is useful to continue testing responsiveness of additional prospect segments with similar profiles to see if they can be addressed and converted to customers.*

- c. Explain why there has been a move away from mass marketing and toward segmented marketing.

*Answer: Mass marketing is an attempt to sell the same thing to a wide range of customers. Little effort is made to tightly target messages to certain groups. The obvious problem with mass marketing is that a lot of money is wasted reaching people who have no interest in the product. As media costs have increased in recent years, and the media themselves have become more fragmented (i.e. think 500 channels), it has also become prohibitively expensive to attempt to reach everyone with the same message. As a result, most organizations are turning to segmentation as a way of identifying the best customers to focus upon, instead of trying to reach everyone.*

- d. What is a market niche?

*Answer: Niche markets are generally defined by a distinct commonality shared by those making up the niche segment that differentiates the group from the entire universe of consumers. Although niche markets, by definition, are smaller than mass markets, they can still include millions of customers. The text provides the example of the niche publication Modern Maturity magazine—sent only to those seniors who are members of the American Association of Retired Persons*

(AARP). Although it serves a niche, it is one of the largest publications in the United States, with a circulation of over 20 million.

- e. What is one-to-one marketing? How is it different from mass marketing?

*Answer: One-to-one marketing means customizing products and marketing communication according to individual needs. One-to-one marketing has been used for years for higher-priced consumer and B2B products. Now, through the use of mass customization, a manufacturing process that is programmed to choose ingredients/parts to produce custom designed goods, companies like Dell are beginning to achieve success in one-to-one marketing by customizing computers for individuals and companies. This notion of responding to individual needs is the opposite of mass marketing, which assumes that “one size fits all.”*

- f. Define self-selection and explain why it is considered to be the technique that locates the most interested and responsive target audience.

*Answer: Self-selection is a method of segmenting prospects by motivating potential customers to respond in some way, and therefore identify themselves as being interested in the brand. Mass and niche media are initially used to reach a broad range of prospects with an invite to respond by sending back a form, calling a toll-free number, sending an e-mail, visiting a store, or responding in some other way. Because customers respond of their own free will, this is a good way to attract the most interested and motivated prospects.*

- g. Find an advertisement for a product that you think is marketed to a niche. (Hint: look in special interest magazines.) Explain the characteristics of those who make up the niche, and analyze how the message is designed to speak their interests.

*Answer: This is possible homework assignment to accompany the chapter. One way to help structure the assignment would be to ask the students to use their best judgment to build a segment profile for those targeted by the ad, using the key segmentation tools identified in the chapter, specifically, by behavioral, demographic, psychographic, relationship with the brand, and adopter category characteristics.*

## **2) Profitability**

- a. Why should companies start with current customers in developing a segmentation and targeting strategy?

*Answer: Current customers are the core of an organization’s business and should be the first focus of any segmentation and targeting strategy. The only way customers will continue to buy a brand is to receive superior satisfaction in product performance and customer service. Although ensuring satisfaction is costly, it is far less expensive than acquiring new customers to replace unsatisfied ones, which is why a company should think first about how best to retain customers before investing in new ones.*

- b. What is the difference between buyers and users?

*Answer: In some product categories, the person making the brand decision—the person doing the shopping—may not be the primary user of the brand. In such cases, a company must decide to what extent it should target the buyer versus the user. Before this decision can be made, a company needs to fully understand the role that the user plays in influencing the brand decision. A good example would be children’s cereals. Although parents, as a practical matter, are the purchasers of the product, they are heavily influenced by the children who eat the cereal. As a result, most MC messages for children’s cereals are targeted to the users (kids), not the buyer (adults).*

- c. What is profitability segmentation?

*Answer: This segmentation technique uses sales data analysis to identify customers who either buy in large quantities, very frequently, or in some other manner that generates a significant portion of the organization’s profit. This analysis and segmentation leads to a targeting focus on these customers to reward and encourage them. Conversely, the same data analysis can lead to the identification of segments of consumers whose buying behavior makes them less profitable for the organization. The profitability technique then targets these customers for different messages.*

- d. What does RFM stand for? How are these factors used to ensure customer profitability?

*Answer: This acronym refers to the characteristics of certain customers who are the most likely to respond to a new offer. The letters refer to those who have bought most recently, most frequently, and who have spent an above-average amount (monetary) over a designated period of time. If an organization can determine the RFM profile of individuals, it can use this information to target current high RFM customers for special treatment, and even target high RFM prospects for special messages designed to convert them to customers.*

### **3) Types of Segments**

- a. What are the five types of customer segmentation discussed in this chapter? Give an example of each.

*Answer: The most commonly used characteristics, or variables, for segmentation are behavior (usage/benefits), demographics, psychographics, level of brand relationship, and product adoption potential. An example of behavior segmentation cited in the text is reflected in the fact that a travel guide includes 30 different types of hotels targeting guests seeking different benefits (some requiring only a place to sleep; others demanding 5 star service). An example cited by the text is the 16-19 year old demographic group targeted by credit card companies. An example of psychographic segmentation cited by the text is the targeting of fitness-conscious individuals by companies like Adidas. An example of brand relationship segmentation is the type of premium loyalty exercised by some customers of Abercrombie & Fitch, who are willing to pay a premium because they believe so strongly in the brand. Finally, an example of*



*product adopter segmentation is included in the opening case of the chapter in which Barina cars targeted young women characterized as “early adopters.”*

- b. Distinguish between demographics and psychographics, and explain the role of each in segmentation.

*Answer: Demographic measures are definable statistical measures, such as age, gender, and ethnicity whereas psychographic measures are a bit less clinical measures that classify customers in terms of their attitudes, interests, and opinions as well as their lifestyle activities. In some cases demographic segmentation can be very effective, as in targeting 18-21 college students for college textbooks. In other cases, such as the Hallmark example cited in the text, psychographics can be more effective because buyers of romantic greeting cards can be of many different demographic groups—but they all share the same psychographic characteristic that draws them to the card store.*

- c. Explain how a company can develop segmentation strategies based on a knowledge of relationship factors.

*Answer: Some organizations base their segmentation on the level customer relationships different individuals have with them (ranging from no loyalty at all to extreme—or premium—loyalty) recognizing the differences between them can be helpful in targeting the most important groups, as well as designing messages to address their interests. An example would be Saturn’s efforts to cultivate current loyal users as well as to reach out to a completely separate group on non-users who have no loyalty.*

- d. Working in teams, consult the diversity wheel (Conditions of Difference) in Figure 7.4. For each section of the middle and outer circles, write a specific insight about yourself and about the other person. When you have completed the list, identify all the points of similarity and all the points of difference.

*Answer: This should be a very interesting classroom exercise. Another suggestion to make the exercise even more intriguing is to form groups based on different backgrounds of the students in the class. For example, those from rural areas versus urban areas, or those from public high schools versus private, or those from large versus small high schools. Then have each of the groups rate their group’s collective position in relation to the wheel, write it on the board, and compare the differences between groups.*

#### **4) Targeting**

- a. How does business-to-business segmenting and targeting differ from consumer segmenting and targeting? How are they similar?

*Answer: B2B segmenting and targeting differs from its consumer counterpart in several ways. First the average B2B customer spends more and costs more to acquire than the average consumer. Second, B2B marketers are fortunate because they have access to a unique database not available to consumer marketers: NAICS,*

*which is very helpful because it provides a quick way to identify those companies that are in a particular industry. On the other hand B2B and consumer marketing are similar in at least two key ways. First, both benefit from the ability to be more efficient and effective by segmenting their market rather than simply targeting the mass market. And second, they often share the use of similar segmentation variable tools such as behavior, demographics, psychographics, and relationship strengths.*

- b. Analyze the contents of your closet or medicine cabinet. Find one brand that you think was targeted to you. Explain why and how that brand's targeting works in general, and tell how it speaks to you personally with its brand messages.

*Answer: Students will have very diverse answers to this question, but one example that is likely to be cited multiple times is the category of allergy medications like Claritin or Allegra. One suggestion to help guide the discussion is to create transparencies of magazine ads for each and present them to the class, and then ask for feedback. The most commonly mentioned type of targeting strategy students are likely to cite is message targeting. They are likely to suggest that the types of people, the activities portrayed, the headline, and the body copy are all designed to appeal to the segment of young active people who don't want allergies to keep them from enjoying life.*

- c. Explore the ethics of targeting children who watch Saturday-morning cartoon programs. Suppose you were working on the advertising for a sugar-laden cereal, can you think of any socially responsible way to advertise it on Saturday-morning cartoons to children? What would be your personal opinion about this assignment?

*Answer: This is a good question to stimulate thoughts about issues in the marketing communication industry. Many of the students in the classroom are not too far removed from being in the target segment for children's cereals, so many of them may think this is a non-issue. One suggestion for stimulating discussion is to first poll the class and identify those students who believe that this involves a valid ethical issue and those who do not believe that it does. Then it might be interesting to have a debate between volunteers from each camp.*

*After some possibly heated discussion, the instructor could offer this possible compromise: design the commercial in a manner that will effectively make the cereal appealing to children, but frame the commercial in the context that the cereal is only one component of a healthy breakfast. This theme could be incorporated in the body copy for the ad as well as subtly within the visual aspects of the ad by showing the cereal being consumed by young people along with juice and fruit, for example.*

## Chapter Challenge

### Writing Assignment

The automaker Holden wants to market its Barina model to young women. Review this chapter on segmenting and targeting, and Chapter 5, on the brand decision process. How many ideas from these two chapters would you recommend that the Holden marketing manager consider in developing the next year's marketing plan? List all the principles and strategies that you think might be useful in developing this strategy.

### Presentation Assignment

Develop a class presentation on the use of stars as campaign spokespersons. Choose from Dennis Rodman, Magic Johnson, Kristi Yamaguchi, Gabriela Sabatini, Amy Van Dyken, Michael Jackson or some other star with whom you are familiar and who has appeared in advertising for a client. Analyze the effectiveness of this star in reaching either mass or niche audiences. How does the use of stars assist in the segmenting and targeting of a campaign? Develop an outline of the key points you want to present. Give the presentation to your class or record it on a videotape (audio tape is also an option) to turn in to your instructor, along with the outline.

### Internet Assignment

Go to the SRI Consulting Business Intelligence's VALS website [www.future.sri.com/vals](http://www.future.sri.com/vals) and then click on "survey," and match your own lifestyle with the VALS typology. Where would you be located, and how well do you think that designation fits you?

### Research Assignment

Consult the books and articles that relate to targeting, segmenting, and positioning. What guidelines can you develop from your readings on the different procedures used in retaining customers and acquiring new ones. How is a manager to make the decision about which one of these to emphasize?

### IMC Plan Team Assignment

At this stage in their semester-long project, students must identify the two most promising segments to target for their plan. This assignment will ask them to conduct research to identify and prioritize the top three segments that are most critical to the success of their client using the five types of segmentation factors discussed in the chapter.

# IMC Final Project Checklist #7

Due Date: \_\_\_\_\_

Your Agency Name:

Identify, prioritize, and profile the two top segments you intend to address in your IMC plan

*(Use the segmentation variables, discussed in the chapter: behavior usage/benefits, demographics, psychographics, level of brand relationship, and product adoption potential—and do not forget current customers)*

Segment 1

- Behavior characteristics:

- Demographic characteristics

- Psychographic characteristics

- Brand relationship characteristics

- Product adoption potential characteristics

Segment 2

- Behavior characteristics:

- Demographic characteristics

- Psychographic characteristics

- Brand relationship characteristics

- Product adoption potential characteristics