Chapter 2

Learning Objectives

After completing this chapter, you should be able to:

- Explain why effective marketing strategy depends on understanding consumer behavior.
- Identify the keys to adopting a market orientation and a customer focus.
- Understand the importance of marketing imagination to business success and know some keys to being an imaginative company.
- Describe market segmentation and identify a process for segmenting markets.
- Identify useful segmentation variables and criteria for effective market segmentation.
- Describe different kinds of market segmentation strategies and when they are appropriate.
- Understand the relationship between positioning and targeting.
- Describe different product positioning strategies.

Consumer Behaviors and Marketing Strategies

Let's Go Shopping!

If you want to go shopping a good place to start might be the shopping channel at www.excite.com. Excite Shopping Search powered by the Jango search engine offers shoppers intelligent agent programs that will search the Web for a specified item, seeking the product or service at the best price according to specifications set by the user. Excite Shopping Search has won numerous awards since its first appearance in 1997. Excite, Inc., is part of a new world of commerce happening in marketspace instead of a marketplace. In this marketspace, the manufacturing, promotion, and delivery of products and services are becoming separate, open to independent manipulation and real innovation. Few companies are as successful in that game as Excite. The cartoon on page 30 humorously suggests how pervasive online shopping now is.

Six Stanford University graduates founded Excite, Inc., in 1994. They started the company in a garage with $15,000 borrowed from their families. Excite is now a global media company offering consumers a free online service with a simple front end to the Internet and extensive personalization capabilities; it offers advertisers the best one-to-one marketing services available online. Localized versions of Excite are available in France, Germany, the UK, the Netherlands, Sweden, Japan, and Australia. In 1998, Excite was named the fastest-growing public company in Silicon Valley for 1997 with revenues of $50.2 million and a calculated growth rate of 709 percent. Also in 1998, Excite had one of the most trafficked sites on the World Wide Web, with nearly 20 million unique individuals visiting its network each month.

"Can I call you back? I'm shopping."

Source: *New Yorker*

Overview

We aim primarily to provide you with a basic understanding of consumer behavior from the consumer's perspective. We also provide many examples throughout the text of how marketing managers use consumer behavior theory and research. This chapter focuses specifically on the intersection between managerial marketing strategy and the insights provided by consumer behavior research. **Strategy** can be defined simply as *the actions managers take to attain the goals of the firm.* **Marketing strategy** concerns *the actions managers take to improve the likelihood marketplace exchanges will occur between a firm and its target markets.* To this end, the opening vignette illustrates how important it is to anticipate the needs of consumers; it also illustrates how quickly the environment for marketplace exchange is changing. For example, in 1997–98 adult Internet access grew in the United States by 35 percent and approximately 16 million children were using the Internet.

Over the foreseeable future we can expect that more and more buyer-seller transactions will occur in *an information-defined arena* coined **marketspace.** Business-to-business online commerce or e-commerce is expected to grow from $43 billion in 1998 to $1 trillion in 2003. Online retail sales in Europe were worth $3.6 billion in 1999 and should nearly triple to $9 billion in 2000. There should also be $6 billion in sales in Asia, with Japan, Australia, and South Korea in the lead. From 1997 to 2002, Internet use in China is supposed to grow 571 percent to 9.4 million users. Internet use in Latin America should increase by 298 percent from 4.8 to 19.1 million users.[1]

The contents of marketspace transactions, the contexts in which they occur, and the support activities that enable them are all likely to be very different from exchanges in the physical marketplace. Consider one dramatic example. FreeMarkets, Inc., is a business-to-business Internet auction company that enables suppliers of components for manufactured goods to compete for manufacturers' orders in live, open, electronic auctions. FreeMarkets helps buyers standardize every item of their orders, finds and screens potential sellers, and runs the electronic auctions. The company's clients, like GE, Raytheon, Quaker Oats, and United Technologies, save more than 15 percent on parts, materials, and even services. During the online auctions, sellers can see exactly what the competition is bidding and how low they must go to pocket the order. FreeMarkets makes millions on its services. The cost savings represented by Internet auctions is so great that GM, Ford, DaimlerChrysler, and Toyota have rushed to set up their own versions, as have Sears Roebuck and Company and French retailer Carrefour. Like ATMs in consumer markets, business auctions have created a new marketspace interface between customers and companies that has dramatically changed the competitive dynamics of their respective industries.[2]

In this chapter we first discuss marketing strategy. We also discuss two essentials for developing effective strategy from insights from consumer research: a market orientation and a customer focus. We then talk about the idea of **marketing imagination.** Companies with marketing imagination *go beyond what consumers are able to tell researchers to find new ways to create value for them.* Excite focused on in the vignette, seems to have that kind of imagination. For example, beginning in fall 1998 Excite offered all users the opportunity to create or join cyberspace communities. The rationale is to enable families and friends to create a gathering place online that stands in for the family living room or the friendly neighborhood—a familiar and comfortable place for people to visit time and again.

Although every successful marketing strategy is built on important skills and resources, none is more critical than the ability to sense the market. Effectively sensing the market produces knowledge not just information. This kind of knowledge increases a firm's market orientation and results in improved service levels and more innovative products. Listening carefully to customers and remaining market focused leads to market offerings that are different from competitors' products and to improved profit margins. Excite and FreeMarkets are great examples of companies adept at market sensing.

In this chapter we also outline the segmentation, targeting, and positioning process and provide examples. Organizations need to understand consumer behavior in order to segment markets, choose market segments to serve, and develop and position products and services to attract current and potential customers. Developing and positioning products and services involves not just deciding on the form of the product or service but also determining what communications and promotions, distribution systems, and pricing techniques to use.

Marketing Strategies

As discussed in Chapter 3, consumer research can be used in numerous ways to assist managers in understanding their customers. One of the most important applications of consumer research is to improve marketing strategies. In general, customer-oriented marketing strategies improve the value customers derive from products or decrease the costs of products to customers.

One useful categorization of strategies identifies four strategy types: prospector, defender, analyzer, and reactor. **Defenders** are *firms with a narrow product market, a stable*

Defender Strategy: The McIlhenny Company uses market penetration strategy to increase sales and defend its brand's position.

www.churchdwight.com/company/company_information.htm

www.tabasco.com/cgi-bin/historian.pl

customer group, and an established organization structure typically managed by older executives. Church & Dwight, maker of Arm & Hammer baking soda (founded 1846), and the McIlhenny Company, maker of Tabasco sauce (founded 1868), might be considered defenders. Nevertheless, Church & Dwight has successfully implemented both *product and market development strategies* by creating new products containing baking soda and new uses for those products. McIlhenny has implemented a *market penetration strategy* by extending its core brand and suggesting new uses for it to stimulate increased sales.[3]

Defender Strategy: Church & Dwight creates new uses for existing products through product line extensions.

Prospectors have a *changing product market, a focus on innovation and change, and a flexible organizational structure headed by younger managers.* A more specific example of a prospector strategy is a **differentiation strategy.** Such a strategy *emphasizes a product that is unique in the industry, provides a distinct advantage, or is otherwise set apart from competitors' brands in some way.* Entrepreneurial start-up firms like Excite, FreeMarkets, and other new Internet-based firms tend to be prospectors. Defenders and the prospectors lie on opposite ends of a continuum of competitive strategies. The **analyzer** strategy falls between defenders and prospectors on the continuum. Firms that *follow a price leadership strategy, also called a low-cost/low-price strategy,* are examples of analyzers. Korean electronics firms like Hyundai, Samsung, and Lucky Goldstar entered the U.S. market using this approach. Finally, **reactors** do not really have a consistent strategy. They tend not to be very customer oriented and *adopt a "me-too" approach to marketing.*[4]

Market Focused and Customer Oriented

To deepen our understanding of the connection between consumer behavior and effective marketing strategy we can review the **marketing concept.** The marketing concept is a business philosophy, an ideal, and a policy statement. The essence of the marketing concept is a *market-focused, customer-oriented, coordinated marketing effort aimed at generating customer satisfaction as the key to satisfying organizational needs.* A study based on interviews with managers at almost 50 different U.S. companies summarized what managers mean by a market orientation and what organizational factors encourage or discourage this orientation. The answers were revealing.[5] First, managers agreed that a **customer focus** is the central element of a market orientation. Organizations with a customer focus *constantly look for ways to deliver greater value to current and prospective customers through mutually beneficial exchanges.*

Although every successful marketing strategy is built on important skills and resources, none is more critical than customer focus, or the ability to **sense the market.** Sensing the market refers to a *manager's ability to empathize with and gain insights from customers.* This is the single most important skill a manager can use to mobilize new technologies, develop product and service offerings, and design communications programs. In fact, all the elements of a company's strategic posture depend on this skill. We can think of many ventures that have been enormously successful because the founders brought this ability to their enterprises: Bill Gates (Microsoft), Mary Kay Ash (Mary Kay Cosmetics), Akio Morita (Sony), Sam Walton (Wal-Mart), Steve Case (AOL), Richard Branson (Virgin), and many others.[6]

Paying attention to the customer is certainly not a new idea, and yet many companies don't do it or don't do it well. For example, Encyclopedia Britannica's management disregarded the threat of CD-ROM technology and later bungled the company's entrée onto the Internet. The result has been a major decline in sales and profits. Ironically, Encyclopedia Britannica had CD-ROM technology in one of its other units, but the company failed to recognize its importance in the encyclopedia market. GE, which became one of FreeMarkets' biggest customers, initially rejected the idea when it was proposed in-house. By contrast with these bloopers, Toyota, which has a history of market sensitivity, is investing heavily in web technology, although it seems far from the company's core business, because it expects to build its web browser into its soon-to-be-computerized auto models.[7]

Managers sometimes confuse information about consumers with knowledge about consumers. Effectively sensing the market produces knowledge not just information. We'll have more to say about this in the next chapter. General market data such as that provided by syndicated marketing research services show who is consuming what. But the data rarely show a company how customers relate to each other, the product, and the company.

Good Practice 2.1

Questions to Map the Consumption Chain

1. How do people become aware of their need for your product or service?
2. How do consumers find your offering?
3. How do consumers make their final selections?
4. What happens when your product or service is delivered?
5. How is your product installed?
6. How is your product or service paid for?
7. How is your product stored?
8. How is your product moved around?
9. What is the customer really using your product for?
10. What do customers need help with when they use your product?
11. Are there any patterns in returns or exchanges? What are the causes?
12. How is your product repaired or serviced?
13. What happens when your product is disposed of or no longer used?

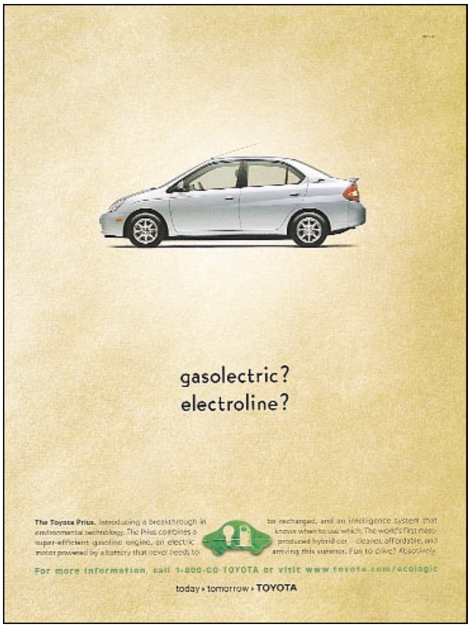
Attending to this kind of knowledge produces many payoffs. It increases a firm's market orientation, resulting in improved service levels and more innovative products. It leads to promoting products and services that are designed specially for different national markets. By listening carefully to customers and remaining market focused, a company can develop products that are fundamentally different from those of its competitors, which can result in increased profit margins. Finally, listening to the market favors differentiation over cost reduction even when the latter seems like the easier course of action.

Differentiation means *offering customers something they value and that competitors don't have,* like Excite's communities, FreeMarkets' vertical auctions, or Toyota's hybrid energy car.[8] Differentiation can occur at any point in the consumption chain—from how and when the product is acquired, to when consumers decide they no longer want it and decide to dispose of it. For example, Tesco Direct in the UK and Webvan in San Francisco are each working hard to solve the distribution problem in online supermarket shopping. Good Practice 2.1 identifies a series of questions managers can ask about their products and services to map the consumption chain and capture the consumer's total experience. The most important way to achieve differentiation is to completely analyze the consumer's experience with a company and its products: *What* are customers doing at each phase of the circle of consumption? *Where* are customers at each stage of the consumption chain? *When* are consumers engaged with an element of the consumption circle? *Who* else is with the customer points in the cycle of consumption? *How* are consumers' needs and desires being addressed at each stage of consumption? Yankelovich Partners' Brand Intelligence and Corporate Reputation Studies are examples of innovative research on customers' experience that answers these kinds of questions for firms.[9]

Next, many of the managers surveyed emphasized that a customer focus goes beyond conducting customer research. It involves taking actions based on market intelligence. **Market intelligence** includes *knowledge of environmental factors that affect both current and future needs and preferences of customers.* The concern for future needs drives companies like Xerox, 3M, Toyota, and Procter & Gamble, for example, to invest heavily in new-product development and The Coca-Cola Company to invest heavily in trends research provided by companies like Yankelovich Partners. The idea that market intelligence includes anticipated customer needs is important because it often takes years for an organization to develop new product offerings.

www.yankelovich.com

Third, the managers emphasized the need for **coordinated marketing,** stressing that a market orientation is not just the responsibility of a marketing department. This means



Prospector Strategy: The Toyota hybrid energy vehicle may satisfy consumers' future needs for energy-efficient transportation.

that market intelligence must be distributed across the organization. Effectively sharing intelligence is important because it provides a basis for joint action by different departments. For example, the vice president of a manufacturing firm indicated that her organization spreads customer information by telling stories about customers, their needs, their personality characteristics, and even their families. The idea is to have the secretaries, engineers, and production personnel "get to know" customers. If they do, they are more likely to incorporate knowledge about customer needs into activities at every level of the firm.

Fourth, the managers emphasized that certain kinds of environmental conditions may make a market orientation more or less important to overall business performance. One example is a change in customer base. Two U.S. consumer food products companies included in the survey on which this section is based marketed their products in a specific region in the United States without doing much market research. The population in this region had remained unchanged and the preferences of customers were known and stable. Over the last few years, however, the region has received a new influx of population, forcing both companies to initiate research and develop new products. Similarly, the rapid transition to market-driven economies in countries such as Poland and Turkey has led to a rapid growth in customers and an increase in customer sophistication. Old state-run firms that cannot deliver value to meet changing consumer demand in these markets decline as market-oriented foreign firms rush in.[10]

Fifth, the managers also stressed that the degree of competition in an industry affects the importance of a market orientation. Increased competition makes it difficult for firms to develop distinctive product positioning strategies. A sales manager for an industrial product firm explained his firm's response to competitive pressure: "Historically, we were a technically driven company. In the early years it was a successful approach. If we had a better mousetrap, customers would search us out. However, as more companies came up with more solutions, we had to become more market oriented. Find out what solution the customer is looking for, and try to solve it."

Finally, the managers emphasized that profitability is not a part of a market orientation; it is a *consequence* of a market orientation. Findings from the interviews with managers can

A Few Rules for Becoming Market Focused

Good Practice 2.2

1. **Recognize that "customer" means more than the next step in the distribution chain. An important corollary: Do not think of your marketplace offering as a commodity.**

   In many cases, businesses may have consumers (end users of products and services) as well as clients (organizations that may dictate or influence the choices or end users). Organizations must pay attention to both.

2. **Count on your customers for information not for insight.**

   Customers can describe their experiences and define their immediate needs. But only you can interpret their data and help them solve their problems. Being market focused is about your own creativity uncovering and solving your customers' problems.

3. **Don't expect brilliant insights each time you study a customer. Small operational shifts made from a market-focused perspective can also add up to significant improvements.**

   Through a succession of small moves it's possible to take critical steps toward delivering a new set of benefits to a market. It may be as simple as coming up with a more effective way to handle customer complaints or streamlining the sales organization on the basis of recent information about the distribution of customers.

4. **Involve all levels of the organization in the drive to become market focused.**

   Senior management's commitment and participation are vital for an organization to become market focused, but not sufficient for prolonged success. For maximum results, the market-focused mind-set must invade the entire organization.

Source: Francis J. Gouillart and Frederick D. Sturdivant (1994), "Spend a Day in the Life of Your Customers," Harvard Business Review *(January–February), 116–27.*

be summarized with a definition of **market orientation** as *the organizationwide generation of market intelligence, pertaining to current and future consumer needs, dissemination of the intelligence across departments, and organizationwide responsiveness to it.*

Simply engaging in market-oriented activities does not ensure the quality of those activities. For organizations to become more market oriented they often must acknowledge gaps between their current orientation and a market orientation. For example, a manager of a service organization (a hospital) noted that the company's employees felt they were very responsive to customer needs. However, when service interactions between these employees and customers were videotaped and played back to the employees, they were horrified at the callous ways they saw themselves treating customers. The videotape identified a gap between the hospital's current orientation and a preferred market orientation. Incorporating simple rules into interactions with customers—illustrated in the Good Practice 2.2—can help managers improve their market orientation.[11]

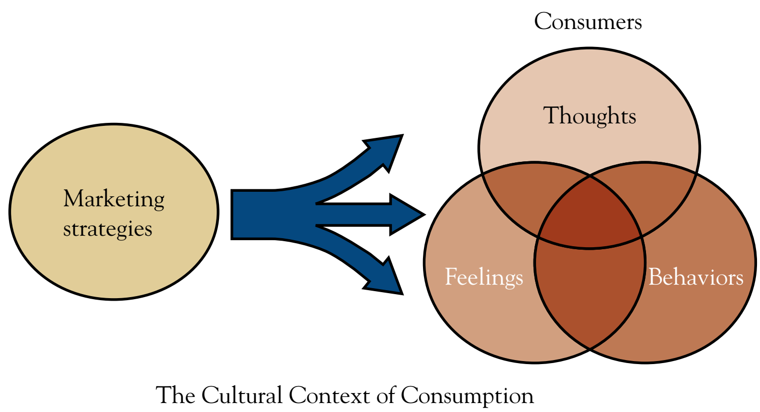
The Context of Strategy Development

The cornerstone of market orientation is a customer focus. Marketing and organizational strategies must be designed around an understanding of consumers' thoughts, feelings, and behaviors. Exhibit 2.1 summarizes the crucial relationship between marketing strategies and understanding consumers. Companies must avoid a narrow focus when trying to understand consumers. As discussed further in Chapters 4 and 5, these understandings must be formulated with due attention to the economic, social, and cultural environment of consumption. Consistent with the views of the managers discussed above, many global corporations from GM to GE to Nestlé to Mattel are organized into geographic units so that production and marketing are better coordinated and market offerings are more closely tailored to the demands of consumers in the United States, Europe, Asia, or Latin America. Global companies believe this will help them produce well-adapted products and will introduce economies of scale and scope. Mattel's Global Friends line of dolls is produced to appeal to consumers in each major global city. Gaining a global focus for Mattel is very important. Although Mattel is the world's largest toy company and currently holds about 16 percent of the market share for toys sold in the United States, its share in Europe is less than 8 percent. With 800 million children in Asia, 120 million in Latin America, and 70 million in Europe, toy makers are challenging each other to make an impact in international toy sales.[12]

Global consumer marketing usually requires firms to tailor their strategies in response to variations in their environment. Typical sources of pressure to respond to local conditions include (1) differences in consumer tastes and preferences, (2) differences in infrastructure and customary marketing practices, (3) differences in distribution channels, and (4) host government rules and regulations. We discuss differences in consumer tastes and preferences throughout this book so we need not dwell on them here.

Differences in infrastructure include variation in measurement units (metric versus English measures), electrical current (110 versus 220 v), and telephone service (land versus microwave systems), for example. Examples of differences in customary marketing practices include restrictions on advertising to children in Denmark and comparative

Exhibit 2.1 Marketing Strategy and Consumers



advertising in Germany, rules about business-to-business gift giving, and the like. Such restrictions may even limit firms' abilities to commit to a marketing orientation as researchers have found in Germany.

Differences in distribution channels include such things as channel penetration and retail concentration. Japanese distribution systems have more intermediaries than typical U.S. distribution systems, for example. By contrast, transition economies in eastern Europe or in China often lack developed marketing channels or experience a breakdown in channel penetration when centralized state-owned firms loose their monopoly on importing. Retail concentrations may also vary greatly between countries. For example, the packaged-rice industry is fragmented among a number of firms in Brazil and Italy and, until recently, was virtually nonexistent in Poland. The recent aggressive expansion of Wal-Mart and the French retailer Carrefour has dramatically increased retail concentration for clothing and housewares in many Latin and Asian nations.

Examples of host country regulations are many. A specific example concerns rules about the use of genetically modified seed materials. The United States is quite favorable, the European Community not. Similarly, pharmaceuticals are subject to an array of testing, registration, and pricing restrictions in different countries. Some countries, like France, have moved to enforce rules requiring a certain percentage of locally produced content in their radio, television, and film media.[13]

In international consumer marketing, what foreign resources and capabilities do local firms typically want? In addition to capital, expertise in marketing strategy is one of the most universally sought capabilities. This function is almost completely absent in many organizations in transition economies and the less affluent world; yet it is a necessity if a company is to compete effectively. Unfortunately, local firms may be less interested in developing the managerial skills that make implementation of a marketing orientation possible.[14]

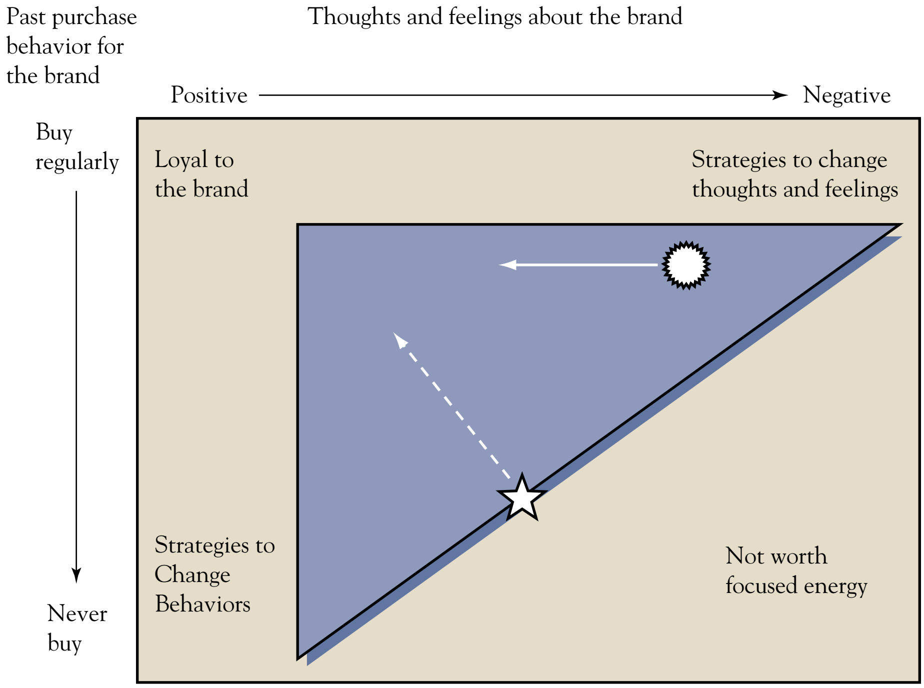
Consumers' Thoughts, Feelings, and Behaviors

Within a particular context, a person may have conflicting thoughts, feelings, and behaviors toward a product or service. For example, someone may express a preference for a brand but still not purchase it—the person has positive attitudes about a brand but negative purchase behavior. By digging into the conflicts between feelings, thoughts, and behavior, managers can not only better satisfy existing customers but develop differentiated products that appeal to unserved portions of the market.

Mazda's successful Miata roadster offers a great example of using the difference between customers' feelings and behaviors strategically and imaginatively. Mazda identified a large segment of consumers who had positive feelings and nostalgia for classic British Sports cars (e.g., MG, Triumph, Austin Healey). However, the old British cars are associated with a stream of negative attributes—expense, breakdowns, parts problems, and so forth—that led customers to negative purchase behavior. They abandoned these brands. The Miata was a wonderful, affordable answer to this conflict between thoughts, feelings, and behaviors. It retained the look and feel of a British sports car but without the associated problems. By examining both what consumers feel and what they do, marketers will have a better chance of developing a marketing mix that delivers superior value to a chosen target market segment. Indeed, Ford has subsequently revived the Jaguar brand by attending to the positive feelings but negative thoughts and behavior toward this brand.

Exhibit 2.2 illustrates a strategic analysis of consumers that involves an examination of both their purchase behaviors and their thoughts and feelings about a brand. Let's consider an example of how such an analysis can help managers. Suppose you produce V8 brand vegetable juice (the name comes from the eight types of vegetable juice it contains)

Exhibit 2.2 Strategic Analysis of Consumers



and you know that a segment of consumers know about V8 and have favorable feelings about the drink. But they only buy the brand occasionally or maybe never. This would mean they could be located about halfway down the triangle as shown by the star in Exhibit 2.2.

Why they don't buy becomes the focus of attention. Perhaps, they haven't formed a V8 habit—they don't recognize a consumption situation that calls for a V8. In this case, advertising that reminds consumers of occasions to drink V8 would be a good tactic to reposition the product in their minds and change behavior. The manufacturers of V8 used to run an ad like this showing a consumer remarking, "Oh, I could have had a V8." This tactic aims to convert nonpurchasers with a favorable image of the product into **brand-loyal consumers,** *consumers who regularly purchase the brand and have an expressed preference for it.*

Perhaps you can identify a segment of customers who buy V8 regularly, but when you explore in more depth you find their feelings about the product are mostly negative, as shown by the sunburst on Exhibit 2.2. These customers are vulnerable to competitors. Perhaps because of inertia or a lack of alternative vegetable juices they continue to buy your product, but they are ripe for the picking. Again, identifying why these consumers are unhappy and resolving their complaints can convert them into brand loyal consumers.

Public transportation offers a case of customers who buy regularly out of necessity but often feel negatively about the product. Public transportation has typically not been market focused. In many places, people use public transportation regularly, but only because they have no other alternative; many people consider public transportation to be neither safe nor convenient. In a recent effort to make public transportation a preferred choice, managers of the Denver, Colorado, public transportation system listened to what customers didn't like about the service. They identified a segment of people commuting to an industrial park area of a nearby city where there was no convenient direct access. The transport authority added a special bus two times a day that provides direct, convenient access. This made their current customers more satisfied and more regular users of the service, and it attracted a number of new users who now found public transportation more convenient. Similarly, in the Niger Republic in West Africa the National Transportation Company (NTC) introduced an air-conditioned, on-time express bus service linking major cities in this very poor country. Although the service was costly by local standards, NTC always filled the bus, and this service helped NTC become one of the few profitable state-run companies in Niger.

Finally, analyzing both consumer attitudes and behaviors can help managers pinpoint consumer segments that are not worth trying to develop. Anytime a company attracts new customers it is asking them to do something different from what they would have done in the absence of the marketing programs directed at them. They have to change their attitudes and their actions. Changing attitudes is difficult, as is changing behavior—changing both is expensive and sometimes impossible.

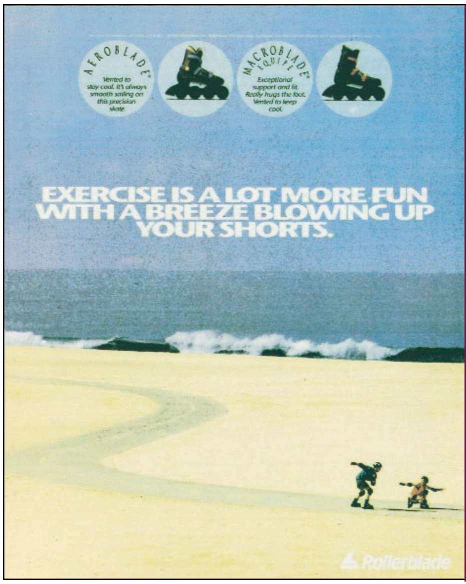
A growing consumer segment that dislikes a product and never buys bodes poorly for the company that makes it. Creative and future-oriented strategies are needed to respond. For example, some U.S. classical music orchestras have found that their audiences are aging and may not be replaced. Because of cutbacks in funding of public school music programs, many U.S. children reach adulthood with little exposure to classical music. In the short term, orchestra marketing directors can attempt to resolve the problem of shrinking audiences by offering them benefits other than classical music—meeting singles, firework displays, family picnics, and more popular musical fare. This, however, is an uphill battle because of other competitive options. In the longer term, orchestras like to play classical music and would like to develop audiences that enjoy their music. This suggests an active outreach program to replace cutbacks in school music programs and to attract future consumers by building positive consumer attitudes early. The Pacific Symphony Orchestra in Orange Country, California, has a very aggressive community outreach program. For example, they offer an "adopt a musician" education program serving 17,000 students in 20 schools. But one wonders whether and which school children could be targeted effectively with this outreach program. What do you think?[15]

Marketing Imagination

The connection between understanding customers and designing effective marketing strategies requires creativity and imagination. Customers can often tell marketers what's important to them, and they can identify problems they face in their lives; but they usually can't identify what they'd like the company to do about it. Marketing intelligence attempts to find out what problems customers are trying to solve, and marketing imagination offers solutions.[16] Great consumer examples of marketing imagination include the following. Rollerblades invented not merely a product and a sport, street hockey, but an entire youth lifestyle tailored to urban living. Rollerblade has now attracted a global following. Benetton promotes its casual clothing along with the virtues of multiculturalism to a global market segment, allowing its brand to cross many political, social, and cultural borders. There are almost 30 Benetton outlets in Syria, for example, a country known neither for its promarket policies nor its fashion-forward orientation. In Bangladesh, GrameenPhone provided a solution to the notorious isolation of rural villages through small loans to village women that enable them to buy cellular phones. The women use the phones to sell airtime to their neighbors. The women entrepreneurs profit from the difference between retail and wholesale airtime costs, approximately $50 per month, twice Bangladesh's per capita income.[17]

An Imaginative Company: Benetton promotes its casual clothing along with the virtues of multiculturalism through global marketing communications.

FreeMarkets' vertical auctions described earlier offer a business-to-business example of marketing imagination. Nalco Chemical and Betz Laboratories, two highly successful chemical companies, offer another. Originally, both of these companies thought of themselves as manufacturers and distributors of chemical products for use in water treatment. Over time, both companies concluded that everyone would benefit if they took over their



An Imaginative Company: Rollerblade, Inc. continues to grow through innovation. In 1995, Business Week magazine selected Rollerblades Bravoblades with automatic braking technology (ABT) as one of the best new products on the market.

Industry Insight 2.1

Beach'n Billboard

Beach'n Billboard is a company that brings the marketing imagination to life. The firm makes interchangeable impression mats that are mounted to a custom-designed cylinder and donates the apparatus to towns that own beaches. The company then pays a town a daily fee to hitch the trailer behind the town's beach-cleaning vehicles. In return, Beach'n Billboard retains the right to market the beach as a giant billboard. For as much as $2,500 a month, the firm guarantees that a client's message will be embossed onto the beach every day—as many as 5,000 impressions. In addition, each imprint is tagged with an antilittering message that helps reduce beach trash. Thus, clients get a "green" rub-off. Skippy peanut butter, Snapple, ABC television, and the 1999 Super Bowl have been clients. The technology is already under license to the Netherlands, Portugal, and Japan.

Source: Bennett Daviss (2000), "The Subtle and Not-So-Subtle New Science of Advertising and Marketing," Ambassador, *April, 18–20.*

customers' water-treatment processes themselves. For a monthly fee, Nalco and Betz guarantee the best available handling of all water-treatment issues. By having the imagination to connect a consumer problem with a marketing solution, both companies created new businesses that turned out to be immensely profitable. Industry Insights 2.1 provides another clever business-to-business example of the marketing imagination.[18]

Marketing imagination doesn't just involve finding solutions to consumer problems; sometimes it involves a different type of matching of consumer problems and solutions. Many companies develop new technologies and then attempt to determine what consumer problems these technologies can solve. When the goal is truly innovative products and markets, being customer-led is not enough.[19] Kodak offers an example. The company searched explicitly for markets that combined its traditional competence in chemicals (film) and electronic imagining (copying). What emerged was an idea for a new kind of film and camera system. The result was the Advantix system.

www.kodak.com/global/en/consumer/aps/index.shtml

A decade or two ago we weren't asking for portable computers, cellular telephones, CD players, digital video disks, automatic tellers, Palm Pilots, or the Internet. Nevertheless, each of these products has been successful and solves important customer problems. To realize opportunities, companies like FreeMarkets or Excite have the imagination to envision markets that do not exist and to stake them out ahead of the competition. Similarly, NEC is pursuing a telephone that can interpret between callers speaking in different languages, and Motorola envisions a world in which telephone numbers are attached to people rather than places. The marketing imagination requires deep insight into the needs, lifestyles, and aspirations of today's and tomorrow's customers. Companies with marketing imagination are able to lead customers where they want to go before customers know it themselves. A few important guidelines to nurturing the marketing imagination are described in Good Practice 2.3.

In this chapter we discuss tools for segmenting markets and positioning products; in

The Imaginative Company

Good Practice 2.3

1. **Escapes the tyranny of the served market.** The imaginative company views itself as a portfolio of core competencies rather than as a portfolio of products. It avoids overly narrow business charters.
2. **Searches for innovative product concepts.** The imaginative company (1) adds important new functions to well-known products (Yamaha's digital recording piano); (2) develops novel forms to deliver an important function (automated teller machines and electronic pocket calendars); and (3) delivers new functions through entirely new product concepts (camcorders and home fax machines).
3. **Overturns traditional price/performance assumptions.** The imaginative company challenges existing price/performance trade-offs. To do this means envisioning the possibility that the function of a $50,000 technology can be delivered with a $500 price tag (this is what happened with VCRs) and so on. Often it means distinguishing functions from the traditional product form used to deliver those functions.
4. **Gets out in front of customers.** The imaginative company goes beyond traditional modes of market research. These companies observe up close the world's most sophisticated and demanding customers. They work to anticipate consumers future problems. These companies develop marketers with technological imagination and technologists with marketing imagination.

Source: Gary Hamel and C. K. Prahalad (1991), "Corporate Imagination and Expeditionary Marketing," Harvard Business Review *(July–August), 81–92.*

Chapter 3 we discuss tools for learning about consumers. We will not be able to give you a marketing imagination, however. Standing at the top of a ski slope, it helps to have good boots, appropriate skis and poles, and good instruction. However, only dedicated practice, many mistakes, and good luck make for a successful run. Although companies such as GE, Shell, Microsoft, Nestlé, Toyota, and Procter & Gamble are among the largest and most successful in the world, each has experienced many failures. But they learned from their mistakes and tried again. This book will help you develop deeper insight into the lives of consumers, but only diligent attention to consumer behaviors around you will give you a marketing imagination.

From a consumer behavior standpoint, the core of marketing strategy concerns market segmentation, targeting, and product positioning. We discuss each of these in detail in the next several sections of this chapter, but throughout the book we will give many examples of how consumer behavior theory and research enable and improve marketing strategies.

Market Segmentation and Mass Customization

Market segmentation is based on a simple idea: in general, not everyone wants the same things. From this idea comes **market segmentation,** which is the *process of dividing a market into identifiable groups of similar consumers.* By similar, we mean groups that are alike in their responses to marketing mix tactics that an organization can effectively and profitably develop. The **marketing mix** refers to *those basic building blocks of marketing strategy—a product, its price, promotional communications, and its place of purchase and delivery.* A potential segment, for example, might consist of people who share the attribute "red hair." But this attribute only becomes relevant to marketers if, as consumers, the people with red hair exhibit purchase behavior or have consumption needs that are similar and, at the same time, differ from those of other groups, such as people with black and brown hair. As it turns out, several shampoo manufacturers, including L'Oréal, Paul Mitchell, and Aveda, market shampoos especially for red-haired consumers.

Until the 1980s, many consumer products firms were content to make a few products for large mass markets. One of the earliest examples was Henry Ford's Model T auto produced from 1909 to 1927. For much of the twentieth century, marketers spoke of marketing to the "average" consumer. However, in the **Triad regions** (*North America, Europe, and the Asian Pacific Rim*) by the 1980s the satisfaction of basic needs and the glut of competitive goods and services led to market saturation. As a result, the process of market segmentation has now become increasingly complex as marketers identify more specialized market segments, such as consumers interested in Ford's limited-production, retro Thunderbird. National markets have fragmented into smaller, more demanding, and more market-wise consumer segments. If they are to meet these markets needs, global companies face the additional complexity of responding to the cultural differences that exist between international markets (see Chapters 4 and 5).

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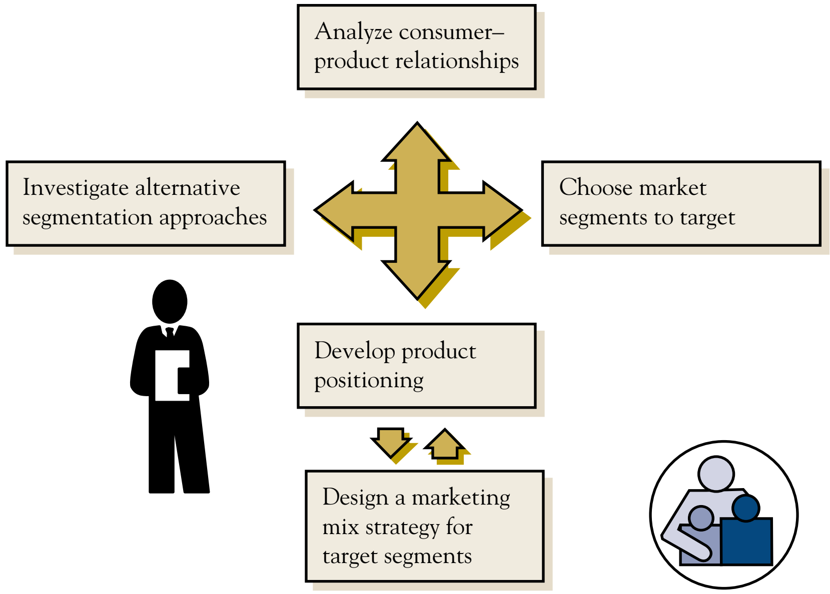
Soon market segmentation may give way to **mass customization,** which a growing number of manufacturers are adopting. *Customization means manufacturing a product or delivering a service in response to a particular customer's needs, and mass customization means doing it in a cost-effective way.*[20] Saturn, Toyota, and even jeans maker Levi Strauss and Co. are moving in this direction. Hallmark Cards and American Greetings installed electronic kiosks in stores and other public places to enable people to create their own greeting cards. However, these systems have not fully exploited the potential of mass customization—they offer no opportunities to customize graphics and don't learn and remember customer preferences.

With the growth of the Internet, mass customization is likely to be a significant force in the next few decades, as more companies try to cultivate **learning relationships** with their customers. *By learning about the customer during each exchange,* companies can more precisely tailor products and services to the particular needs of that customer. Thus, Amazon.com provides suggestions to repeat customers on the basis of their previous orders. In the short-run, market segmentation will remain the tool of choice for most consumer marketing organizations. In this section we focus primarily on market segmentation, but many of the same principles apply when mass customization is the goal.

To develop a competitive advantage for a product or service with specific market segments, the organization needs to ask what consumer variables may affect the success of a particular marketing strategy. Many of the chapters that follow identify these kinds of consumer variables. A firm achieves a competitive advantage when it is able to deliver a bundle of benefits or values that consumers perceive to be unique to the product. If this

Exhibit 2.3 The Market Segmentation Process



happens, the firm is in a position to benefit from repeated exchange relationships with product- or brand-loyal consumers, those who purchase the product repeatedly and feel positively about it. An approach to segmenting markets is illustrated in Exhibit 2.3. This process begins with a thorough investigation of consumer–product relationships.

Investigating Consumer–Product Relationships

From our perspective, the first step in developing a useful understanding of market segments is investigating consumer–product relationships. Throughout this chapter we have emphasized that marketing imagination, effective product differentiation, and market segmentation begin with a thorough understanding about consumer–product relationships for each phase of the circle of consumption. This involves answering a number of questions. Recall, Good Practice 2.1 identifies a series of questions managers can ask to capture the consumers' total experience and identify potentially unique ways to differentiate their products. In this section we discuss three questions about how consumers relate to particular products.

At the most general level, marketers need to ask *What kind of environmental factors are involved in the purchase–consumption process for the product?* This question has many parts. What effect do macroeconomic factors have on product purchase and consumption? For example, in poorer countries with a low average income, companies may need to modify the product by selling in smaller quantities or reduce the price by developing more cost-effective production strategies. An economic downturn might inspire a firm to make its products more attractive by initiating creative credit policies for its products. Industry Insight 2.2 identifies an imaginative response to environmental factors in Germany.[21]

A second general sort of question marketers should ask is *What does the product category mean to consumers and how involved are they in purchasing and consuming it?* This includes a wide range of questions such as What sensory properties are associated with this product? What emotions are associated with the product? How does it relate to other consumption activities and products? How does it relate to the self and other people important

Industry Insights 2.2

Innovative Auto Leasing in Germany

The automobile has long been revered as an emblem of freedom and prosperity in Germany; but the price of maintaining this cherished icon keeps rising. Germans pay some of the highest fuel prices in the world (more than $5 per gallon); they are also complaining about traffic congestion, accidents, and air pollution. In response, Bremen's public transportation system introduced a new approach to automobile use—car-sharing. A smart card provides access to 10 different car models available at 37 locations, and when the car is returned, a swipe of the card locks the car and records mileage for billing information. Rates are lower than for conventional car rentals: about $7 for a six-mile shopping trip and $85 for a two-day 120-mile excursion. There has been much interest in similar programs in other German cities and in other European countries sharing the Bremen context of high fuel prices, good public transit, and road congestion.

Source: Thomas T. Semon (2000), "Program Steers Germany in Right Direction," Marketing News, *8 May, 27.*

to the consumer? What images and memories are associated with the product? What risks are associated with the purchase and use of the product? and so on.

For example, if the product is children's favorite cartoon character, marketers need to understand how children relate to that character. What aspects of the child's imagination come into play? Does the character represent an important role model for children, and will they model their behavior after that of the cartoon character? To take another example, a program like the Bremen car-sharing system, described in Industry Insights 2.2, would be a difficult marketing challenge in the United States. Not having your own car is more inconvenient in the United States than in Europe; in addition, car use is much cheaper and the environmental movement, which supports the program in Europe, is far weaker in the United States. But most important, many U.S. citizens are emotionally involved with their cars.[22]

Frequently people use a product not because of its functional attributes but because of its meanings. Chapter 18 deals extensively with issues of product meaning. Snowboarding is an example of a sport that many youth take up and many adults avoid, in large part because of the lifestyle meanings associated with it, as Consumer Chronicles 2.1 illustrates. Procter & Gamble's introduction of disposable diapers in Japan, described in Consumer Chronicles 2.2, provides another example of the importance of product uses and meanings to purchase behaviors. Learning from its Japanese mistakes, P&G was more careful introducing disposable diapers in Korea, China, and elsewhere. It stuck to unisex white in these markets. In these countries sexism is very strong. Buying a pink diaper package like in the United States would make visible that the family has a less prestigious daughter instead of a more prestigious son.[23]

Another example concerns McDonald's in China. At the turn of the new century, McDonald's has become a favorite destination for children celebrating birthday parties. But birthday celebrations are themselves a recent innovation in China. Now many kids in China celebrate birthdays with McDonald's food and with "Auntie McDonald" playing hostess; it has become a preferred mode of consumption. Thus, the particular ways in which people consume McDonald's products are important to marketing strategy in Beijing. This example is useful since it also illustrates that marketers must often communicate not only with the end user of a product like a McDonald's Happy Meal but also with the purchaser, perhaps the child's grandparent, and possibly other decision makers, such as a child's parent or parents.[24]

It may sound strange to some readers to ask what kind of relationships consumers have with products and brands. After all we are talking about inanimate objects not people or pets. But people do develop complex relationships with some products and brands they use. Consumer Chronicles 2.3 summarizes some of the different types of relationships that people may form with products and brands.

At the extreme, some brands become the focus of **brand communities,** *groups of people who share a consciousness of a kind, share moral responsibility for other members, and perpetuate rituals and traditions associated with the brand.* Brand communities grow up around specific brands. They boost customer retention. For instance, Saturn owners are pretty loyal, even cultish. Thousands show up for the annual Saturn birthday party in Tennessee. And Saturn has been a leader in customer service and satisfaction, consistently ranked at the top of the J. D. Power and Associations sales satisfaction index. "Deadheads," followers of the rock group the Grateful Dead, and the 25,000 members of the Winnebago-Itasca (mobile homes or caravans) Travelers Group are other examples.[25]

A final question that marketers must ask about consumer–product relationships is *What behaviors are involved in the purchase–consumption process for this product?* This includes questions such as Where do they buy or use it? How do they buy or use it? How often and when do they buy or use it? The huge impact of Internet retailing on some categories of goods, especially those that can take digital form such as computer software, travel and event tickets, financial products, music, video, and books, illustrates the importance of these questions. Internet retailing may even kill off the traditional distribution channels for such products, although many Internet retailers have gotten hammered by failing to deliver on their advertising promises. On the other hand, websites are not much good for replicating the social function of shopping, nor for browsing around, nor for producing impulse purchases, all of which come from visiting a shopping center. Nor can e-commerce offer instant purchase gratification that many consumers expect. Traditional retailers will likely compete increasingly on these attributes.[26]

Consumer Chronicles 2.1

Snowboarding Is More than a Sport, It's a Lifestyle

Snowboarding, the in-your-face pastime of Generation Xers and their Gen Y younger siblings is growing by 30 percent a year. One in 10 of those on ski slopes are shredders, slang for fans of the snowboard, essentially a skateboard for snow. The new sport has lots of lifestyle identification. That lifestyle is a blend of skateboarding, hip-hop fashion, and raucous youth, a combination that can be nerve-racking for typically older skiers, who often reluctantly share the slopes with snowboarders. Indeed, ski resort owner Alpine Meadow Inc. found that 87 percent of the Lake Tahoe–area and Utah skiers surveyed didn't want the daredevil shredders on their mountain.

Source: Irene Lacher (1994), "The Era of Fragments," Los Angeles Times *(January 2nd), E4.*

Investigation of Alternative Segmentation Approaches

An organization can segment a market in many ways. Although there is no best basis for segmenting a market, a firm must start somewhere. Usually segmentation of consumer markets is based on one or more of three basic criteria: consumer needs as related to (1) some geographic or demographic criteria; (2) psychographic variables, or (3) behavioral variables. The major segmentation variables for consumer markets are illustrated in Exhibit 2.4. Ultimately, the **segmentation bases** for a firm's customers are determined by continual refinement of market offerings as consumers respond to them through purchase and use.

Consumer Chronicles 2.2

Diaper Use in Japan

In the late 1970s, Procter & Gamble introduced Pampers diapers in Japan, the world's second-largest consumer market. At first, the efforts paid off, but at $50 a month they were expensive. More important, they were too bulky. Procter & Gamble had overlooked a critical culture difference. Japanese mothers change their babies' diapers about 14 times a day—more than twice as often as most Americans. They wanted a thin diaper that was easy to store and use. A Japanese manufacturer caught on, and its thinner disposable—the Moony—soon snared 23 percent of the market. A Procter & Gamble executive recalled, "It was clear that we were out of the ballgame."

Source: Alecia Swasy (1993), "Don't Sell Thick Diapers in Tokyo," The New York Times *(October 3), F9.*

Geographic segmentation *divides the market into different geographical units such as nations, states, regions, counties, cities, or neighborhoods.* Chapter 8 describes how lifestyle segments are often associated with geographic location. For example, the PRIZM system clusters U.S. consumers according to their zip code, socioeconomic status, and urbanization to derive 62 different kinds of neighborhoods.[27] Think about your own neighborhood. Are there certain products and services that could be targeted effectively to your entire neighborhood? In many parts of the world degree of urbanization is an important segmentation variable that influences what products are distributed, how they are distributed, and how they are priced and promoted—in other words, the full marketing mix. To see regional taste differences in action consider a simple food such as soup. Industry Insights 2.3 illustrates differences in preferences for chicken noodle soup in different parts of the United States.[28]

Demographic segmentation consists of *dividing the market into groups on the basis*

Exhibit 2.4 Major Segmentation Bases

Geographic and Demographic

Geographic	Demographic
Region	Age
County size	Gender
City or SMSA size	Family size
Density	Family life cycle
Climate	Income
	Occupation
	Education
	Religion
	Ethnicity

Psychographic

- Social class
- Lifestyle
- Subculture
- Personality

Behavioral

- Occasions
- Benefits
- User status
- Loyalty status
- Buyer readiness stage
- Attitude toward product

Examples of Consumer–Brand Relationship Forms

Consumer Chronicles 2.3

Relationship Form	**Definition**	**Case Examples**
Arranged marriages	Nonvoluntary union imposed by preferences of third party; intended for long-term exclusive commitment, although at low levels of affect	Adopting an ex-husband's preferred brands of cleansers or packaged foods
Casual friends, buddies	Friendship low in emotion and intimacy, characterized by infrequent engagement and few expectations for reward	Household cleaners
Best friendships	Voluntary union based on reciprocity principle; endures because of continued provision of voluntary rewards	Performance products like athletic equipment; personal products like soaps and moisturizers
Kinships	Nonvoluntary union with lineage ties	Brand preferences inherited from one's parents or grandparents
Flings	Short-term, time-bounded engagements of high emotional reward but devoid of commitment and reciprocity demands	Vacation of a "lifetime"; trial-size products; products bought on deal, e.g. a coupon
Enmities	Intensely involving relationship characterized by negative feelings and desire to avoid or inflict pain on the other	Partners' brands postdivorce or separation; recommended but rejected brands
Secret affairs	Highly emotive, privately held relationship considered risky if exposed to others	Treats of all kinds; racy lingerie

Source: Susan Fournier (1998), "Consumers and Their Brands: Developing Relationship Theory in Consumer Research," Journal of Consumer Research, *24 (March), 343–373.*

of variables such as age, sex, income, occupation, education, religion, family size, family life cycle, and ethnicity. Demographic variables are the most popular bases for distinguishing customer groups. Even when the target market is described in nondemographic terms (say, a lifestyle), a link to demographic variables is necessary in order to identify and reach the target segment. According to the U.S. government's 1990 census, America's demographic characteristics changed more rapidly in the 1980s than in any other decade of the twentieth century, and the rate of change was even greater than these statistics show because of the undercounting of minorities.[29] A glance at the censuses of other countries, such as Australia shows that learning to market to diverse population segments is crucial to the survival of firms around the world.

We can use the example of Campbell soup to illustrate the value of demographic seg-

Industry Insights 2.3

Regional Preferences in Campbell's Chicken Noodle Soup Line

Detroit	Chicken Noodle with Mushrooms
Cincinnati	Red-and-white labeled Chicken Noodle
Seattle	Home Cookin' chicken with broad egg noodles
Milwaukee	Microwave Chicken Noodle
Baltimore	Healthy Request Chicken Noodle
Salt Lake City	Family Size Chicken Noodle
Denver	Chicken-flavor Ramen Noodle

Source: Ronald D. Michman and Edward M. Mazze (1998), The Food Industry Wars: Marketing Triumphs and Blunders, *Westport, Connecticut: Quorum Books.*

mentation.[30] Campbell Soup began making its first ready-to-serve soup in 1892, and today the company remains the U.S. market leader. Campbell has extended its reach worldwide, acquiring well-known brands in Great Britain, Japan, and other countries. Campbell's philosophy is to target markets locally. In the United States, Campbell has segmented on several demographic variables, including age (with products for the children's market and the aging baby boomer interested in low-fat, healthy alternatives); income (with upscale, premium brands marketed under the Pepperidge Farm name); and ethnicity (for example, selling spicy nacho-flavored cheese soup in California and Texas and using different promotional campaigns to reach Caribbean- and Mexican-Americans).

Psychographic segmentation divides buyers into *groups on the basis of differences in consumer lifestyle.* We can think of **lifestyle** broadly as *how people live; this includes their activities, interests, and opinions.* In some cases, researchers measure lifestyles in very broad terms by asking questions such as Do you prefer to read a book or go to a party? For example, one market research group has segmented high-tech buyers into nine attitude categories, including cyber-snobs, media junkies, and sidelined citizens, the latter a technophobic group.[31] In other situations, lifestyles are measured in very specific terms. Kellogg's has been serving the health-conscious consumer market segment since the early 1900s and now has several distinct market subsegments, as illustrated in Industry Insights 2.4. Lifestyles are certainly related to demographics such as income, occupation, gender, family life cycle, ethnicity, and so on, but they also reflect a complex composite of a person's self and experiences. We talk more about psychographic segmentation in Chapter 8.

Increasingly, hybrid approaches that combine demographics, geographics, and psychographics are employed to segment markets more precisely. For example, using all three criteria, one recent study divided the Chinese market into four main segments, the nouveau riche (*baofahu*), yuppies (*dushi yapishi*), salary class (*gongxin jiceng*), and the working poor (*qiongiaogong*). Details about these groups can be found in Good Practice 2.4. Lifestyle orientations of these four segments hint at possible marketing opportunities. What ideas do you have?[32]

With **behavioral segmentation,** *buyers are divided into groups on the basis of differences in their knowledge, attitude, use, or response to a product.* Many marketers believe that behavioral variables offer the best starting point for identifying market segments. One powerful form of behavioral segmentation is benefit segmentation. **Benefit segmentation** divides buyers according to the *different benefits they seek from the product.* Behavioral segmentation is so important because segmentation only has value if it is related to consumer–product relationships. Perceived benefits of product consumption anchor such relationships.

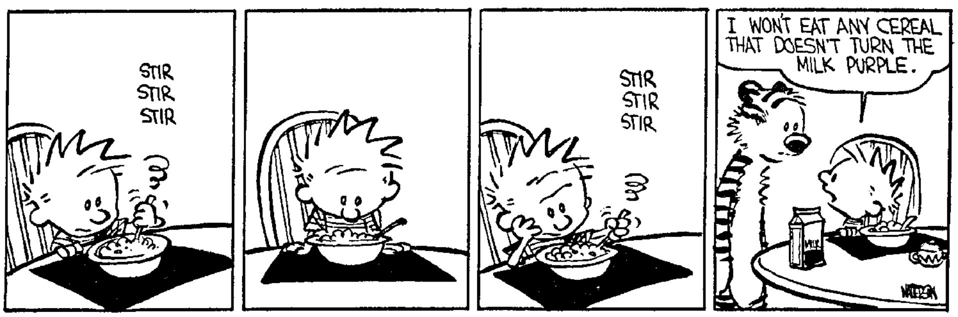
Kellogg's Cereals for Health and Nutritional Needs

Industry Insights 2.4

Brand	**Market Segment**
Special K	Low cholesterol
Product 19	Dieters
Müeslix	Nutrition oriented
Just Right	Natural ingredients
All-Bran	High fiber

Marketers have tried to explore what sorts of benefits are desired by different groups of consumers and which of these benefits leads to the greatest amount of consumer satisfaction (see Chapter 17). Benefits can take a variety of forms. For example, some derive benefits from the functions products perform. Others derive social benefits, for example, from anonymous disposition behaviors such as charitable giving to social service agencies. Still other consumers derive benefits from innovation, such as being the first to acquire a particular product or service. Some derive benefits from creative use of products that manufacturers did not intend, such as using carbonated water to remove wet spills from clothing or carpets. Others, as illustrated in the cartoon below, are like Calvin, the six-year-old comic strip hero who won't eat any cereal that doesn't turn his milk purple. Not only do consumers derive different types of benefits from products in general, but also different consumers may derive different benefits from the same product. Suntan lotion, for example, may provide tanning, sun protection, moisturizing, or scenting benefits. Attention to benefit segmentation provides marketers with multiple positioning bases (see below) for their products.

Another kind of behavioral segmentation concerns how much of a product people use. Several different types of segmentation associated with product use are possible. Consider that for many products over three-quarters of the purchases are made by half of the customers. Often markets can be segmented into light, medium, and heavy user groups. This makes **usage rate segmentation,** *segmenting the market by amount of the product purchased or consumed,* valuable. For example, a recent study in Hong Kong segmented the green market into light and heavy green consumers. Heavy consumers enjoyed a higher education and a higher household income than light green consumers. Heavy green consumers reported that they liked to buy environmentally friendly products and that buying such products was considered good for their health and the environment and easy. Light users perceived that environmentally friendly products were difficult to obtain, were more expensive, and did not have better quality. What strategies and marketing mix tactics would you use to reach these two groups of consumers?[33]



Good Practice 2.4
A Hybrid Approach to Segmenting Chinese Consumers

Segment/Attribute	Nouveau Riche	Yuppies	Salary Class	Working Poor
Size of segment	100,000	60 million	3,000 million	840 million
Geographics				
Residence place	Coastal urban areas	Major urban areas	Small cities	Small towns and rural areas, especially in the west of China
Demographics				
Household income	Above $5,000	$2,000–5,000	$1,000–1,999	Less than $1,000
Age	30–65	25–45	18–60	All age groups
Education	Various	College	High school	Elementary school
Occupation	Entrepreneurs, businesspeople, government officials, celebrities	Managerial, professional, technical	Office clerks, factory workers, teachers	Manual laborers, peasants, migrant workers
Psychographics	Optimistic			
Orientation	Innovators, trend setters	Hopeful	Status quo	Uncertain
Innovativeness	Low	Early adopters, opinion leaders	Early majority, emulators	Late majority, laggards
Risk aversion	High	Moderate	High	Very high
Readiness for foreign goods		Moderate	Low	Minimum
Lifesyles				
Mobility	Active	Mobile	Confined	Immobile
Activities	Wheel and deal, dine and wine in exclusive clubs; frequent shopping binges	Busy work schedule; frequent dining out and excursions	Trapped 8 to 5; limited disposable income; occasional outings; cameras and parks	Menial labor; hand-to-mouth; mass entertainment such as sports on TV

Another aspect of benefit segmentation relates to the occasions consumers associate with product use. Consumers reserve some purchases for particular occasions, wedding gifts, for example. They do not consider it appropriate to purchase them on other occasions. Americans like to purchase china and small appliances for weddings, whereas Nigeriens purchase beds and bedding, for example. And it is hard to imagine French consumers drinking the aperitif *pastis* at any time except the cocktail hour. In the United States the poultry industry has had a difficult time expanding sales of turkey because of its powerful symbolic associations with a particular occasion, Thanksgiving Day. Thus, **occasion segmentation** *divides buyers according to when they acquire or use a product.*

Effective Segmentation Criteria

Good Practice 2.5

1. **Measurability.** Can the size and purchasing power of the segment be clearly identified and measured?
2. **Substantiality.** Is the segment large enough or profitable enough to warrant a separate market offering?
3. **Accessibility.** Can the segment be effectively reached and served?
4. **Responsiveness.** Does the segment respond differently to one or more elements of the marketing mix?

Occasion segmentation can help firms expand product usage. Frequently, an excellent way to increase demand is to get current consumers to use the product for more occasions. Numerous companies have promoted more usage occasions as a way to expand demand. In addition to the new uses promoted for Arm & Hammer baking soda and McIlhenny's Tabasco sauce discussed earlier in the chapter, a campaign by the Florida Orange Growers provides another example: "Orange Juice isn't just for breakfast anymore."

Another type of use segmentation focuses on **buyer readiness.** We discuss this in greater detail in Chapter 13. Buyer readiness refers to the fact that *at any time people are in different stages of willingness to buy a product.* For example, some people may be unaware of the product, others aware, some knowledgeable, some interested, and some intending to buy. The marketing program for new technological innovations, for example, will be dramatically affected by the relative numbers of people at different stages of readiness to buy. Notice that the Chinese market segments profiled in Good Practices 2.4 vary in their readiness to buy foreign goods.

Whichever segmentation criteria an organization chooses, four general rules of good segmentation can be identified. They are summarized in the Good Practices 2.5. First, in selecting market segments, a firm should assess whether a segment is *measurable.* In other words, can the segment be clearly identified on the basis of measurable criteria? Thus for example, we might like to know the number of Thai males ages 21–30, making between US$7,500 and US$15,000 annually employed in the banking sector in Bangkok, the capital city of Thailand, to target for the sale of securities sold on the Hong Kong stock market. Good Practices 2.4 supplies measures of Chinese market segments.

A second important criterion is that of *substantiality.* Is the market segment large enough to warrant the expense of developing a market offering to meet its needs? In other words, does the segment exhibit adequate market potential? Revenues derived from exchanges with the segment must cover the costs of developing a differentiated market offering and provide the desired profits. Ideally a segment should be growing. For this reason, the over-55-year-old market in the Triad countries (North America, Europe, Japan) is becoming more significant to marketers than before. Likewise, the Chinese yuppie market profiled in Good Practice 2.4 is attractive because it is growing. Because of its growth, the Hispanic market has become attractive to mainstream marketers in North America. By contrast, niche marketers (see below) may be content with merely stable market segments with whom they can develop multiple, recurrent exchange relations. Above all, marketers should avoid fickle segments. For this reason, while it might be perfectly feasible to develop a line of off-road in-line skates, or specialized surfboards for parachute surfing, there may not be adequate market potential to merit the costs of developing and marketing these items.

A third criterion for effective market segmentation is *accessibility.* Accessibility refers to the ability of an organization (1) to communicate with its customers and (2) to deliver products and services to its customers reliably. The ability to communicate relates to issues such as the existence of media that reach the market segment and the firm's skill at using that media.

Many factors affect accessibility. In the Triad countries, market and media fragmentation complicates accessibility. Some Hollywood studios, for example, are trying new strategies to communicate, such as showing prerelease screenings at conventions, providing sneak previews for online film critics, and even offering first-run films to college film studies courses, all to stimulate demand. Some groups are just hard to reach—college students, for example. Residential instability and constraints on media exposure due to studying are two of the factors that make them inaccessible. Media content significantly affects accessibility. Studies indicate that communication in the appropriate language and use of same language/same ethnicity spokespersons has a significant positive effect on attitudes toward commercial messages.[34] Media type also affects accessibility. Consumer Chronicles 2.4 reminds us that cultures vary in their responsiveness to particular media.[35] Until recently it has been difficult to communicate with the vast markets of east Asia due to the absence of television satellites. It is difficult to reach these markets because of high rates of illiteracy as well. Sound trucks remain popular advertising tools in such markets.[36]

The other component of accessibility is the ability to deliver goods and services reliably. Accessibility problems are sometimes self-inflicted. The 1999 holiday season was infamous for customer order fulfillment and distribution problems at new e-tailers like Toys "R" Us, Wal-Mart, and Etoys, for example. A variety of intrachannel barriers may keep firms' away from potential markets. For example, many small firms cannot afford the slotting allowances charged by major retailers to place their products on the retailers' shelves. Sheer distances from point of production or geographic dispersal of the market are two geographic factors that may place some markets beyond an organization's reach. Limited production capacity may constrain a firm's ability to meet market demand, as happened in early 1990s to the manufacturers of Super Soakers water pistols. Finally, in international contexts, a variety of trade barriers erected by protectionist policies (currency controls, domestic content limits, size and labeling requirements, etc.) may make some markets inaccessible.[37]

Consumer Chronicles 2.4

Direct Mail in Japan

The avalanche of junk mail they receive on an almost daily basis has jaded U.S. consumers. As a result, many Americans don't even open this mail. By contrast, a Japanese is much more likely than an American to open the envelope and respond to the offer. A word for "junk mail" does not exist in the Japanese language. Although the number of Japanese consumers who shop by mail is currently quite small, these sales are growing at a rate of more than 20 percent per year. The Japanese are receptive to direct mail, making them accessible. However, Japanese are extremely resistant to having their names sold among list companies. This makes measurability of target segments more difficult. The sale of financial information about Japanese consumers is already restricted in Japan, and other legal restrictions on consumer listings are in the process of being formulated.

Source: Michael J. McDermott (1992), "Fishing for Customers" Profiles *(November), 44–48.*

The final criterion of effective market segmentation is *responsiveness.* A particular segment is likely to react differently than others to the elements of the marketing mix. For example, the Chinese nouveau riche profiled in Good Practice 2.4 are very responsive to Western market offerings. By contrast, the Chinese working poor—a large segment of 840 million—may not be very responsive to market offers because of low incomes. Similarly, in the Triad nations it is easy to identify working wives, and they can be accessed through specialized media and are a large percentage of the adult female population. However, working women's consumption behaviors do not differ dramatically from those of non-working women despite the problems of time constraints and overload they experience. Hence, they may not be as responsive to convenience-based appeals as some have thought. The mosquito-borne disease malaria provides a final, tragic example. Malaria kills millions of people each year in the tropics, but pharmaceutical companies have little incentive to develop a vaccine since most of the victims are poor and could not respond to a marketing campaign for it.[38]

Choosing Market Segments to Target

From a consumer behavior perspective, the next task in developing marketing strategy is selecting the most appropriate group or groups for the firm to serve. In choosing whom to serve, a firm may adopt three basic strategies. The first strategy is to *ignore differences between groups within a market and offer a single marketing mix to the entire market.* We refer to this strategic choice as mass or **undifferentiated marketing.**

"Who can afford *not* to moisturize?"

The cartoon of the elephant buying moisturizer suggests the logic of this approach; it applies when the product meets important needs of a large, responsive market. Classic examples include Ford's Model T automobile or the Hershey chocolate bar. Contemporary examples include the marketing of agricultural commodities such as soybeans or early versions of Internet portals like Yahoo and AOL. Until recently, most hospitals adopted undifferentiated marketing; each hospital tried to offer a full range of services to all the customers in a market area. Many state-owned consumer product firms in formerly socialist countries adopted such a strategy. Some firms offering new products and services find themselves adopting this approach if they do not precisely know the characteristics of their target market. Du Pont's Kevlar fiber was available for some years before it was adapted for specific uses such as in baseball bats, skis, and bulletproof vests.

Some benefits accrue to a firm using undifferentiated marketing, most notably cost economies in production and marketing. In the developed markets of the world, however, such an approach entails numerous disadvantages, including customer dissatisfaction and organizational vulnerability to competitors offering more differentiated products and services to market subsegments. Consumer dissatisfaction with the undifferentiated segmentation approach of state-owned firms in the former socialist countries was widespread.

A second strategic option available is to operate in several segments of the market and design separate marketing mixes for each segment. We refer to this as multisegment or **differentiated marketing.** A classic example is General Motors' old "price ladder." Younger, first-time buyers were directed to buy inexpensive Chevrolet models; older, repeat customers were urged to buy Oldsmobiles or Buicks; still older, wealthier repeat buyers could move up to a Cadillac. Contemporary examples include the strategies of Nike or Reebok, which seek to offer a perfect shoe for nearly every kind of active person participating in nearly every kind of activity and sport. The recent evolution of the diaper business has been in the direction of multisegment marketing, making differently sized and padded diapers available for children from newborns to age five and for boys and girls as well. Cisco Systems pursues a similar strategy in the business-to-business computer switching and networking market.

The multisegment option entails both benefits and costs for an organization. On the one hand, by creating special market mixes for each segment, the organization hopes to create more total sales, or in the case of nonprofits, to obtain more donations. On the other hand, multisegment marketing is likely to increase the research and development, production, and marketing costs incurred as a result of creating multiple marketing mixes. These costs make it crucial that firms carefully choose segments, using the criteria outlined above.

The final option available to an organization is to seek a large share of one or a few submarkets. We call this approach **concentrated** or **niche marketing.** The cartoon of Igor shopping for brains (p. 58) provides a humorous illustration of a peculiar niche marketing strategy. There are many examples of successful niche marketing strategies across a range of products and services. Celestial Seasonings offers a wide range of brewed, noncaffeinated beverages to the tea-drinking market; Bang & Olufsson offers a line of high-end stereo products to the audiophile; Goya foods in the northeast United States for many years has enjoyed more than 80 percent share of the Hispanic packaged foods market; Aston Martin targets its handmade automobiles toward the luxury car market; Orvis markets a line of specialty products to the advanced fly fisherman. Industry Insights 2.5 provides a dramatic business-to-business example in a transitional economy.[39]

Organizations that adopt a concentrated marketing strategy can enjoy a number of benefits. Among them are greater knowledge of their market segment's needs and wants, operating economies of scale, and increased loyalty from grateful customers. Some costs

Niche Marketing at Szczecin Shipyard, Poland

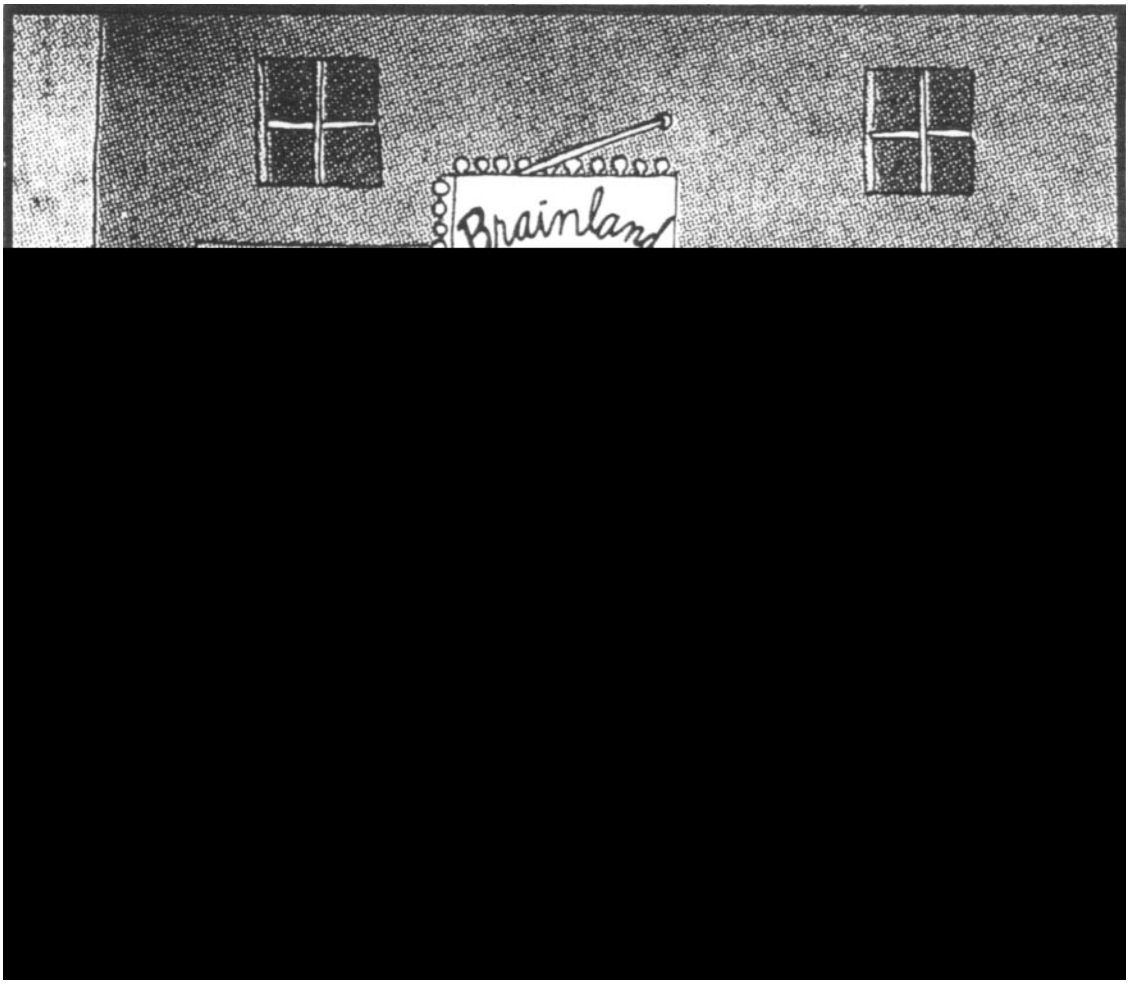
Industry Insights 2.5

With the collapse of the Soviet Union, the historic Polish shipyard Szczecin was plunged into financial crisis. Headed by a new management team installed in 1991, the shipyard embarked on a turnaround in three ways. First, to raise money, new management sold or gave away all but its core ship-building assets. Second, a new product strategy was chosen to more efficiently utilize the shipyard's capacity. Virtually all of the shipyard's capacity was moved to medium-sized container ships, resulting in a drastically shortened product-cycle time. Turnaround for a single ship was reduced from three years to 11 months. Finally, management began courting Western buyers. Two German firms placed a small order and received delivery six months earlier than they could have in Germany, and also realized 20 percent to 30 percent cost savings. Because these two firms were opinion leaders among German shippers (see Chapter 16), their order was quickly followed by a large number of other orders. By 1993, Szczecin had achieved a 40 percent world market share in its category.

Source: S. Johnson, D. Kotchev and G. Loveman (1995), "How One Polish Shipyard Became a Market Competitor," Harvard Business Review, *73 (6), 53–72.*

accompany this strategy too. The impact of product failure on the firm may be greater since risk is spread over fewer products; likewise, a loss of customer confidence might be difficult to mend. Perhaps more serious is the vulnerability to rapid and unpredicted changes in the segment's needs and wants. For example, Szczecin, featured in Industry Insights 2.5, was hardly prepared for the collapse of its assured Soviet ship market in 1990. Some firms in the Western aerospace defense business were likewise unprepared for the end of the Cold War and the abrupt decline in government arms procurement. Club Med struggled for a while when its "singles" vacation market changed to a family market. Further, a firm with a concentrated strategy may be vulnerable to competition from larger multisegment marketing firms that suddenly recognize opportunities in the niche market. In the United States, a number of cosmetics firms that operated in ethnic marketing niches now face competition from large firms such as Revlon.

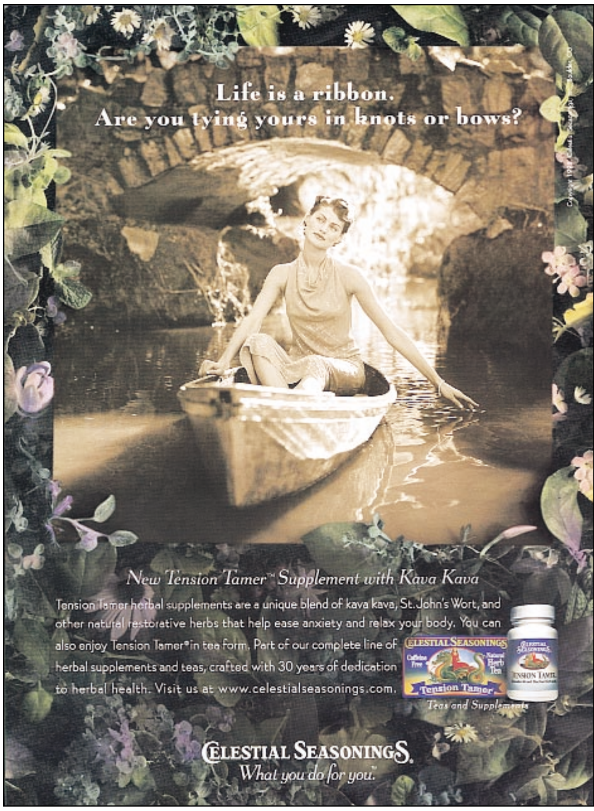
In making the decision about what strategy to adopt, an organization's management needs to examine a number of questions. First, it must assess the skills and resources available to the organization. The more limited the skills and resources, the more likely undifferentiated strategies should be adopted. If only resources are lacking but the firm has good skills, as in the Szczecin case, concentrated strategies may be attractive. Second, the firm should assess market variability as suggested in the section on segmentation. If the market is not composed of identifiable, sizable, accessible, responsive segments, an undifferentiated strategy may be appropriate. Perhaps one size really does fit all. Alternatively, if many segments are identified, a differentiated or concentrated strategy is appropriate. A third, related issue is to ask Just how variable is the product? For example, the market for bananas, mushrooms, or potatoes is relatively undifferentiated in the United States. Consumers perceive few differences between varieties. However, a firm marketing potatoes in Peru or Denmark, where numerous varieties of potato are grown, or mushrooms in France, where dozens of mushroom varieties are recognized, might be best advised to adopt a differentiated strategy. A fourth issue concerns the stage of the product life cycle. Typically, as in



Igor goes shopping.

the case of Internet portals like Yahoo, undifferentiated strategies may be used early in the product life cycle. Differentiated strategies become more common during the growth and maturity phases, and concentrated strategies may become fruitful during the maturity and decline phases. A nice example of this is the maintenance, repair, and operations supply company Richardson Electronics, whose motto is "on the trailing edge of [industrial] technology." Richardson specializes in providing outmoded electronic parts.

A final issue that a firm must evaluate in adopting a segmentation strategy is its competitors' strategies. Although we noted above that bananas are a relatively undifferentiated product in U.S. markets, Chiquita has sought to differentiate its product from other bananas on quality and image. In so doing it follows the lead of the Sunkist, which successfully differentiated its brands of oranges from other nonbranded varieties. The costs of inattention to competitors' strategies can be great. In the United States, canvas shoe companies such as Keds and Converse that failed to adopt the multisegment strategies of Reebok and Nike experienced a drop in market share, and only recently have they fought back by adopting niche-marketing strategies.



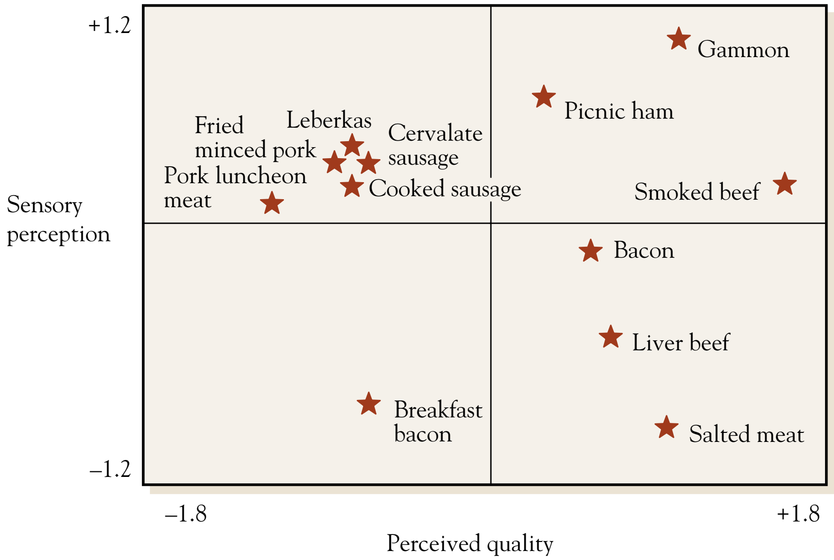
Niche Marketer: Celestial Seasonings positions a wide variety of caffeine-free beverages to appeal to the tea-drinking market.

Product Positioning

Product positioning means *deciding how the organization wants the company and its brands to be perceived and evaluated by target markets.* In general, product positioning requires an organization to differentiate its market offerings from those of its competitors. However, it's not enough for the firm to distinguish its market offerings, it must do so in ways that are meaningful to its target market segments. For example, if the company has identified a profitable segment of skiers who are especially annoyed with the mechanics of skiing—getting their skis to and from the airport, from their car to the ski lift, picking up their lift tickets, and so forth—it might decide to offer a differentiated ski area. The key question is What changes in what characteristics will clearly differentiate this ski area from competitors and communicate "ease of skiing" to the target skier segment? Deer Valley, located next to Park City, about half an hour from Salt Lake City, Utah, appeals to this segment of skiers with "valet ski service" and other amenities that make skiing more hassle free. Bear Hollow, another Utah ski area just north of Park City, caters to athletes in training and "weekend warriors" who want to experience the rush of ski jumping. Recreational ski jumping is a unique option not offered at most ski resorts.[40]

Firms seeking to enter their brands in another country's market may face large expenditures to build brand awareness and a positive brand image. Often, new market entrants use a particular kind of co-branding called a **brand alliance** to position brands. A brand alliance amounts to *renting a brand name known to target consumers from another*

Exhibit 2.5 Perceptual Map for Processed Meats



Source: Jan Benedict, E. M. Steenkamp, Hans C. M. Van Trijp, and Jos M. F. Ten Berge (1994), "Perceptual Mapping Based on Idiosyncratic Sets of Attributes." Journal of Market Research, *31 (February, 15–27. Photos supplied by the Dutch Commodity Board for Livestock and Meat.*

firm. Fuji–Xerox, Northwest–KLM, and British Air–USAir are examples of international brand alliances. Montana-grown barley gets increased visibility through a brand alliance with Budweiser beer. Experiments with Japanese and U.S. consumers have shown that consumer evaluations of an unknown brand from another country become more positive when a brand alliance is used to position the product. Brand alliances also increase consumers' evaluations of the brand's parent firm.[41]

To effectively position products and services for a target segment, an organization often begins by identifying competitors. Competitors are identified as those companies that offer similar benefits to the target consumers. The organization then undertakes research to determine how consumers perceive and evaluate the competitors. This step provides the organization with information about how competitors are positioned in the market. By analyzing consumers' preferences, the company can determine a profitable, differentiated position for their product or service. For example, Lee brand jeans positioned its product as offering "best fit" for women. Competitor Levi Strauss offered "Levi's for Women," using an ad campaign featuring drawings of graceful female forms by women artists. Both firms seek to differentiate their product from traditional jeans made for men. Consumer research can then be used to monitor the organization's success in attaining or maintaining that position in the market. Levi's has sought to further differentiate itself from competitors by setting up in-store kiosks where customers order custom-fit jeans that are home delivered in 48 hours.

One technique often used to position products and services is **perceptual mapping.** A perceptual map is *a spatial picture of how consumers view products or brands within a market.* Exhibit 2.5 illustrates a perceptual map of 12 processed meats (ham, salami, etc.). A nationwide sample of female consumers in the Netherlands was polled to produce this map in a study that employed color photographs of 12 types of processed meat.[42] It is important to note that the set of competitive products is culturally based. The same study conducted in a different culture would include a different set of processed meats. In the study the two most important dimensions distinguishing perceptions of processed meat were those labeled *perceived quality* and *sensory perception.* The specific technique used to construct this map allowed consumers to describe and rate the different types of processed meat in their own terminology. The consumers then grouped together attributes, or descriptions, using statistical criteria. Characteristics of the meats that grouped together and represented perceived quality included not exclusive versus exclusive; cheap versus expensive; not pure meat versus pure meat; fat versus lean; bad for figure versus not bad for figure; and unwholesome versus wholesome. Characteristics that grouped together and represented sensory perception included bad taste versus good taste; tough versus tender; and fit for guests versus not fit for guests. The perceptual map shows that cooked sausage and fried minced pork are viewed as very similar on both perceived quality and sensory perception; thus, on these two important dimensions, they are substitutes for each other. Gammon rates highest on sensory perception and salted meat lowest, but both gammon and salted meat rate similarly on perceived quality. By combining the map with information about consumer preferences, a manufacturer could assess a desirable position for new processed meat products. For example, if enough consumers prefer high quality and high sensory ratings, a new processed meat could be positioned at the high end of the market using the usual tools of marketing communication.

Designing a Market Mix Strategy

Once management knows how it wants the company's product to be perceived and evaluated by consumers, it must then design a market mix strategy to accomplish that. This includes developing tactics for communicating the position of the product to target consumers. Many elements of the marketing mix associated with the product—its distribution, promotion, and price—communicate positioning to the customer. Consider for example, two products marketed by the same company and based on the same chemical innovation.[43] L'Oréal markets both Niosome and Plenitude face cream to fight wrinkles. Niosome face cream is sold in exclusive, upscale beauty shops. Plenitude sells for one-sixth as much in supermarkets and discount stores. L'Oréal is one of the world's largest cosmetics companies because of its ability to span both the luxury market with brands such as Lancôme and Helena Rubinstein, and the mass market with Elsève and L'Oréal. L'Oréal first launches innovations as luxury products and then simplifies them and then relaunches the innovations under different brand names for the mass market. Niosome and Plenitude are distinguished by marketing mix tactics: their product formulation, packaging, advertising, media placement, distribution, and price.

Often a company will attempt to *change its image and position* in the market. This is accomplished by changing the marketing mix. Many bricks-and-mortar businesses, such as UK retailer Tesco and global retailer Wal-Mart, are currently trying to reengineer themselves as clicks-and-bricks businesses by developing a strong web presence. Fast-food retailer Burger King is following a more conventional repositioning strategy in an effort to regain its quality image. First it's remodeling its retail outlets. It also added a new spokesperson to its promotional effort, actress Kathleen Turner, to appeal to adults. It is reinforcing its movie-licensing program that gives it a boost with kids, through such items

Consumer Chronicles 2.5

Reasons for the Decline of the Traditional French Café

In his guide, *Le Pieton a Paris,* Leon-Paul Fargue described the quintessential French café, with its long zinc bar and little round tables under gaily colored parasols spilling out over the pavement, as "the most solid of the institutions." That was 60 years ago. Now, if the experts are to be believed, the traditional corner café, the bistro (from the Russian word for quickly), the brasserie—call it what you will—is threatened with extinction.

In 1960, when France had 46 million people, there were reputed to be over 200,000 café-brasseries (defined as places with a license to sell alcohol on the premises as well as serving simple meals). Today, in a France of 58 million, only 50,000 remain, and even they are disappearing at a rate of around 3,000 a year. In Paris alone, more than 1,500 cafés closed last year, bringing the total down to half what it was in 1980.

There are several reasons for these closings. First, Parisians have no time to go to cafés. They are always in theirs cars. Cars and TV killed the café. Second, people can't find what they're looking for in a café. Surveys show that ambience is the first thing people look for when they go to a café. Third, we used to say cafés were *salon de pauvres,* the living room of poor people who had no heat. Today, everybody has central heat and air conditioning. A sharp rise in property prices in the 1980s put many struggling cafés into the hands of property developers. Alcohol consumption has fallen from an average of 18 liters of pure alcohol per person per year in 1960 to around 11 liters today (and the government, in an effort to discourage alcoholism, has introduced tax incentives to encourage cafés to give up their alcohol lincenses). Desertification of the countryside has led to the closure of the traditional village café. And, finally, it costs a lot to go for lunch at the café in town. So people prefer to go to a fast-food restaurant like McDonald's, which arrived in France 25 years ago and has replaced the café for young people. With its 353 McDonald's fast-food restaurants, France ranks sixth among the 79 countries where the fast-food chain has outlets.

Source: Mark Seal, "Paris' Cafe Revolution," American Way, *July 15, 1993, pp. 40–43; Anonymous, "Mais Où Sont Les Cafés D'antan?"* The Economist, *June 10, 1995, http://www.economist.com/tfs/aarchive_tframeset.html.*

as Pokémon merchandise, and it has new menu items as well. In a different product category, retailer Ann Taylor went through a complete overhaul in the early 1990s.[44] In the 1980s the company was known for its tailored business suits and pants. Then workplaces grew less formal and women wanted more choice. Ann Taylor evolved to meet their needs. In 1992 a big selling item became Ann Taylor jeans costing only $30. Similarly, Abercrombie and Fitch recently went from being a stuffy, conservative high-end clothing retailer to a lower-end fashion-forward youth marketer by changing its product line, pricing, retail formats, and so on.

It is difficult to *maintain a position in the market.* Constant monitoring and innovation are required simply to stay in the same place. Fast-food franchiser Burger King's repositioning effort comes because it lost its point of differentiation when McDonald's remodeled its kitchens to handle made-to-order food, long Burger King's single greatest advantage in the burger wars. A final example of how changing tastes and competitive conditions alter the position of products within a market is offered by the dramatic decline of the French café. Some 4,500 traditional cafés close each year, dwindling in France from 200,000 in 1960 to less than 70,000 today. Some of the reasons for this decline are described in Consumer Chronicles 2.5.[45]

summary

Marketing strategy concerns the actions managers take to improve the likelihood marketplace exchanges that meet firm and customer goals will occur. In general, customer-oriented marketing strategies improve the value customers derive from products or decrease the costs of products to customers. Firms may adopt any of four general strategic positions:—prospector, analyzer, defender, and reactor. More specific strategies include differentiation, market penetration, and cost leadership.

One of the most critical skills for a successful business is to empathize with and gain insights from customers. A customer focus is the central element of this market orientation. A market orientation is not solely the responsibility of a marketing department, however; it requires the concerted action of everyone in the organization. Profitability is generally a consequence of a market orientation, but certain kinds of environmental conditions may make this orientation more or less important to overall business performance.

The connection between understanding consumers and designing effective marketing strategies requires creativity and imagination. Marketing intelligence attempts to find out what problems consumers are trying to solve, and marketing imagination offers solutions. But beyond the traditional modes of market research, marketing imagination requires deep insight into the needs, lifestyles, and aspirations of the customers of today and tomorrow.

Market segmentation, targeting, and positioning are central elements of marketing strategies. The process of market segmentation begins with a thorough investigation of consumer–product relationships. This investigation includes examining environmental factors involved in the purchase–consumption process for the product; what the product means to consumers and how involved they are in purchasing and consuming it; and the behaviors involved in the purchase/consumption process for the product. Then, an organization can investigate alternative market segmentation approaches. Geographic or demographic criteria, psychographic variables, and behavioral variables are bases for identifying market segments. Whichever segmentation approach an organization chooses, four general criteria of good segmentation are measurability, substantiality, accessibility, and responsiveness. After investigating alternative segmentation approaches, managers must select the most appropriate group or groups for the firm to serve. They can use undifferentiated marketing, differentiated marketing, or concentrated or niche marketing as the basis for choosing the segment or segments.

Next, the firm's managers must decide on product positioning: how they would like the company and its brands to be perceived and evaluated by target markets. One general technique that's often used to position products and services is perceptual mapping. Once they know how they want the company and its products to be perceived and evaluated by consumers, managers must design a market mix strategy to achieve or maintain the position. Everything associated with the product—its distribution, promotion, and price—communicates the position of the product to the customer. By managing the market mix, companies can establish, change, or maintain desired product positions.

key terms

analyzer 00
behavioral segmentation 00
benefit segmentation 00
brand alliance 00
brand communities 00
brand-loyal consumers 00
buyer readiness 00
concentrated, or niche, marketing 00
coordinated marketing 00
customer focus 00
defender 00
demographic segmentation 00
differentiated marketing 00
differentiation 00
differentiation strategy 00
geographic segmentation 00
learning relationships 00
lifestyle 00
market intelligence 00
market orientation 00
market segmentation 00
marketing concept 00
marketing imagination 00
marketing mix 00
marketing strategy 00
marketspace 00
mass customization 00
occasion segmentation 00
perceptual mapping 00
product positioning 00
prospector 00
psychographic segmentation 00
reactor 00
segmentation bases 00
sense the market 00
strategy 00
Triad regions 00
undifferentiated marketing 00
usage rate segmentation 00

review questions

1. Identify a firm in your community that you feel is highly customer oriented. Make a list of the firm's activities or behaviors that illustrate its market orientation. You might include tools the firm uses to sense the market.
2. Identify the marketing strategies adopted by some familiar consumer goods companies in terms of whether they resemble prospectors, analyzers, defenders, or reactors.
3. Suppose that the McIlhenny Company has discovered that its market can be segmented into light and heavy users of Tabasco sauce, with the smaller heavy-user group accounting for 75 percent of sales. What strategies and marketing mix tactics would you use to reach these two groups of consumers? (*Hint:* consider market penetration and market development strategies.)
4. Use the dimensions of perceived quality and sensory perception identified in the example perceptual map. Construct your own perceptual map using a selection of six processed meats that you know. If your perceptions were representative, what would be the managerial implications?
5. How could benefit segmentation be used to develop marketing strategy for the following?
    a. Health clubs
    b. Bath soaps
    c. Cosmetics
    d. Ice cream
    e. Education
    f. Bicycles
6. Using cars as a product category, investigate different segmentation approaches (e.g., geographic and demographic; psychographic; and behavioral). Provide illustrations of different brands and models that segment the market using these different bases.

7. Review a popular commercial magazine and record the content of a series of print ads. Try to identify the positioning bases of the products featured in the ads.
8. Visit a local shopping district, such as a main street or mall. Go from store to store and observe the customers. Make a detailed composite portrait of the customers at each store using as many criteria as possible. Then, name the market segment you have described.

You Make The Call

Royal Caribbean Cruises

The cruise industry represents the most exciting growth category in the entire leisure market. The cruise industry is commonly divided into three segments: luxury, premium, and volume. The volume segment has per diem rates of less than $300 and last seven nights or less. Target customers for the volume segment are normally first-time cruise passengers.

Carnival targets the volume market with its Carnival Fun Ship line. These customers include mostly younger, less affluent passengers and families with children. These customers typically take land resort vacations. The Carnival line is the standard by which all lower-priced cruise lines are measured. Carnival is known to deliver all that it promises: Activities and entertainment are nonstop; the food is plentiful; and the cabins are comfortable. According to Bob Dickinson, CEO of Carnival, "If you tell people you are the Fun Ships you are going to attract people disposed to having fun." Everything about Carnival—the brand name, ship names like "Mardi Gras" and "Fantasy"—connotes fun. Many younger customers see the type of crowd Carnival attracts as a significant factor in their decision. While traditional cruise advertising has promoted ports of call, Carnival hypes the ships, where vacationers spend 80 percent of the time during a cruise. The product strategy has been centered on structuring fun ship tours into inexpensive, easy-to-book packages for the masses.

Royal Caribbean focuses on superior service to differentiate it from the other major competitors for first-time cruisers. However, consumers do not always perceive the higher quality and service to be worth Royal Caribbean's higher price, as evidenced by the lower number of first-time cruisers on the line relative to Carnival. (The actual difference in average price is quite small, $209 compared to $187 per night.) Consumers see Royal as being similar to Carnival but slightly more sophisticated and professional and less energetic. Royal appears to pursue an undifferentiated strategy targeting different markets with essentially one product. The strategy is to offer a quality product, with multiple activities and destinations at a reasonable price. Royal sees itself marketing to the lower-premium market and the upper-end of the volume market. The image one gets is that the service is likely to be very good, but the product a passenger gets in terms of atmosphere, types of people, and activities is somewhat unclear. Further, the company lacks a strong, consistent message such as Carnival's "Fun Ships" slogan.

Although both Carnival and Royal Caribbean continue to enjoy strong growth and profitability, Royal Caribbean seems to be losing ground to Carnival, especially in the volume market. Their appeal as a provider of high-quality cruise vacations seems to be losing out to Carnival's "fun" concept.

cases

1. What should Royal Carribbean do?
2. Outline some steps Royal Caribbean can take to decide whether and how to target the volume segment of the cruise market.

This case was adapted from student reports and Eileen Ogintz, "Ignore Children's Needs and Risk Minor Mutiny," Los Angeles Times, *September 13, 1992, Travel Section; Shirley Slater and Harry Basch, "The Right Ship For You,"* Los Angeles Times, *September 8, 1991, Travel Section; Shirley Slater and Harry Basch, "Short Sailings Making a Big Impact,"* Los Angeles Times, *September 27, 1992, Travel Section; Shirley Slater and Harry Basch, "Ship Builds Up for Caribbean Duty,"* Los Angeles Times, *November 10, 1991, Travel Section.*

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