

Strategic Market Planning

Objective Outline

3.1 Explain business planning and its three levels. pp. 68–70

BUSINESS PLANNING: COMPOSE THE BIG PICTURE p. 68

3.2 Describe the steps in strategic planning. pp. 71–77

STRATEGIC PLANNING: FRAME THE PICTURE p. 71

3.3 Describe the steps in market planning. pp. 77–84

MARKET PLANNING: DEVELOP AND EXECUTE MARKETING STRATEGY p. 77

Check out the Chapter 3 **Study Map** on page 85.

Stephanie Nashawaty

▼ A Decision Maker at Oracle

Stephanie Stewart Nashawaty is group vice president of customer experience (CX) transformation sales at Oracle. She has more than 15 years of software sales experience and extensive expertise in enterprise marketing solutions for Global 2000 leading companies.

Stephanie is currently responsible for CX sales at Oracle (this includes Oracle's application solutions for customer-facing functions, such as sales, services, and marketing). She leads an elite sales team of enterprise sales executives who are tasked with creating and delivering \$1 million to \$30 million Cloud deals with Oracle's most strategic customers. In this capacity, Stephanie also works on joint business development opportunities with selected systems integrators, such as Accenture and Deloitte, as well as digital agencies.

Prior to joining Oracle, Stephanie was a vice president with Unica Corporation, which was acquired by IBM in 2010. She helped to build and launch IBM's Enterprise Marketing Management (EMM) business unit. The unit's focus on "Smarter Marketing" is a key foundational pillar of IBM's current "Smarter Planet" campaign and go-to-market strategy. Stephanie led the EMM global sales team (\$400 million in annual revenues), which focused on selling to the office of the chief marketing officer (CMO). She was recognized for her achievements and team contribution by her selection for IBM's Acquisition Talent Acceleration Program. During this time, she was also the executive sales leader for the acquisition and integration of three companies in the marketing domain (DemandTec, Tealeaf, and Xtify). Stephanie has significant international experience working with CMOs in retail, travel, telecommunications, and other industries focused on optimizing the customer experience with a brand across all channels.

Stephanie holds a BA in political science from the University of Vermont and was a candidate in the master's degree program at Stanford University. She and her family reside in Needham, Massachusetts.

What I do when I'm not working?

Spend time with my two teenage daughters, ideally doing something outside like hiking, swimming, skiing, and tennis.

First job out of school?

Management trainee, Enterprise Rent-A-Car.

Career high?

Selected for IBM's Acquisition Talent Acceleration Program. Less than 1 percent of IBM employees were selected for this program.

Business book I'm reading now?

Converge: Transforming Business at the Intersection of Marketing and Technology by Bob Lord and Ray Velez.

My motto to live by?

"Don't let the perfect be the enemy of the good," that is, execute and iterate rather than be stuck in overanalyzing decisions.

What drives me?

Fear of failure.

My management style?

Collaborative and decisive.

Stephanie Nashawaty

Stephanie's Info



Here's my **problem...**

Real People, Real Choices

Oracle is a huge player in a booming industry that helps businesses manage the vast amount of information they need to operate. Its initial business focus was on relational databases. For example, the global communications company British Telecom (BT) uses Oracle's database solution to increase control and improve customer service with a streamlined global information technology (IT) infrastructure and standardized database administration. With Oracle's help, BT can now deploy a database in 20 minutes as compared to the several weeks this task required before the company used Oracle's solution.

Companies now have the ability to access an incredible amount of information about customers and prospects. These data points come from all of our interactions with a brand, including online web-surfing behavior, interactions in stores and kiosks, our calls into service call centers, and even when we tweet about an airline losing our baggage. Marketing departments need automation technology to help them make sense of all of the data and to interact with their loyal customers on an almost constant basis. Today, U.S. companies spend more than \$1.5 trillion per year on marketing technologies. The research firm Gartner predicts that by 2017, a typical firm's CMO will spend more on technology than will its chief information officer (CIO).

As business operations become more complex, the demand for change in IT increases, along with the associated risks a company has to address. Today's IT professionals are asked to manage a flood of information and to deliver it to their users in a timely manner with ever-increasing quality of service. And in today's economic climate, IT must also reduce budgets and derive greater value out of existing investments.

Over the years, Oracle has moved into offering software applications that help all of the various lines of business, such as human resources and sales, to do their jobs better. Oracle acquired its customer relationship management (CRM) application when it bought Siebel Systems in 2005. Siebel CRM is an on-premise application that allows salespeople to manage their prospects and accounts and forecast their business. It is the key to maintaining contact with the client's customers. For example, a company that maintains a loyalty program where it tracks consumers' transactions and awards points and other goodies in return has to monitor thousands and sometimes even millions of interactions every month.

It's a huge understatement to say that the technological environment is changing rapidly. In particular, the industry is moving toward a new model called software as a service (SaaS). Instead of purchasing and installing software on its own computers, this "software-on-demand" approach allows a company to take advantage of new "distributed computing" technology. This approach stores these programs remotely so that a user can access the software from any location. Users can customize the software, obtain faster answers, and analyze larger volumes of data, making it easier for clients with global operations to coordinate data management across locations. Many people refer to this revolution in information storage as "cloud computing" because data live "in the cloud" rather than being physically stored in a machine in the building.

This sea change in the technological environment creates both a huge opportunity and a big headache for Oracle. The opportunity is that Oracle

traditionally sold its products exclusively to the CIO. Now that the CMO and his team is so attuned to data-driven decision making, Oracle suddenly finds itself with an entirely new set of potential customers. Companies will be increasing their "spend" on sophisticated technology to keep up with a wired world, and the relative amount of this money they spend across functions will shift toward fatter marketing budgets for data-related products and services.

The downside: Oracle ironically faces a challenge because it is so successful in the on-premise product space, with hundreds of major corporate clients that equate the company with this traditional solution to data management. The company has faced challenges for the past few years as it struggles with concerns about its ability to compete in a new cloud-based business environment.

If Oracle tries to change with the times and move its vast number of clients "to the cloud," these companies may now think twice about sticking with the company. A CIO who wants to totally revamp the way his or her company manages information probably will explore what competing SaaS solutions companies have to offer. In that case, it would be open season on Oracle's clients.

Oracle needs to make important adjustments in its strategic planning to move to where the market is going. It needs to figure out how to structure its sales force to go after this new source of revenue and at the same time Oracle has to rebrand itself as a leader in cloud computing technology. The company needs to increase its focus on developing new cloud-computing capabilities or perhaps acquiring other companies that already have SaaS-based solutions and a sales team that understands this new marketing space.

Oracle needs to win in the emerging cloud-based market but at the same time retain the loyalty of its existing client base. The company needs to convince CMOs that it still has the ability to solve their most pressing database marketing challenges and that Oracle's solutions will help them acquire, upsell, and retain customers as the business world continues to move to the cloud.

Stephanie considered her Options 1·2·3

1 Stay the course with marketing clients. Oracle is extremely successful as a premise-based solutions provider. The company still boasts a huge roster of corporate clients that are satisfied with what it does for them. A shift to cloud-based solutions will confuse these clients and open the door to a host of competitors.

Of course, the long-term writing is on the wall: CMOs will continue to move their operations to the cloud and over time Oracle may be stuck with obsolete technologies and lose its reputation as an industry innovator.

You Choose

Which **Option** would you choose, and **why**?

☐ **Option 1** ☐ **Option 2** ☐ **Option 3**

See what **option** Stephanie chose in **MyMarketingLab™**

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Chapter 3**2****Option**

Acquire companies that already offer new SaaS marketing technologies. Go to market with a dedicated sales team that focuses only on selling cloud solutions to current and new clients. If Oracle buys up companies with this expertise, it will quickly acquire a customer base, products, and organization that were designed exclusively for this technology. These new products also will cross-pollinate across Oracle so that its own software engineers will come up to speed quickly on state-of-the-art applications. This choice would also create an immediate revenue stream from SaaS clients, and Oracle will be able to rebrand itself as an organization that truly is on the cutting edge of database management. On the other hand, it will be expensive to acquire these companies. Oracle's biggest rivals, including IBM, Salesforce.com, Adobe, and SAP, also are on the lookout for them, so the company might find itself in bidding wars that could up the ante quite a bit. An acquisition strategy might also create market confusion about what Oracle sells, and in addition the company's strategic partners are not as familiar with these new offerings as they are with legacy applications like Siebel. In fact, Oracle might lose clients who use the Siebel system now if they decide the company is not committed to the platform for the long haul. Finally, it was unclear if the salespeople at these smaller companies would stick with Oracle after it acquired their employees. Some of them might prefer to work for a young start-up rather than a huge corporation.

3**Option**

Stick to your knitting. Continue to promote the Siebel system for basic data management function. "De-invest" in the marketing solutions category, where it will be expensive to compete against the numerous other companies that were gearing up to swoop into this market. This would be a much less costly decision because Oracle would not have to spend the billions of dollars it would probably take to acquire new companies as in option 2. As is the case with option 1, Oracle already is well known as a market leader in database solutions. The messages it would send to the market would be much simpler and more straightforward, and it would benefit from a sales force that already knows the product and is familiar to clients.

However, Oracle would have to counter the perception that the company is trying to "ride an old horse" in a technology industry that richly rewards innovative solutions. In a few years, it may find itself the market leader in an obsolete category as all kinds of businesses eventually migrate to the cloud. Oracle might well find itself "penny wise and pound foolish" if it focuses on what it does well right now but fails to invest in the marketing category. By all indications, marketing functions will account for a steadily increasing share of the money that organizations spend on technology. If Oracle decides to enter this lucrative but competitive category down the road, it may discover that the ship has already sailed.

Now, put yourself in the team's shoes. Which option would you choose, and why?

3.1**Business Planning: Compose the Big Picture****OBJECTIVE**

Explain business planning and its three levels.

(pp. 68–70)

There's an old saying in business that "planning is everything"—well, almost. Planning allows a firm like Oracle to define its distinctive identity and purpose. Careful planning enables a firm to speak in a clear voice in the marketplace so that customers understand what the firm is and what it has to offer that competitors don't—especially as it decides how to create value for customers, clients, partners, and society at large. In this chapter, you will experience the power of effective business planning—and especially market planning—and lay the groundwork for your own capability to do successful planning.

We think this process is really important. That's why we're starting with a discussion about what planners do and the questions they need to ask to be sure they keep their companies and products on course. In many ways, developing great business planning is like taking an awesome digital photo with your smartphone (maybe a "selfie"?)—hence the title of this section. The metaphor works because success in photography is built around capturing the right information in the lens of your camera, positioning the image correctly, and snapping the picture you'll need to set things in motion. A business plan is a lot like that.

The knowledge you gain from going through a formal planning process is worth its weight in gold. Without market planning as an ongoing activity in a business, there's no

real way to know where you want the firm to go, how it will get there, or even if it is on the right or wrong track right now. There's nothing like a clear road map when you're lost in the wilderness. And speaking of road maps, we even include a handy guide as a supplement at the end of this chapter that shows you step-by-step how to build a marketing plan and where to find the information throughout the book to be able to do it. This road map will be highly useful as you make your way through the book, keeping the "big-picture" viewpoint of marketing in mind no matter which chapter you're reading.

What exactly is **business planning**? Put simply, it's an ongoing process of decision making that guides the firm in both the short term and the long term. Planning identifies and builds on a firm's strengths, and it helps managers at all levels make informed decisions in a changing business environment. *Planning* means that an organization develops objectives before it takes action. In large firms like IBM and Ford, which operate in many markets, planning is a complex process involving many people from different areas of the company's operations. At a small business like Mac's Diner in your hometown, however, planning is quite different in scope. Yet regardless of firm size or industry, great planning can only increase the chances of success.

In the sections that follow, we'll look at the different steps in an organization's planning. First, we'll see how managers develop a **business plan** to specify the decisions that guide the entire organization or its business units. Then we'll examine the entire strategic planning process and the stages in that process that lead to the development and implementation of a **marketing plan**—a process and resulting document that describes the marketing environment, outlines the marketing objectives and strategies, and identifies how the company will implement and control the strategies embedded in the plan.

business planning

An ongoing process of making decisions that guides the firm both in the short term and in the long term.

business plan

A plan that includes the decisions that guide the entire organization.

marketing plan

A document that describes the marketing environment, outlines the marketing objectives and strategy, and identifies how the company will implement and control the strategies embedded in the plan.

The Three Levels of Business Planning

We all know in general what planning is—we plan a vacation or a great Saturday night party. Some of us even plan how we're going to study and get our assignments completed without stressing out at the last minute. When businesses plan, the process is more complex. As  Figure 3.1 shows, planning occurs at three levels: strategic, functional, and operational. The top level is big-picture stuff, whereas the bottom level specifies the "nuts-and-bolts" actions the firm will need to take to achieve these lofty goals.

Figure 3.1  **Snapshot** | Levels of Business Planning

During planning, an organization determines its objectives and then develops courses of action to accomplish them. In larger firms, planning takes place at the strategic, functional, and operational levels.



Source: Copyright © American Marketing Association.

strategic planning

A managerial decision process that matches an organization's resources and capabilities to its market opportunities for long-term growth.

strategic business units (SBUs)

Individual units within the firm that operate like separate businesses, with each having its own mission, business objectives, resources, managers, and competitors.

functional planning

A decision process that concentrates on developing detailed plans for strategies and tactics for the short term, supporting an organization's long-term strategic plan.

market planning

The functional planning marketers do. Market planning typically includes both a broad three- to five-year marketing plan to support the firm's strategic plan and a detailed annual plan for the coming year.

operational planning

A decision process that focuses on developing detailed plans for day-to-day activities that carry out an organization's functional plans.

First-Level Planning

Strategic planning is the managerial decision process that matches the firm's resources (such as its financial assets and workforce) and capabilities (the things it is able to do well because of its expertise and experience) to its market opportunities for long-term growth. In a strategic plan, top management—usually the chief executive officer (CEO), president, and other top executives—define the firm's purpose and specify what the firm hopes to achieve over the next five years or so. For example, Oracle's strategic plan may set an objective to increase total revenues by 20 percent in the next five years.

Large firms, such as the Walt Disney Company, have a number of self-contained divisions called **strategic business units (SBUs)**—individual units that represent different areas of business within a firm that are unique enough to each have their own mission, business objectives, resources, managers, and competitors. Disney's SBUs include parks and resorts, media networks, consumer products and interactive media, and studios. Hence, strategic planning occurs both at the overall corporate level (Disney headquarters in Burbank, California, plans for the whole corporation globally) and at the SBU level. We'll discuss these two levels later in the chapter.

Second-Level Planning

The next level of planning is **functional planning**. This level gets its name because it involves the various functional areas of the firm, such as marketing, finance, and human resources. Vice presidents or functional directors usually do this. We refer to the functional planning that marketers do as **market planning**. The person in charge of such planning may have the title of director of marketing, vice president of marketing, chief marketing officer, or something similar. Such marketers might set an objective to gain 40 percent of a particular market by successfully introducing three new products during the coming year. This objective would be part of a marketing plan. Market planning typically includes both a broad three- to five-year marketing plan to support the firm's strategic plan and a detailed annual plan for the coming year.

Third-Level Planning

Still farther down the planning ladder are the managers who are responsible for planning at a third level called **operational planning**. In marketing, these include people such as sales managers, marketing communication managers, brand managers, and market research managers. This level of planning focuses on the day-to-day execution of the functional plans and includes detailed annual, semiannual, or quarterly plans. Operational plans might show exactly how many units of a product a salesperson needs to sell per month or how many TV commercials the firm will place on certain networks during a season. At the operational planning level, a manager may develop plans for a marketing campaign to promote the product by creating buzz via social media.

Of course, marketing managers don't just sit in their offices dreaming up plans without any concern for the rest of the organization. Even though we've described each layer separately, *all business planning is an integrated activity*. This means that at an organization like Oracle, strategic, functional, and operational plans must work together for the benefit of the whole, always within the context of the organization's mission and objectives. So planners at all levels must consider good principles of accounting, the value of the company to its stockholders, and the requirements for staffing and human resource management—that is, they must keep the big picture in mind even as they plan for their little corner of the organization's world.

In the next sections, we'll further explore planning at each of the three levels that we've just introduced.

3.2

Strategic Planning: Frame the Picture

OBJECTIVE

Describe the steps in strategic planning.

(pp. 71–77)

Many large firms realize it's risky to put all their eggs in one basket and rely on only one product, so they have become multiproduct companies with self-contained divisions organized around product lines or brands.

In firms with multiple SBUs (as illustrated previously by Disney), the first step in strategic planning is for top management to establish a mission for the entire corporation. Top managers then evaluate the internal and external environments of the business and set corporate-level objectives that guide decision making within each individual SBU. In small firms that are not large enough to have separate SBUs, strategic planning simply takes place at the overall firm level. Whether or not a firm has SBUs, the process of strategic planning is basically the same. Let's look at the planning steps in a bit more detail, guided by  Figure 3.2.

Step 1: Define the Mission

Ideally, top management's first step in the strategic planning stage is to answer questions such as the following:

- What business are we in?
- What customers should we serve?
- How should we develop the firm's capabilities and focus its efforts?

In many firms, the answers to questions such as these become the lead items in the organization's strategic plan. The answers become part of a **mission statement**—a formal document that describes the organization's overall purpose and what it intends to achieve in terms of its customers, products, and resources. For example, Twitter's mission statement is "To give everyone the power to create and share ideas and information instantly, without barriers."¹ The ideal mission statement is not too broad, too narrow, or too shortsighted. A mission that is too broad will not provide adequate focus for the organization. It doesn't do much good to claim, "We are in the business of making high-quality products" or "Our business is keeping customers happy," because it is hard to find a firm that doesn't make these claims. It's also important to remember that the need for a clear mission statement applies to virtually any type of organization.

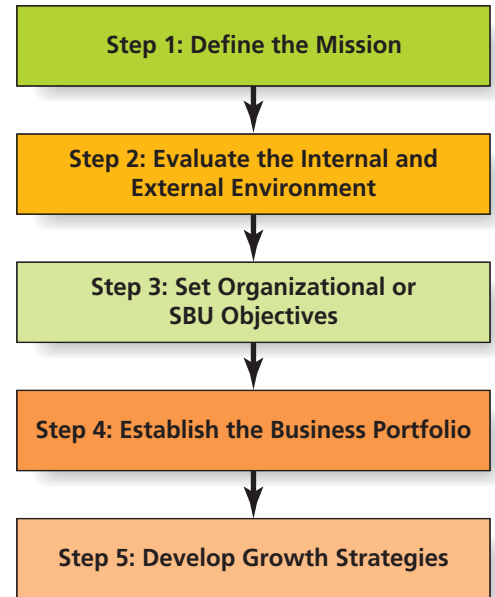
Step 2: Evaluate the Internal and External Environment

The second step in strategic planning is to assess the firm's internal and external environments. We refer to this process as a **situation analysis**, *environmental analysis*, or sometimes a *business review*. The analysis includes a discussion of the firm's internal environment, which can identify a firm's strengths and weaknesses, as well as the external environment in which the firm does business so the firm can identify opportunities and threats.

By **internal environment** we mean all the controllable elements inside a firm that influence how well the firm operates. Internal strengths may lie in the firm's technologies. What is the firm able to do well that other firms would find difficult to duplicate? What patents does it hold? A firm's physical facilities can be an important strength or weakness, as can its level of financial stability, its relationships with suppliers, its corporate reputation, its ability to produce consistently high-quality products, and its ownership of strong brands

Figure 3.2  **Process** | Steps in Strategic Planning

The strategic planning process includes a series of steps that results in the development of growth strategies.



mission statement

A formal statement in an organization's strategic plan that describes the overall purpose of the organization and what it intends to achieve in terms of its customers, products, and resources.

situation analysis

An assessment of a firm's internal and external environments.

internal environment

The controllable elements inside an organization, including its people, its facilities, and how it does things that influence the operations of the organization.

external environment

The uncontrollable elements outside an organization that may affect its performance either positively or negatively.

in the marketplace. Internal elements include a firm's structure, organizational culture, and all sorts of assets—financial and otherwise.

Internal strengths and weaknesses often reside in the firm's employees—the firm's *human and intellectual capital*. What skills do the employees have? What kind of training have they had? Are they loyal to the firm? Do they feel a sense of ownership? Has the firm been able to attract top researchers and good decision makers?

The **external environment** consists of elements outside the firm that may affect it either positively or negatively. For Oracle and many other firms, the external environment for today's businesses is global, so managers/marketers must consider elements such as the economy, competition, technology, law, ethics, and sociocultural trends. Unlike elements of the internal environment that management can control to a large degree, the firm can't directly control these external factors, so management must respond to them through its planning process.

In Chapter 2, you read about the various elements of the external environment in which marketing takes place, within the context of today's global enterprise. You gained an appreciation of why it is important for you to be aware that opportunities and threats can come from any part of the external environment. On the one hand, trends or currently unserved customer needs may provide opportunities for growth. On the other hand, if changing customer needs or buying patterns mean customers are turning away from a firm's products, it's a signal of possible danger or threats down the road. Even successful firms have to change to keep up with external environmental pressures. Oracle's business, like that of most marketing-related suppliers, is greatly impacted by the marketing budgets of its clients, which in turn are driven by economic conditions and ultimately consumer demand.

What is the outcome of an analysis of a firm's internal and external environments? Managers often synthesize their findings from a situation analysis into a format called a **SWOT analysis**. This document summarizes the ideas from the situation analysis. It allows managers to focus clearly on the meaningful strengths (S) and weaknesses (W) in the firm's internal environment and opportunities (O) and threats (T) coming from

outside the firm (the external environment). A SWOT analysis enables a firm to develop strategies that make use of what the firm does best in seizing opportunities for growth while at the same time avoiding external threats that might hurt the firm's sales and profits.

Step 3: Set Organizational or SBU Objectives

After they construct a mission statement, top management translates it into *organizational* or *SBU objectives*. These goals are a direct outgrowth of the mission statement and broadly identify what the firm hopes to accomplish within the general time frame of the firm's long-range business plan. If the firm is big enough to have separate SBUs, each unit will have its own objectives relevant to its operations.

To be effective, objectives need to be *specific*, *measurable* (so firms can tell whether they've met them), *attainable*, and *sustainable over time*. Attainability is especially important—firms that establish “pie-in-the-sky” objectives they can't realistically obtain can create frustration for their employees (who work hard but get no satisfaction of accomplishment) and other stakeholders in the firm, such

SWOT analysis

An analysis of an organization's strengths and weaknesses and the opportunities and threats in its external environment.



B Christopher/Alamy Stock Photo

Southwest Airlines has always been very focused on hiring and developing employees who reflect the “Southwest Spirit” to customers. Anyone who has flown on Southwest can attest to the fact that the atmosphere is lively and fun, and flight attendants are likely to do most any crazy stunt—bowling in the aisle or serenading the captain and first officer (and passengers) with a favorite tune. One of our favorites is a guy who does galloping horse hooves and neighing sounds during takeoff and landing. For Southwest, a real strength—one that's hard for the competition to crack—lies in this employee spirit.

as vendors and shareholders who are affected when the firm doesn't meet its objectives. That a firm's objectives are sustainable over time is also critical—usually there's little advantage to investing in attaining an objective for only a very short term? This often happens when a firm underestimates the likelihood that a competitor will come to market with a better offering. Without some assurance that an objective is sustainable over time, the financial return on an investment likely will not be positive.

Objectives may relate to revenue and sales, profitability, the firm's standing in the market, return on investment, productivity, product development, customer satisfaction, social responsibility, and many other attributes. To ensure measurability, marketers increasingly try to state objectives in numerical terms. For example, a firm might have as an objective a 10 percent increase in profitability. It could reach this objective by increasing productivity, by reducing costs, or by selling off an unprofitable division. Or it might meet this 10 percent objective by developing new products, investing in new technologies, or entering a new market.

Samsung Electronics recently identified as part of its vision for 2020 two ambitious goals that include reaching \$400 billion in annual revenue and achieving a position as one of the top five brands in the world. Samsung's plan to more than double its annual revenue by 2020 may seem ambitious, but the firm has identified an aggressive roadmap for enhancing its position within its current industries and markets as well as entering into new opportunities.²



Samsung has hefty growth objectives for the remainder of the decade.

Step 4: Establish the Business Portfolio

For companies with several different SBUs, strategic planning includes making decisions about how to best allocate resources across these businesses to ensure growth for the total organization. Each SBU has its own focus within the firm's overall strategic plan, and each has its own target market and strategies to reach its objectives. Just like an independent business, each SBU is a separate *profit center* within the larger corporation—that is, each SBU within the firm is responsible for its own costs, revenues, and profits. These items can be accounted for separately for each SBU.

Just as we call the collection of different stocks an investor owns a portfolio, the range of different businesses that a large firm operates is its **business portfolio**. These different businesses usually represent different product lines, each of which operates with its own budget and management. Having a diversified business portfolio reduces the firm's dependence on one product line or one group of customers. For example, if the economy sours and consumers don't travel as much in a bad year for Disney theme park attendance and cruises, its managers hope that the sales will be made up by stay-at-homers who watch Disney's TV networks and who purchase Mickey Mouse collectibles from the Disney website.

Portfolio analysis is a tool management uses to assess the potential of a firm's business portfolio. It helps management decide which of its current SBUs should receive more—or less—of the firm's resources and which of its SBUs are most consistent with the firm's overall mission. There are a host of portfolio models available. To illustrate how one works, let's examine the especially popular model the Boston Consulting Group (BCG) developed: the **BCG growth–market share matrix**.

The BCG model focuses on determining the potential of a firm's existing successful SBUs to generate cash that the firm can then use to invest in other businesses. The BCG

business portfolio

The group of different products or brands owned by an organization and characterized by different income-generating and growth capabilities.

portfolio analysis

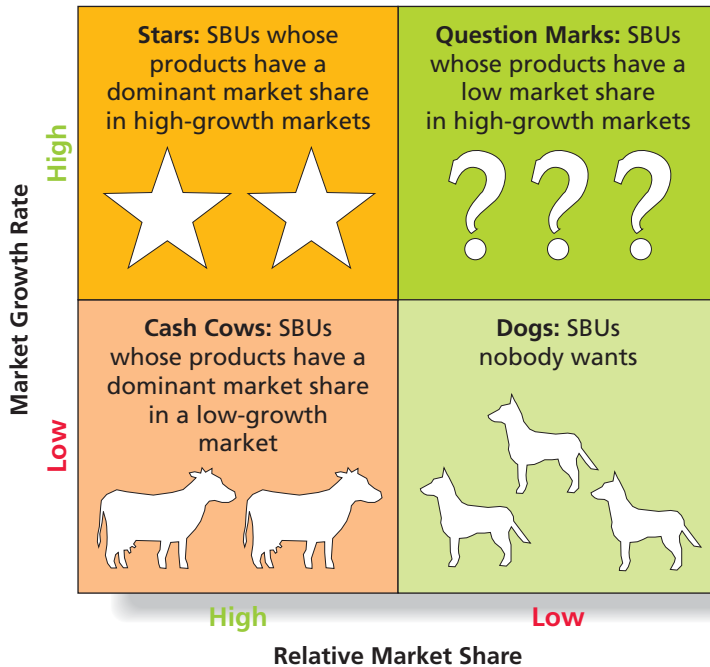
A management tool for evaluating a firm's business mix and assessing the potential of an organization's strategic business units.

BCG growth–market share matrix

A portfolio analysis model developed by the Boston Consulting Group that assesses the potential of successful products to generate cash that a firm can then use to invest in new products.

Figure 3.3  **Snapshot** | BCG Matrix

The Boston Consulting Group's (BCG) growth–market share matrix is one way a firm can examine its portfolio of different SBUs and their related products. By categorizing SBUs as stars, cash cows, question marks, or dogs, the matrix helps managers make good decisions about how the firm should grow.



Source: Product Portfolio Matrix, © 1970, The Boston Consulting Group.

stars

SBUs with products that have a dominant market share in high-growth markets.

cash cows

SBUs with a dominant market share in a low-growth-potential market.

question marks

SBUs with low market shares in fast-growth markets.



Disney's retail stores are question marks for the diversified company.

matrix in  Figure 3.3 shows that the vertical axis represents the attractiveness of the market: the *market growth rate*. Even though the figure shows “high” and “low” as measurements, marketers might ask whether the total market for the SBU's products is growing at a rate of 10, 50, 100, or 200 percent annually.

The horizontal axis in Figure 3.3 shows the SBU's current strength in the market through its relative market share. Here, marketers might ask whether the SBU's share is 5, 25, or perhaps 75 percent of the current market. Combining the two axes creates four quadrants representing four different types of SBUs. Each quadrant of the BCG grid uses a symbol to designate business units that fall within a certain range for market growth rate and market share. Let's take a closer look at each cell in the grid:

- **Stars** are SBUs with products that have a dominant market share in high-growth markets. Because the SBU has a dominant share of the market, stars generate large revenues, but they also require large amounts of funding to keep up with production and promotion demands. Hence, stars need investment capital from other parts of the business because they don't generate it themselves. Of course, any profits generated directly by stars presumably would be reinvested right back in the star. For example, in recent years, Disney has viewed its studios as a star and has been able to

generate significant revenues from its acquisition of Lucasfilm and the intellectual property within the *Star Wars* universe. *Star Wars Episode VII: The Force Awakens* broke the domestic box office record, ousting *Avatar* and generating well more than \$2 billion in revenue worldwide.³

- **Cash cows** have a dominant market share in a low-growth potential market. Because there's not much opportunity for new companies, competitors don't often enter the market. At the same time, the SBU is well established and enjoys a high market share that the firm can sustain with minimal funding. Firms usually milk cash cows of their profits to fund the growth of other SBUs. Of course, if the firm's objective is to increase revenues, having too many cash cows with little or no growth potential can become a liability. For Disney, its theme parks unit fits into the cash cow category in that sales have been basically steady for an extended period of time. Walt Disney World in Orlando's Hollywood Studios closed a number of attractions to make way for the construction of a 14-acre section of the park dedicated to the *Star Wars* Universe so the park will remain fresh and appealing for its visitors.⁴

- **Question marks**—sometimes called “problem children”—are SBUs with low market shares in fast-growth markets. When a business unit is a question mark, the key issue is whether through investment and new strategy it can be transformed into a star. For example, the firm could pump more money into marketing the product and hope that relative market share will improve. But the problem with question marks is that despite investment many times they make a beeline straight into the annals of market failures. Hence, the firm

must carefully evaluate the likelihood that investment in a question mark will pay off else it may find itself “throwing good money after bad” if it gains nothing but a negative cash flow and disappointment. For Disney, its brick-and-mortar retail operation falls into the question-mark category because its performance compared to the overall specialty retail market has somewhat lagged. Like most retail operators today, the online version of the Disney Store provides a better growth trajectory than the four walls version.

- **Dogs** command a small share of a slow-growth market. They are businesses that offer specialized products in limited markets that are not likely to grow quickly. When possible, large firms may sell off their dogs to smaller firms that may be able to nurture them—or they may take the SBU’s products off the market. Disney, being a savvy strategic planner, apparently identified its Miramax film studio as a long-term dog (to Pluto and Goofy: no pun intended) because they sold it off in 2010 ending a 17-year involvement with that studio.⁵ In addition, in 2011, Disney Vacation Club (its time-share unit) scrapped plans to launch a major new facility at National Harbor near Washington, D.C.⁶ This move was no doubt reflective of the general malaise in the time-share market (also called “vacation ownership”) since the Great Recession.

Like Disney, Oracle could use the BCG matrix to evaluate its product lines to make important decisions about where to invest for future growth. It would look across Oracle’s various offerings to assess the market growth rate and relative market share, determine the degree to which each is a cash generator or a cash user, and decide whether to invest further in these or other business opportunities.

Step 5: Develop Growth Strategies

Although the BCG matrix can help managers decide which SBUs they should invest in for growth, it doesn’t tell them much about *how* to make that growth happen. Should the growth of an SBU come from finding new customers, from developing new variations of the product, or from some other growth strategy? Part of strategic planning at the SBU level entails evaluating growth strategies.

Marketers use the product-market growth matrix, shown in Figure 3.4, to analyze different growth strategies. The vertical axis in the matrix represents opportunities for growth either in existing markets or in new markets. The horizontal axis considers whether the firm would be better off putting its resources into existing products or whether it should acquire new products. The matrix provides four fundamental marketing strategies: market penetration, market development, product development, and diversification:

- **Market penetration strategies** seek to increase sales of existing products to existing markets, such as current users, non-users, and users of competing brands within a market. The voice assistant market is relatively crowded with the likes of Apple’s Siri, Microsoft’s Cortana, and Google Now, but Amazon has found a way in recent years to introduce a stand-alone product that has been able to gain increasing adoption. Amazon’s Echo (and the software it runs on called Alexa) is a



The recent acquisition of Marvel Comics by Disney most likely will add to the entertainment company’s stable of stars.

dogs
SBUs with a small share of a slow-growth market. They are businesses that offer specialized products in limited markets that are not likely to grow quickly.

market penetration strategies
Growth strategies designed to increase sales of existing products to current customers, nonusers, and users of competitive brands in served markets.

Figure 3.4 Snapshot | Product–Market Growth Matrix

Marketers use the product-market growth matrix to analyze different growth strategies.

		Product Emphasis	
		Existing Products	New Products
Market Emphasis	Existing Markets	Market penetration strategy • Seek to increase sales of existing products to existing markets	Product development strategy • Create growth by selling new products in existing markets
	New Markets	Market development strategy • Introduce existing products to new markets	Diversification strategy • Emphasize both new products and new markets to achieve growth



Cuba is a promising market for American companies now that government restrictions have been lifted.

market development strategies

Growth strategies that introduce existing products to new markets.

product development strategies

Growth strategies that focus on selling new products in existing markets.

diversification strategies

Growth strategies that emphasize both new products and new markets.

voice assistant speaker that enables users to communicate verbally with the device to make requests to play a specific song on Spotify or hail an Uber. Through Echo, Amazon has been able to gain greater market by developing and highlighting the growing list of integrations available for the device aimed at adding greater levels of convenience to different tasks. For Super Bowl 50, Amazon spent big money on a primetime television spot to feature the Echo and the Alexa software that it utilizes.⁷ In the not too distant future, a user may be able to treat the product as, among other things, a “virtual teller” capable of performing different banking activities.⁸

• **Market development strategies** introduce existing products to new markets. This strategy can mean expanding into a new geographic area, or it may mean reaching new customer segments within an existing geographic market. For example, Boeing sells its airplanes in many countries throughout the world, but it just recently entered the African market for the first time. In recent years as the U.S. relationship with Cuba has improved, many American companies have begun to look at this nearby island as a new opportunity for growth close to home. Early in 2016 Starwood Hotels and Resorts edged out Marriott to become the first U.S. company in about 60 years to take over the operation of a hotel in Cuba. For global hotelier Starwood, Cuba represents an attractive market that for decades has been artificially constrained due to governmental policies.⁹

- **Product development strategies** create growth by selling new products in existing markets. *Product development* may mean extending the firm’s product line by developing new variations of the item, or it may mean altering or improving the product to provide enhanced performance. In Southern California, McDonald’s started a test of healthier breakfast bowls that feature kale, egg whites, and other nontraditional Mickey D ingredients.¹⁰ Riding on the success of their all-day breakfast menu, such product development tests have the opportunity to generate considerable additional revenue in this case from more health-conscious consumers.
- **Diversification strategies** emphasize both new products and new markets to achieve growth. Coke offers a wide range of brands and products beyond the high fructose corn syrup goodness of its namesake Coca-Cola, largely in response to a global backlash on poor nutrition and obesity. With declining sales of the core brand, recently Coke stepped up efforts to acquire companies such as China’s Culiangwang Beverages Holding Ltd. that is well known for its multigrain beverages branded as health drinks.¹¹ In addition, Coca-Cola developed products in recent years such as Coca-Cola Life that shifts to a sweetener called Stevia, a purportedly healthier plant extract. As the demand for healthier products accelerates, count on Coke to turn to more diversification strategies including opportunities in emerging economies to replace growth that is waning in its portfolio of traditional high-calorie products.¹²

To review what we’ve learned so far, strategic planning includes developing the mission statement, assessing the internal and external environment (resulting in a SWOT analysis), setting objectives, establishing the business portfolio, and developing growth strategies. In the next section, we’ll look at marketers’ functional plans as we examine the process of market planning.

Ripped from the Headlines

Ethical/Sustainable Decisions in the Real World

Previously in this chapter, you learned about portfolio management and the different ways that stars, cash cows, question marks, and dogs are identified and managed by firms. Within the pharmaceutical industry a cash cow can take the form of a drug that has been around for a while and is considered a staple for treating a specific medical condition. This particular drug might not have a substantially large market, but for those who suffer from a specific condition it may be the only option. In this regard we could argue that this drug enjoys a monopolistic position and that the sensitivity to price for this product is most likely extremely low. This may especially be true if the drug is prescribed by doctors who view it as the only suitable option for the condition it treats.

Pharmaceutical firms are under increasing public and governmental scrutiny to balance societal needs with the profit motive. Traditionally, the pharma industry argues back that product development costs in bringing innovative new drugs to market are sky high and approval timelines are very long. A study by the Tufts Center for the Study of Drug Development pegged total cost of bringing an approved drug to market at \$2.6 billion with a typical developmental timespan more than 10 years.¹³

Pharma is a high-risk business model, but when a firm does hit on the “next big drug,” the payoff is astronomical. One way to help fund innovation in this environment is to substantially raise the prices of existing

drugs that serve small specialized markets with low or no growth potential, but because of the overwhelming need of those patients for the medicine no drop in revenue would be anticipated (in Chapter 10 we’ll talk about price changes that do not cause much change in demand as *price inelasticity*). Recently, in a scenario played out heavily in the media, Turing Pharmaceuticals argued that an increase in the price of a dose of its product Daraprim from \$13.50 to a whopping \$750 would help the company invest in the development of new drugs that would benefit far more consumers. At the time Daraprim served fewer than ten thousand individuals, but for them it was indeed a potential lifesaver in fighting a parasitic infection encountered by folks whose immune systems were compromised. Public outcry against Turing was extreme. The CEO (who ultimately resigned and was later indicated on unrelated charges) was reviled as the “bad boy of biotech” and many other names unfit to print in a family textbook.¹⁴

Although they may be wildly unpopular, such huge price increases are not illegal. Pharma firms assume high financial risks, and not every new medication is a blockbuster. Most failing along the long road to product development, forcing those that do succeed to pay for themselves and also the products that didn’t make it to the finish line.¹⁵

ETHICS CHECK:

Is it appropriate for pharma companies to set prices of prescription drugs at any level they want based on the needs of their business?

☐ YES ☐ NO

3.3 Market Planning: Develop and Execute Marketing Strategy

OBJECTIVE

Describe the steps in market planning.

(pp. 77–84)

Until now, we have focused on fairly broad strategic plans. This big-picture perspective, however, does not provide details about how to reach the objectives we set. Strategic plans “talk the talk” but put the pressure on lower-level functional-area managers, such as the marketing manager, production manager, and finance manager, to “walk the walk” by developing the functional plans—the nuts and bolts—to achieve organizational and SBU objectives. Because you’re taking a marketing course and this is a marketing book, our focus at the functional planning level is naturally on developing marketing plans, which is the next step in planning as we showed back in Figure 3.1.

The Four Ps of the marketing mix we discussed in Chapter 1 remind us that successful firms must have viable *products* at *prices* consumers are willing to pay, a way to *promote* the products to the right consumers, and the ability to get the products to the *place* where consumers want to buy them.

Making this happen requires a tremendous amount of planning by the marketer. The steps in this market planning process are quite similar to the steps at the strategic planning level. An important distinction between strategic planning and market planning, however, is that marketing professionals focus much of their planning efforts on issues related to the

Figure 3.5  **Process** Steps in Market Planning



marketing mix—the firm’s product, its price, promotional approach, and distribution (place) methods. In the end, as you learned in Chapter 1, marketing focuses on creating, communicating, delivering, and exchanging offerings that have value, and market planning plays a central role in making these critical components of marketing successful. Let’s use  Figure 3.5 as a guide to look at the steps involved in the market planning process in a bit more detail.

Step 1: Perform a Situation Analysis

The first step to develop a marketing plan is to conduct an analysis of the *marketing* environment. In Chapter 2, you learned about four key external elements that impact marketers: the economic, technological, political and legal, and sociocultural environments. To do this, managers build on the company’s SWOT analysis and search out information about the environment that specifically affects the marketing plan. For example, for Oracle to develop an effective marketing communication program for any one of its products, it’s not enough to have just a general understanding of the target market. Oracle needs to know *specifically* what media potential customers like to connect with, what messages about the product are most likely to make them buy, and how they prefer to communicate with the firm about new services and customer care issues. Oracle also must know how competitors market to customers so that the company can plan effectively.

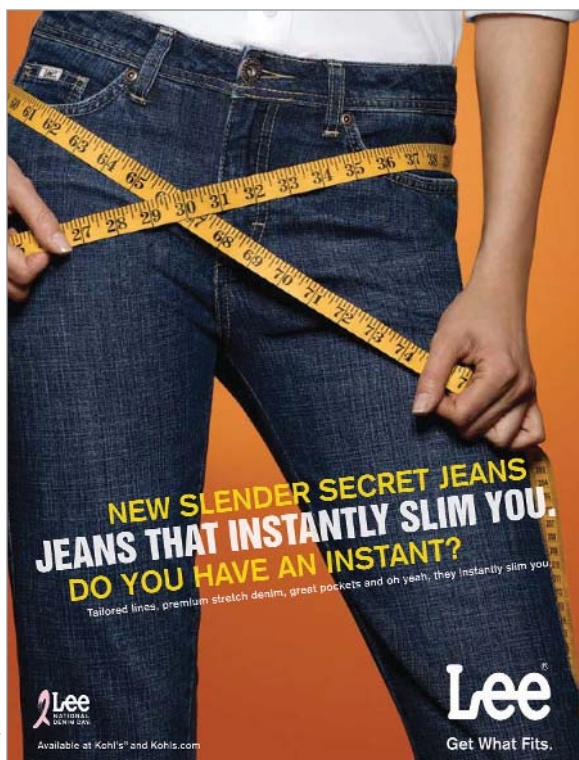
Step 2: Set Marketing Objectives

Once marketing managers have a thorough understanding of the marketing environment, the next step is to develop specific marketing objectives. How do marketing objectives differ from corporate objectives? Generally, marketing objectives are more specific to the firm’s marketing mix–related elements. Think of the connection between business objectives and marketing objectives this way: Business objectives guide the entire firm’s operations, whereas marketing objectives state what the marketing function must accomplish if the firm is ultimately to achieve these overall business objectives. So for Oracle, setting marketing objectives means deciding what the firm wants to accomplish in terms of a product line’s marketing mix–related elements: product development, pricing strategies, or specific marketing communication approaches.

Step 3: Develop Marketing Strategies: Target Markets and the Marketing Mix

In the next stage of the market planning process, marketing managers develop their actual marketing strategies—that is, they make decisions about what activities they must accomplish to achieve the marketing objectives. Usually this means they decide which markets to target and actually develop the marketing mix strategies (product, price, promotion, and place [supply chain]) to support how they want to position the product in the market. At this stage, marketers must figure out how they want consumers to think of their product compared to competing products.

As we mentioned in Chapter 1, the target market is the market segment(s) a firm selects because it believes its offerings are most likely to win those customers. The firm assesses the potential demand—the number of consumers it believes are willing and able to pay for its products—and decides if it is able to create a sustainable competitive advantage in the marketplace among target consumers.



Lee jeans offers a very diverse product portfolio.

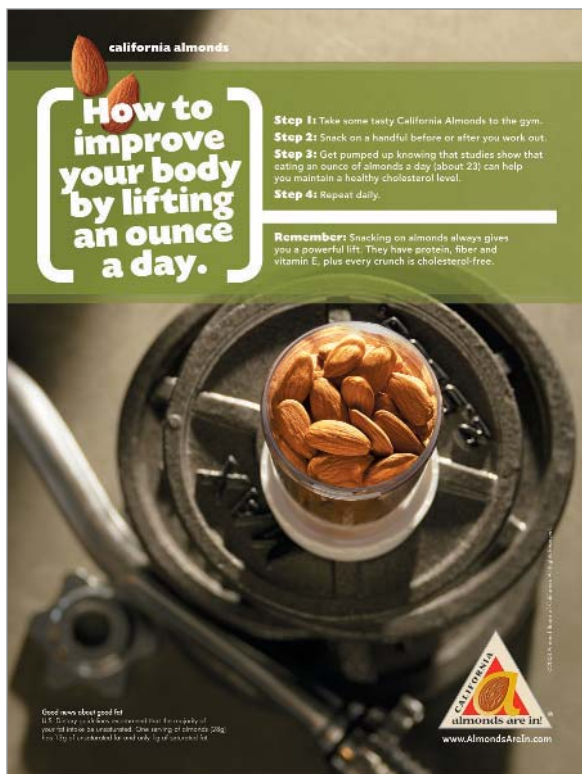
Marketing mix decisions identify how marketing will accomplish its objectives in the firm's target markets by using product, price, promotion, and place. To make the point, we'll compare several different airlines' approaches:

- Because the product is the most fundamental part of the marketing mix—firms simply can't make a profit without something to sell—carefully developed *product strategies* are essential to achieve marketing objectives. Product strategies include decisions such as product design, packaging, branding, support services (e.g., maintenance); if there will be variations of the product; and what product features will provide the unique benefits targeted customers want. For example, Alaska Airlines became the first carrier to fly a version of the Boeing 737 aircraft that offers a type of overhead bin that can hold 48 percent more luggage than a standard pivot bin.¹⁶ If you've ever packed a carry-on bag with the express purpose of not having to deal with the cost and hassle of checking a bag, only to find when you get to the gate that the bins are full and you end up checking the bag anyway, you might be tempted by Alaska's bigger bins and book them over other carriers.¹⁷
- A *pricing strategy* determines how much a firm charges for a product. Of course, that price has to be one that customers are willing to pay. If not, all the other marketing efforts are futile. In addition to setting prices for the final consumer, pricing strategies usually establish prices the company will charge to wholesalers and retailers. A firm may base its pricing strategies on costs, demand, or the prices of competing products. In recent years, most airlines have been charging extra fees (checked baggage anyone?) for services and perks they used to include in the ticket price, a practice known as *debundling*, in an effort to increase their revenues. Consumer backlash on such "nickel-and-diming" for everything led Delta Air Lines began offering a new option for travelers called Comfort+™ that includes many benefits built back into its price; these include Sky Priority boarding, premium content on the entertainment console, Wi-Fi access, alcoholic beverages and premium snacks, and seating with greater leg room. Travelers can easily add up the individual costs of these "rebundled" services to determine if Comfort+™ is a good deal for them.¹⁸
- A *promotional strategy* is how marketers communicate a product's value proposition to the target market. Marketers use promotion strategies to develop the product's message and the mix of advertising, sales promotion, public relations and publicity, direct marketing, and personal selling that will deliver the message. Many firms use all these elements to communicate their message to consumers. Emirates, an international airline company that operates flights to destinations all around the world, has cultivated a strong association with luxury and comfort through a focus on features and experiences within its airplanes that are clearly uncommon in today's commoditized world of air travel. To heighten public awareness that Emirates is different, the airline launched a major advertising campaign featuring its new brand ambassador Jennifer Aniston. In the ad Aniston (on an Emirates plane) emerges from a nightmare in which she was flying a U.S. carrier that had no walk-up bar, no private bedrooms in the first class cabin, and no in-flight showers (oh, the horror!). The ad closes with her kibitzing with the bartender about her horrible dream, asking him if the pilots can fly around for another hour or so to allow her to take advantage of Emirates' luxury product amenities.¹⁹
- *Distribution strategies* outline how, when, and where the firm will make the product available to targeted customers (the *place* component). When they develop a distribution strategy, marketers must decide whether to sell the product directly to the final customer or to sell through retailers and wholesalers. And the choice of which retailers should be involved depends on the product, pricing, and promotion decisions. Back in the day,



Many airline passengers today crave a bigger luggage bin as a product feature.

Patti McConnell/Alamy Stock Photo



California's almond growers have a marketing strategy to increase consumption by promoting the nut's health benefits.

control

A process that entails measuring actual performance, comparing this performance to the established marketing objectives, and then making adjustments to the strategies or objectives on the basis of this analysis.

activity metrics

Metrics focused on measuring and tracking specific activities taken within a firm that are part of different marketing processes.

outcome metrics

Metrics focused on measuring and tracking specific events identified as key business outcomes that result from marketing processes.

airlines used to sell tickets in person or by phone directly to customers or through independent travel agents, but customers now largely purchase tickets online, often through third-party vendors such as Travelocity. And there are benefits to this strategy, especially for consumers. For example, travelers can see at a glance the best airlines fares and flight schedules; they can get discounts for booking multiple travel services, such as flights, hotels, and car rentals; and they can get access to top deals such as when Expedia offered 29 percent off on select hotel reservations made using the Expedia app on February 29, 2016, in celebration of the extra leap year day.²⁰

Step 4: Implement and Control the Marketing Plan

Once the marketing plan is developed, it's time to get to work and make it succeed. In practice, marketers spend much of their time managing the various elements involved in implementing the marketing plan. Once Oracle understands the marketing environment, determines the most appropriate objectives and strategies, and gets its ideas organized and on paper in the formal plan, the rubber really hits the road. Like all firms, how Oracle actually implements its plan is what will make or break it in the marketplace.

During the implementation phase, marketers must have some means to determine to what degree they actually meet their stated marketing objectives. Often called **control**, this formal process of monitoring progress entails three steps:

1. Measure actual performance.
2. Compare this performance to the established marketing objectives or strategies.
3. Make adjustments to the objectives or strategies on the basis of this analysis. This issue of making adjustments brings up one of the most important aspects of successful market planning: Marketing plans aren't written in stone, and marketers must be flexible enough to make such changes when changes are warranted.

For effective control, Oracle has to establish appropriate *metrics* related to each of its marketing objectives and then track those metrics to know how successful the marketing strategy is and determine whether it needs to change the strategy along the way. For example, what happens if Oracle sets an objective for the first quarter of a year to increase its market share for a particular product line by 20 percent but after the first-quarter sales are only even with those of last year? The *control process* means that market planners would have to look carefully at *why* the company isn't meeting its objectives. Is it due to internal factors, external factors, or a combination of both? Depending on the cause, Oracle would then have to adjust the marketing plan's strategies (such as to implement product alterations, modify the price, change distribution channels, or increase or alter promotion). Alternatively, Oracle could decide to adjust the marketing objective so that it is more realistic and attainable. This scenario illustrates the important point we made earlier in our discussion of strategic planning: Objectives must be specific and measurable but also *attainable* (and *sustainable over time*) in the sense that if an objective is not realistic, it can become demotivating for everyone involved in the marketing plan.

For Oracle and all firms, effective control requires appropriate *marketing metrics*, which, as we discussed in Chapter 1, are measurements that marketers use to identify the effectiveness of different strategies or tactics. Two common ways that metrics can be categorized include: (1) **activity metrics**, which are focused on measuring and tracking specific activities taken within a firm that are part of different marketing processes; and (2) **outcome metrics**, which are focused on measuring and tracking specific events identified as key business outcomes that result from marketing processes. An example

of an activity metric is the number of calls that a salesperson makes to customers over a month, whereas a related outcome metric is the number of orders gained from sales calls made during that month.

Metrics are so important in marketing today that you will find extensive treatment of the topic (along with marketing analytics and “Big Data”) in Chapter 5. For now, it is important to understand that marketers must balance attention to marketing control and the measurement of marketing performance against sustainability and corporate social responsibility (CSR) objectives, which you read about in Chapter 2. Recall that sustainability has to do with firms doing well by doing good—that is, paying attention to important issues such as ethics, the environment, and social responsibility as well as the bottom line. In market planning, we certainly don’t want to drive firms toward strategies that compromise sustainability by focusing only on controlling relatively short-term aspects of performance.

Today’s CEOs are keen to quantify just how an investment in marketing has an impact on the firm’s success, financially and otherwise, over the long haul. You’ve heard of the financial term *return on investment (ROI)*—in a marketing context we refer to **return on marketing investment (ROMI)**. *In fact, it’s critical to consider marketing as an investment rather than an expense*; this distinction drives firms to use marketing more strategically to enhance the business. For many firms today, ROMI is the metric du jour to analyze how the marketing function contributes to the bottom line.

So, what exactly is ROMI? It is the revenue or profit margin (both are widely used) generated by investment in a specific marketing campaign or program divided by the cost of that program (expenditure) at a given risk level (the risk level is determined by management’s analysis of the particular program). Again, the key word is *investment*—that is, in the planning process, thinking of marketing as an investment rather than an expense keeps managers focused on using marketing dollars to achieve specific objectives.²¹

Here’s a quick and simple example of the ROMI concept. Let’s say that a relatively routine marketing campaign costs \$30,000 and generates \$150,000 in new revenue. Thus, the ROMI for the program is 5.0 (the ROI is five times the investment). If the firm has a total marketing budget of \$250,000 and an objective for new revenue of \$1,000,000, then the ROMI hurdle rate could be considered 4.0 ($\$1,000,000/\$250,000$), meaning that each program should strive to meet or exceed that ROMI benchmark of 4.00 in revenue for every \$1.00 in marketing expenditure. Because the marketing campaign exceeds the ROMI hurdle rate, it would be deemed acceptable to proceed with that investment.²²

For an organization to use ROMI properly it must (1) identify the most appropriate and consistent measure to apply, (2) combine review of ROMI with other critical marketing metrics (one example is marketing payback—how quickly marketing costs are recovered), and (3) fully consider the potential long-term impact of the actions ROMI drives (i.e., is the impact sustainable for the organization over the long term).²³ Fortunately for the marketer, there are many other potential marketing metrics beyond ROMI that measure specific aspects of marketing performance. In Chapter 5 you will encounter other useful metrics that marketers can use to gauge the level of success of their plans, strategies, and tactics.

Action Plans

How does the implementation and control step actually manifest itself within a marketing plan? One convenient way is through the inclusion of a series of **action plans** that support the various marketing objectives and strategies within the plan. The best way to use action plans (which also are sometimes called “marketing programs”) is to include a separate action plan for each important element involved in implementing the marketing plan. Table 3.1 provides a template for an action plan.

For example, let’s consider the use of action plans in the context of supporting the objective we came up with for Oracle earlier to increase market share of a particular product line by 20 percent in the first quarter of the year. To accomplish this, the marketing plan

return on marketing investment (ROMI)

Quantifying just how an investment in marketing has an impact on the firm’s success, financially and otherwise.

action plans

Individual support plans included in a marketing plan that provide guidance for implementation and control of the various marketing strategies within the plan. Action plans are sometimes referred to as “marketing programs.”

Metrics Moment

Is ROMI always appropriate or sufficient to judge marketing’s effectiveness and efficiency? Here are six common objections to relying *exclusively* on ROMI to measure marketing success:

1. In a company’s accounting statements, marketing expenditures tend to appear as a cost, not an investment. This practice perpetuates the “marketing-is-an-expense” mentality in the firm.
2. ROMI requires the profit to be divided by expenditure, yet all other bottom-line performance measures (like the ones you learned in your finance course) consider profit or cash flow after deducting expenditures.
3. Calculating ROMI requires knowing what would have happened if the marketing expenditure in question had never taken place. Few marketers have those figures.
4. ROMI has become a fashionable term for marketing productivity in general, yet much evidence exists that firms interpret how to calculate ROMI quite differently. When executives discuss ROMI with different calculations of it in mind, only confusion can result.

5. ROMI, by nature, ignores the effect of marketing assets of the firm (e.g., its brands) and tends to lead managers toward a more short-term decision perspective. That is, it typically considers only short-term incremental profits and expenditures without looking at longer-term effects or any change in brand equity.
6. And speaking of short-term versus long-term decisions, ROMI (like a number of other metrics focused on snapshot information—in this case, a particular marketing campaign) often can lead to actions by management to shore up short-term performance to the detriment of a firm’s sustainability commitment. Ethics in marketing should not be an oxymoron—but often unethical behavior is driven by the demand for quick, short-term marketing results.²⁴

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Apply the Metrics

1. Review the six objections to ROMI above and discuss them with your classmates.
2. Select any two of the objections and develop a specific example of how they might lead to a bad decision in market planning.

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would likely include a variety of strategies related to how Oracle will use the marketing mix elements to reach this objective. Important questions will include the following:

- What are the important needs and wants of this target market?
- How will the product be positioned in relation to this market?
- What will be the product and branding strategies?
- What will be the pricing strategy for this group?
- How will the product be promoted to them?
- What is the best distribution strategy to access the market?

Any one of these important strategic issues may require several action plans to implement. Action plans also help managers when they need to assign responsibilities, time lines, budgets, and measurement and control processes for market planning. In Table 3.1, notice

Table 3.1 | Action Plan Template

Title of action plan	Give the action plan a relevant name.
Purpose of action plan	What do you hope to accomplish by the action plan—that is, what specific marketing objective and strategy within the marketing plan does it support?
Description of action plan	Be succinct—but still thorough—when you explain the action plan. What are the steps involved? This is the core of the action plan. It describes what must be done in order to accomplish the intended purpose of the action plan.
Responsibility for the action plan	What person(s) or organizational unit(s) are responsible for carrying out the action plan? What external parties are needed to make it happen? Most importantly, who specifically has final “ownership” of the action plan—that is, who within the organization is accountable for it?
Timeline for the action plan	Provide a specific timetable of events leading to the completion of the plan. If different people are responsible for different elements of the time line, provide that information.
Budget for the action plan	How much will implementation of the action plan cost? This may be direct costs only or may also include indirect costs, depending on the situation. The sum of all the individual action plan budget items will ultimately be aggregated by category to create the overall budget for the marketing plan.
Measurement and control of the action plan	Indicate the appropriate metrics, how and when they will be measured, and who will measure them.

that these four elements are the final items that an action plan documents. Sometimes when we view a marketing plan in total, it can seem daunting and nearly impossible to actually implement. Like most big projects, implementation of a marketing plan is best done one step at a time, paying attention to maximizing the quality of executing that step. In practice, what happens is that marketers combine the input from these last four elements of each action plan to form the overall implementation and control portion of the marketing plan. Let's examine each element a bit further.

Assign Responsibility

A marketing plan can't be implemented without people. And not everybody who will be involved in implementing a marketing plan is a marketer. The truth is, marketing plans touch most areas of an organization. Upper management and the human resources department will need to deploy the necessary employees to accomplish the plan's objectives. You learned in Chapter 1 that marketing isn't the responsibility only of a marketing department. Nowhere is that idea more apparent than in marketing plan implementation. Sales, production, quality control, shipping, customer service, finance, information technology—the list goes on—all will likely have a part in making the plan successful.

Create a Timeline

Notice that each action plan requires a timeline to accomplish the various tasks it requires. This is essential to include in the overall marketing plan. Most marketing plans portray the timing of tasks in flowchart form so that it is easy to visualize when the pieces of the plan will come together. Marketers often use *Gantt charts* or *PERT charts*, popular in operations management, to portray a plan's timeline. These are the same types of tools that a general contractor might use to map out the different elements of building a house from the ground up. Ultimately, managers develop budgets and the financial management of the marketing plan around the timeline so they know when cash outlays are required.

Set a Budget

Each element of the action plan links to a *budget item*, assuming there are costs involved in carrying out the plan. Forecasting the needed expenditures related to a marketing plan is difficult, but one way to improve accuracy in the budgeting process overall is to ensure estimates for expenditures for the individual action plans that are as accurate as possible. At the overall marketing plan level, managers create a master budget and track it throughout the market planning process. They report variances from the budget to the parties responsible for each budget item. For example, a firm's vice president of sales might receive a weekly or monthly report that shows each sales area's performance against its budget allocation. The vice president would note patterns of budget overage and contact affected sales managers to determine what, if any, action they need to take to get the budget back on track. The same approach would be repeated across all the different functional areas of the firm on which the budget has an impact. In such a manner, the budget itself becomes a critical element of control.

Decide on Measurements and Controls

Previously, we described the concept of control as a formal process of monitoring progress to measure actual performance, compare the performance to the established marketing objectives or strategies, and make adjustments to the objectives or strategies on the basis of this analysis. The metric(s) a marketer uses to monitor and control individual action plans ultimately forms the overall control process for the marketing plan. Metrics can serve as **leading indicators** or **lagging indicators** of marketing outcomes. Leading indicators provide insight into the performance of *current efforts* in a way that allows a marketer to adjust relevant marketing activities (hopefully) resulting in performance improvements against the current action plan. Lagging indicators reflect the performance of an action plan based on outcomes realized. Lagging indicators provide a basis for review and analysis of the

leading indicators

Performance indicators that provide insight into the performance of *current efforts* in a way that allows a marketer to adjust relevant marketing activities (hopefully) resulting in performance improvements against the current action plan.

lagging indicators

Performance indicators that provide insight into the performance of an action plan based on outcomes realized.

action plan with implications for improvement that are focused beyond the scope of the current action plan itself. That is, they provide post hoc insights for next actions.

It is an unfortunate fact that many marketers do not consistently do a good job of measurement and control, which, of course, compromises their market planning. And remember that selection of good metrics needs to take into account short-term objectives balanced against the firm's focus on long-term sustainability.

Operational Planning: Day-to-Day Execution of Marketing Plans

Recall that planning happens at three levels: strategic, functional (such as market planning), and operational. In the previous section, we discussed market planning—the process by which marketers perform a situation analysis, set marketing objectives, and develop, implement, and control marketing strategies. But talk is cheap: The best plan ever written is useless if it's not properly carried out. That's what **operational plans** are for. They put the pedal to the metal by focusing on the day-to-day execution of the marketing plan.

The task of operational planning falls to first-line managers such as sales managers, marketing communications managers, brand managers, and market research managers. Operational plans generally cover a shorter period of time than either strategic plans or marketing plans—perhaps only one or two months—and they include detailed directions for the specific activities to be carried out, who will be responsible for them, and timelines for accomplishing the tasks. In reality, the action plan template we provide in Table 3.1 is most likely applied at the operational level.

Significantly, many of the important marketing metrics managers use to gauge the success of plans actually get used at the operational planning level. For example, sales managers in many firms are charged with the responsibility of tracking a wide range of metrics related to the firm–customer relationship, such as number of new customers, sales calls per month, customer turnover, and customer loyalty. The data are collected at the operational level and then sent to upper management for use in planning at the functional level and above.

Make Your Life Easier! Use the Market Planning Template

Ultimately, the planning process we've described in this section is documented in a formal, written marketing plan. You'll find a template for building a marketing plan in the Supplement at the end of this chapter. The template will come in handy as you make your way through the book, as each chapter will give you information you can use to “fill in the blanks” of a marketing plan. You will note that the template is cross-referenced with the questions you must answer in each section of the plan. It also provides you with a general road map of the topics covered in each chapter that need to flow into building the marketing plan. By the time you're done, we hope that all these pieces will come together and you'll understand how real marketers make real choices.

As we noted previously, a marketing plan should provide the best possible guide for the firm to successfully market its products. In large firms, top management often requires such a written plan because putting the ideas on paper encourages marketing managers to formulate concrete objectives and strategies. In small entrepreneurial firms, a well-thought-out marketing plan is often the key to attracting investors who will help turn the firm's dreams into reality.

operational plans

Plans that focus on the day-to-day execution of the marketing plan. Operational plans include detailed directions for the specific activities to be carried out, who will be responsible for them, and time lines to accomplish the tasks.

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Objective Summary → Key → Terms Apply

CHAPTER 3

Study Map

3.1 Objective Summary (pp. 68–70)

Explain business planning and its three levels.

Business planning is the ongoing process of decision making that guides the firm in both the short term and the long term. A business plan, which includes the decisions that guide the entire organization or its business units, is different from a marketing plan, which is a process and resulting document that describes the marketing environment, outlines the marketing objectives and strategies, and identifies how the company will implement and control the strategies embedded in the plan.

Planning takes place at three key levels. Strategic planning is the managerial decision process that matches the firm's resources and capabilities to its market opportunities for long-term growth. Large firms may have a number of self-contained divisions called *strategic business units (SBUs)*. In such cases, strategic planning takes place at both the overall corporate level and within the SBU. Functional planning gets its name because the various functional areas of the firm, such as marketing, finance, and human resources, get involved. And operational planning focuses on the day-to-day execution of the functional plans and includes detailed annual, semianual, or quarterly plans.

Key Terms

business planning, p. 69

business plan, p. 69

marketing plan, p. 69

strategic planning, p. 70

strategic business units (SBUs), p. 70

functional planning, p. 70

market planning, p. 70

operational planning, p. 70

3.2 Objective Summary (pp. 71–77)

Describe the steps in strategic planning.

For large firms that have a number of self-contained business units, the first step in strategic planning is for top management to establish a mission for the entire corporation. Top managers then evaluate the internal and external environment of the business and set corporate-level objectives that guide decision making within each individual SBU. In small firms that are not large enough to have separate SBUs, strategic planning simply takes place at the overall firm level.

The first step in strategic planning is defining the mission—a formal document that describes the organization's

overall purpose and what it hopes to achieve in terms of its customers, products, and resources. Step 2 is to evaluate the internal and external environment through a process known as situational analysis, which is later formatted as a SWOT analysis that identifies the organization's strengths, weaknesses, opportunities, and threats. Step 3 is to set organizational or SBU objectives that are specific, measurable, attainable, and sustainable. Step 4 is to establish the business portfolio, which is the range of different businesses that a large firm operates. To determine how best to allocate resources to the various businesses, or units, managers use the Boston Consulting Group (BCG) growth–market share matrix to classify SBUs as stars, cash cows, question marks, or dogs. The final step, Step 5, in strategic planning is to develop growth strategies. Marketers use the product–market growth matrix to analyze four fundamental marketing strategies: market penetration, market development, product development, and diversification.

Key Terms

mission statement, p. 71

situation analysis, p. 71

internal environment, p. 71

external environment, p. 72

SWOT analysis, p. 72

business portfolio, p. 73

portfolio analysis, p. 73

BCG growth–market share matrix, p. 73

stars, p. 74

cash cows, p. 74

question marks, p. 74

dogs, p. 75

market penetration strategies, p. 75

market development strategies, p. 76

product development strategies, p. 76

diversification strategies, p. 76

3.3 Objective Summary (pp. 77–84)

Describe the steps in market planning.

Once big-picture issues are considered, it's up to the lower-level functional-area managers, such as the marketing manager, production manager, and finance manager, to develop the functional marketing plans—the nuts and bolts—to achieve organizational and SBU objectives. The steps in this market planning process are quite similar to the steps at the strategic planning level. An important distinction between strategic

planning and market planning, however, is that marketing professionals focus much of their planning efforts on issues related to the Four Ps of the marketing mix. Managers start off by performing a situational analysis of the marketing environment. Next, they develop marketing objectives specific to the firm's brand, sizes, and product features. Then marketing managers select the target market(s) for the organization and decide what marketing mix strategies they will use. Product strategies include decisions about products and product characteristics that will appeal to the target market. Pricing strategies state the specific prices to be charged to channel members and final consumers. Promotion strategies include plans for advertising, sales promotion, public relations, publicity, personal selling, and direct marketing used to reach the target market. Distribution (place) strategies outline how the product will be made available to targeted customers when and where they want it. Once the marketing strategies are developed, they must be implemented, which is the last step in developing the marketing plan. Control is the measurement of actual performance and comparison with planned performance. Maintaining control implies the need for concrete measures of marketing performance called "marketing metrics."

Operational planning is done by first-line supervisors such as sales managers, marketing communication managers, and market research managers and focuses on the day-to-day execution of the marketing plan. Operational plans generally

cover a shorter period of time and include detailed directions for the specific activities to be carried out, who will be responsible for them, and time lines for accomplishing the tasks. To ensure effective implementation, a marketing plan must include individual action plans, or programs, that support the plan at the operational level. Each action plan necessitates providing a budget estimate, schedule, or time line for its implementation and appropriate metrics so that the marketer can monitor progress and control for discrepancies or variation from the plan. Sometimes, variance from a plan requires shifting or increasing resources to make the plan work; other times, it requires changing the objectives of the plan to recognize changing conditions.

Key Terms

- control, p. 80
- activity metric, p. 80
- outcome metric, p. 80
- return on marketing investment (ROMI), p. 81
- action plans, p. 81
- leading indicator, p. 83
- lagging indicator, p. 83
- operational plans, p. 84

Chapter Questions and Activities

Concepts: Test Your Knowledge

- 3-1. What is a marketing plan, and how does it differ from a business plan?
- 3-2. Describe the three levels of business planning: strategic, functional, and operational planning.
- 3-3. What is a mission statement? What is a SWOT analysis? What role do these play in the planning process?
- 3-4. What is a strategic business unit (SBU)? How does strategic planning differ at the corporate and the SBU levels?
- 3-5. Describe the five steps in the strategic planning process.
- 3-6. How do firms use the BCG model for portfolio analysis in planning for their SBUs?
- 3-7. Describe the four business growth strategies: market penetration, product development, market development, and diversification.
- 3-8. Explain the four steps in the market planning process.
- 3-9. What is return on marketing investment (ROMI)? How does considering marketing as an investment instead of an expense affect a firm?
- 3-10. Give several examples of marketing metrics. How might a marketer use each metric to track progress of some important element of a marketing plan?

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- 3-11. What is an action plan? Why are action plans such an important part of market planning? Why is it so important for marketers to break the implementation of a marketing plan down into individual elements through action plans?
- 3-12. How does operational planning support the marketing plan?

Activities: Apply What You've Learned

- ★ 3-13. *Creative Homework/Short Project* As a marketing student, you know that large firms often organize their operations into a number of strategic business units (SBUs). A university might develop a similar structure in which different academic schools or departments are seen as separate businesses. Consider how your university or college might divide its total academic units into separate SBUs. What would be the problems with implementing such a plan? What would be the advantages and disadvantages for students and for faculty? Be prepared to share your analysis of university SBUs to your class.
- 3-14. *Creative Homework/Short Project* Pick a firm of your choice that operates on a global level for which you have interest in its products or services. Use the matrix

provided in Figure 3.4 in the textbook and accompanying discussion to identify an example of a strategy that the company offers or has offered that fits within each of the cells (Market Penetration, Market Development, Product Development, Diversification). Provide your rationale/justification for placing it in that particular category of strategy.

- 3-15. Creative Homework/Short Project** Pick your favorite restaurant. Identify two or three activity metrics and two or three outcome metrics that you believe the restaurant could use to better monitor and control its performance in the area of service. Explain why you believe each metric selected is well suited for evaluating service performance (including why it is well suited to serve as an activity metric as opposed to an outcome metric in this context). Identify as well which of these metrics would most likely be easier to track, and why.
- 3-16. In Class, 10–25 Minutes for Teams** As an employee of a business consulting firm that specializes in helping people who want to start small businesses, you have been assigned a client who is interested in introducing a new concept in health clubs—one that offers its customers both the usual exercise and weight-training opportunities and certain related types of medical assistance, such as physical therapy, a weight-loss physician, and basic diagnostic testing. As you begin thinking about the potential for success for this client, you realize that developing a marketing plan is going to be essential. Take a role-playing approach to present your argument to the client as to why he or she needs to spend the money on your services to create a formal marketing plan.
- 3-17. For Further Research (Individual)** All businesses—big and small—need to plan if they want to be profitable and sustainable. Contact one of your favorite local businesses and make an appointment with someone who has a hand in developing the firm's business plan. Find out how much time the planning process takes, how often the business plan is updated, and what types of information the business plan contains. Summarize your findings in a short report.
- 3-18. For Further Research (Groups)** Identify a large company, like Disney, that has several SBUs. Using the BCG model, assign at least one SBU to each category in the model: star, cash cow, question mark, and dog. Include at least two pieces of data for each to justify your categorization. Prepare a short presentation to share with your class.

Concepts: Apply Marketing Metrics

You learned in the chapter that most marketers today feel pressure to measure (quantify) their level of success in market planning. They do this by setting and then measuring marketing objectives. One popular metric is market share, which in essence represents the percentage of total product category sales your products represent versus category competitors. For example, recent statistics indicate that Lenovo holds the num-

ber-one market share in global PC sales with about 21 percent, topping HP with about 19 percent. Ranked third through fifth are Dell, Apple, and Acer, respectively.²⁵ But, despite its common appearance in marketing objectives, market share has been heavily criticized as a metric. Often it can become more of a “bragging right” for a firm than a profit enhancer. This is because—especially in situations like the global PC market that is seeing heavy annual declines in sales as tablets and other devices replace PCs—investing in being number one in market share may deflect focus away from more lucrative new and growing product lines.

- 3-19.** Under what conditions do you believe market share as a metric is important to a firm? What are the potential pitfalls of relying too much on market share as a key metric? What self-defeating behaviors might this over-reliance lead a firm to undertake?
- 3-20.** Come up with some other product categories besides PCs that are declining and identify the firms within those categories that have the highest market share. What does their profit picture look like?

Choices: What Do You Think?

- 3-21.** Defining the mission is identified as the first major step in the strategic planning process. Many companies display their mission statement on their website, making it readily accessible to the public. Do you think a company should make it available for everyone to see? Why or why not? Are there any specific situations or factors to consider that would lead you to recommend not doing so?
- 3-22.** The Boston Consulting Group (BCG) growth–market share matrix identifies SBUs and their related products as stars, cash cows, question marks, and dogs. Do you think this is a useful way for organizations to examine their businesses? What are some examples of product lines that fit in each category?
- 3-23.** Within the BCG matrix, products that earn the dog label have limited market potential for the firm and also only hold a small relative market share. Products identified as dogs within this framework are typically obvious candidates for divestment, but are there any cases where doing so would not be wise for an organization? That is, why would a firm want to hold onto a dog?
- 3-24.** In this chapter, we talked about how firms do strategic, functional, and operational planning. Yet some firms seem to be successful without formal planning. Do you think planning is essential to a firm's success? How might planning hurt an organization? Under what circumstances do you believe that formal planning is and is not important to an organization?
- 3-25.** Most planning involves strategies for growth. But is growth always the right direction to pursue? Can you think of some organizations that should have contraction rather than expansion as their objective? Do you know of any organizations that have actually planned to get smaller rather than larger to increase their success?

- 3-26.** When most people think of successful marketing, internal firm culture doesn't immediately come to mind as a contributing factor. You may have learned about corporate culture in a management course. What is a corporate culture? What are some reasons a firm's culture is important to the capability of doing good marketing? Give some examples of aspects that you consider indicate a good corporate culture for marketing.
- 3-27.** Many companies operate on the mentality that "marketing is an expense." Do you agree that marketing is an expense, or should marketing be treated as an investment? Should there be a business standard as to whether marketing is treated as an expense/investment, or should individual organizations be given the freedom to choose which line item to assign it to? Explain your reasoning.
- 3-28.** A common saying among managers is "if we can't measure it, we can't manage it." Is there such a thing as an overreliance on marketing metrics? Are there cases or specific aspects of marketing where a single-minded focus on metrics is inappropriate or detrimental to the firm?

Miniproject: Learn by Doing

The purpose of this miniproject is to gain an understanding of market planning through actual experience.

- 3-29.**
- Select one of the following for your market planning project:
 - Yourself (in your search for a career)
 - Your university
 - A specific department in your university
 - Next, develop the following elements of the market planning process:
 - A mission statement
 - A SWOT analysis
 - Objectives
 - A description of the target market(s)
 - A positioning strategy
 - A brief outline of the marketing mix strategies—the product, pricing, distribution, and promotion strategies—that satisfy the objectives and address the target market
 - Prepare a brief outline of a marketing plan using the basic template provided in this chapter as a guide.

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Marketing in Action Case Real Choices at Amazon

In marketing, yesterday's success quickly becomes old news. How should one of the world's largest retailers plan to build on its' previous achievements? In the retail marketplace, it is becoming harder for companies to differentiate themselves from the competition beyond simply price. Amazon is now faced with this challenge and must develop offerings to protect and grow its customer base. One of its primary offerings to meet this task has been the creation of Amazon Prime. The service was created in 2005 offering free two-day shipping within the U.S. on qualified purchases. The initial annual membership fee was \$79 and also allowed discounted one-day shipping rates on those same purchases. In 2014, the fee was increase to \$99 and more services were added to increase customer value.

Prime Instant Video allows customers to stream movies and TV shows to their web browsers or multiple Amazon video-compatible devices. The current library of tens of thousands of titles provides a wide array of choice to lure potential customers. Subscribers can also purchase online video subscriptions from premium content providers like Showtime, Starz, and other streaming entertainment channels. The objective of the add-on services is to attract new customers to Amazon Prime in a crowded competitive environment. As of 2016, Netflix is the world's largest provider of streaming video content with more than 75 million subscribers. In addition, Hulu is a joint venture of Walt Disney, 21st Century Fox, and Comcast's NBCUniversal that similarly provides streaming services.

One of Amazon's latest additions to its Prime service is the Prime Store Card. The card rewards subscribers with 5 percent cash back on all Amazon purchases. Or, in lieu of the 5 percent cash back, members can choose a tiered financing option for purchases more than \$149. In this plan, when customers reach cost thresholds they can avoid paying interest if the outstanding balance is paid within 6, 12, or 24 months, as applicable.

In addition, periodically on select items sold by Amazon offers 0 percent APR financing with 12 equal monthly payments. One of the key benefits to Amazon is that compared to the use of traditional cards like Visa, MasterCard, or AmEx, transaction processing costs for its Prime Store Card are lower.

One of the best benefits that brick-and-mortar retail stores have maintained over online retailers is the ability to provide customers with instant gratification. Amazon aims to decrease that advantage through its services. Recently introduced in select cities is Prime Now, a service that allows customers to receive their order within one hour for a fee of \$7.99, or within two hours for no additional fee. Currently, the products available for Prime Now delivery are limited to 15,000 to 40,000 available items, which may seem like a lot but Prime members currently have access to millions of items to select from for two-day shipping. Prime Now is definitely an innovative service, but in some markets it is faced with other competitors for on-demand delivery offerings, like Google Express and UberRush.

Amazon continues to establish more services under the Prime umbrella. Prime Pantry is an option by which members can fill a virtual box with groceries and household products and have them delivered for \$5.99 per box. Prime Music offers ad-free access to playlists and a catalog of more than 1 million songs and albums. Prime Photo provides unlimited photo storage on the Amazon Cloud. This wide variety of associated services draws the attention of numerous varied competitors, and the key question as Amazon move forward is: How will the company successfully manage such a large portfolio of offerings? For success to be sustained over time, Amazon must carefully consider what long-term strategies are necessary to continue to make Amazon Prime a profitable winner in a competitive marketplace.

You Make the Call

- 3-30.** What is the decision facing Amazon?
3-31. What factors are important in understanding this decision situation?
3-32. What are the alternatives?

- 3-33.** What decision(s) do you recommend?
3-34. What are some ways to implement your recommendation?

Based on: Tricia Duryee, "Future-Proofing Prime: Amazon's Plans Go Way Beyond Free Shipping," *GeekWire.com*, (April 26, 2014), <http://www.geekwire.com/2014/future-proofing-prime-amazons-ambitious-plans-go-way-beyond-shipping/> (accessed April 5, 2016); Amazon.com, "About Amazon Prime," https://www.amazon.com/gp/help/customer/display.html/ref=hp_468520_norush?nodeId=200444160 (accessed April 5, 2016); Taylor Tepper, "Should You Get the Amazon Prime Store Card?" *Time.com*, July 24, 2015, <http://time.com/money/3970639/amazon-prime-store-credit-card/> (accessed April 5, 2016); Jason Del Rey, "Prime Now Has Become Amazon's Biggest Retail Bet," *Re/code.net*, December 14, 2015, <http://recode.net/2015/12/14/prime-now-has-become-amazons-biggest-retail-bet/> (accessed April 5, 2016).

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- 3-35.** *Creative Homework/Short Project.* Assume that you are the marketing director for Mattel Toys. Your boss, the company vice president for marketing, has decided that it's time to develop some new objectives for some of their product lines as the company begins market planning. Your VP has asked you to help out by writing several initial objectives. Select any product line at Mattel and develop several objectives that fulfill the criteria for objectives discussed in the chapter.
- 3-36.** *Creative Homework/Short Project.* An important part of planning is a SWOT analysis, understanding an organization's strengths, weaknesses, opportunities, and threats. Prepare a SWOT analysis for Panera Bread that includes three or four items in each of the four SWOT categories.

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OUTLINE

C. DEVELOP MARKETING STRATEGIES

3. Pricing Strategies

QUESTION

- How will we price our product to the consumer and through the channel?

CHAPTER

Chapter 10: Price: What is the Value Proposition Worth?



build a Marketing Plan

HOW TO USE This Template

Here's a handy template that serves as a road map both to develop a marketing plan and to guide you through the course.

- The first column provides the basic marketing plan **OUTLINE**.
- The second column gives you **QUESTIONS** you must answer in each of the sections of the marketing plan.
- The third column shows you where to go to find the answers as you work your way through the **CHAPTERS** of the book.

By the time you're done, all these pieces will come together and you'll understand how real marketers make real choices.

The Marketing Plan OUTLINE

A. PERFORM A SITUATION ANALYSIS

1. Internal Environment

2. External Environment

3. SWOT Analysis

B. SET MARKETING OBJECTIVES

C. DEVELOP MARKETING STRATEGIES

1. Select Target Markets and Positioning

2. Product Strategies

3. Pricing Strategies

4. Distribution Strategies

5. Promotional Strategies

D. IMPLEMENT AND CONTROL THE MARKETING PLAN

1. Action Plans (for all marketing mix elements)

2. Responsibility

3. Timeline

4. Budget

5. Measurement and Control

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QUESTIONS the Plan Addresses	CHAPTERS Where You'll Find These Questions
- How does marketing support my company's mission, objectives, and growth strategies? - What is the corporate culture and how does it influence marketing activities? - What has my company done in the past with its: Target markets? Products? Pricing? Promotion? Supply chain? - What resources including management expertise does my company have that make us unique? How has the company added value through its offerings in the past?	Chapter 1: Welcome to the World of Marketing: Create and Deliver Value Chapter 2: Global, Ethical, and Sustainable Marketing Chapter 3: Strategic Market Planning Chapter 4: Market Research Chapter 5: Marketing Analytics: Welcome to the Era of Big Data
- What is the nature of the overall domestic and global market for our product? How big is the market? Who buys our product? - Who are our competitors? What are their marketing strategies? - What are the key trends in the economic environment? The technological environment? The regulatory environment? The social and cultural environment?	
Based on this analysis of the internal and external environments, what are the key Strengths, Weaknesses, Opportunities, and Threats (SWOT)?	
What does marketing need to accomplish to support the objectives of my firm?	Chapter 2: Global, Ethical, and Sustainable Marketing Chapter 3: Strategic Market Planning
- How do consumers and organizations go about buying, using, and disposing of our products? - Which segments should we select to target? If a consumer market: What are the relevant demographic, psychographic, and behavioral segmentation approaches and the media habits of the targeted segments? If a business market: What are the relevant organizational demographics? - How will we position our product for our market(s)?	Chapter 4: Market Research Chapter 5: Marketing Analytics: Welcome to the Era of Big Data! Chapter 6: Understand Consumer and Business Markets Chapter 7: Segmentation, Target Marketing, and Positioning
- What is our core product? Actual product? Augmented product? - What product line/product mix strategies should we use? - How should we package, brand, and label our product? - How can attention to service quality enhance our success?	Chapter 8: Product I: Innovation and New Product Development Chapter 9: Product II: Product Strategy, Branding, and Product Management
How will we price our product to the consumer and through the channel? How much must we sell to break even at this price? What pricing tactics should we use?	Chapter 10: Price: What Is the Value Proposition Worth?
- How do we get our product to consumers in the best and most efficient manner? - How do we integrate supply chain elements to maximize the value we offer to our customers and other stakeholders? - What types of retailers, if any, should we work with to sell our product?	Chapter 11: Deliver the Goods: Determine the Distribution Strategy Chapter 12: Deliver the Customer Experience: Goods and Services via Bricks and Clicks
- How do we develop a consistent message about our product? How do we best generate buzz? - What approaches to Advertising, Sales Promotion, Social Media, Direct/Database Marketing, Personal Selling, and Public Relations should we use? - What role should a sales force play in the marketing communications plan? How should direct marketing be used?	Chapter 13: Promotion I: Advertising and Sales Promotion Chapter 14: Promotion II: Social Media Marketing, Direct/Database Marketing, Personal Selling, and Public Relations
How do we make our marketing plan happen?	Chapter 3: Strategic Market Planning
Who is responsible for accomplishing each aspect of implementing the marketing plan?	Chapter 4: Market Research
What is the timing for the elements of our marketing plan?	Chapter 5: Marketing Analytics: Welcome to the Era of Big Data!
What budget do we need to accomplish our marketing objectives?	
How do we measure the actual performance of our marketing plan and compare it to our planned performance and progress toward reaching our marketing objectives?	

Segmentation, Target Marketing, and Positioning

7.1 Identify the steps in the target marketing process.
p. 204

TARGET MARKETING: SELECT AND ENTER A MARKET p. 204

7.2 Understand the need for market segmentation and the

approaches available to do it.
pp. 205–217

STEP 1: SEGMENTATION p. 205

7.3 Explain how marketers evaluate segments and choose a targeting strategy. pp. 217–220

STEP 2: TARGETING p. 217

7.4 Recognize how marketers develop and implement a positioning strategy.
pp. 221–225

STEP 3: POSITIONING p. 221

Check out the Chapter 7 **Study Map** on page 226.



Levi Strauss

Meet Jen Sey

▼ A Decision Maker at Levi Strauss

Jen Sey is Chief Marketing Officer for the Levi's® Brand within Levi Strauss & Co. She has been with LS&Co. for more than 16 years, holding a variety of leadership positions within the Marketing, Strategy, and E-commerce teams. In 2013, Sey became the Global Chief Marketing Officer for the Levi's® Brand.

Twenty years ago, she began her career at an advertising agency, Foote Cone and Belding, where she worked on a variety of brands including Levi's®. She went on to become the advertising manager at Banana Republic before landing at Levi Strauss & Co in 1999.

At LS&Co she has held a broad range of assignments across both Levi's® and Dockers brands including Director of Marketing for U.S. Levi's®, Senior Director of Global Strategy for Levi's®, Vice President of Global Marketing for Levi Strauss & Co., and Senior Vice President for Dockers Global Marketing. In 2012, she stepped into the role of Senior Vice President of Global E-commerce, driving the business and replatforming efforts for both levi.com and dockers.com across the regions.

In 2013, Jen returned to the Levi's® Brand as CMO and quickly launched the Live in Levi's® campaign, notable for reconnecting the brand with its optimistic spirit that fans around the world have loved about Levi's® for decades. The campaign is a celebration of Levi's® products and brand, showcasing how people all over the world live in Levi's®. The Live in Levi's "Beautiful Morning" television spot was honored as a 2015 Taste Award's Special Achievement Spotlight winner, recognizing Jen's immediate impact.

Sey has received numerous awards, including the distinction of *AdAge's* Top 40 Marketers Under 40 in 2006; being named one of the Top Women in Retail by *Total Retail* in 2014 and one of *Brand Innovators'* Top 50 Women in Marketing in 2015. Most recently, she was named one of *Hot Topic's* Top 100 Retail Marketers in 2016.

As a child, Sey led an intense life of dedication, challenge, and competition. She won the U.S. National Gymnastics Championship title in 1986, less than one year after having suffered a devastating injury at the 1985 World Championships. As a result, the U.S. Olympic Committee named her Gymnastics' Athlete of the Year. She retired after eight years on the national team and went on to study at Stanford University where she double majored in Communications and Political Science. In 2008, Sey released her first book, *Chalked Up*, a memoir detailing her triumphs and struggles within the world of competitive gymnastics. She has been featured on a variety of talk shows including *Good Morning America* and the *CBS Morning Show* discussing the pros and cons of elite competitive childhood athletics.

Sey now lives in San Francisco, California, with partner Daniel and her three sons Virgil, Wyatt, and Oscar. She lends her voice to online outlets Salon.com, Mommytrackd.com and BasilandSpice.com, and she continues her work started with *Chalked Up* as an athlete advocate. In 2016, Sweaty Betty (leading British activewear brand) appointed Sey to the Company's Board of Directors.

What I do when I'm not working:
Spend time with my family (3 kids, 1 partner, 1 dog), read, cook, write, exercise

First job out of school:
Production assistant on a movie and gymnastics coach

Career high:
Levi's CMO—launch of Live in Levi's and Levi's Stadium

A job-related mistake I wish I hadn't made:

Got too attached to a single path forward in my career. Wish I'd been open to unexpected next steps sooner rather than later.

My motto to live by:
Get 'er done

My management style:

Be open and honest, practice humility always, roll up your sleeves and do the work, be direct in your communication style, and always remember—you don't know everything!

My pet peeve:

Leaders that think leadership is just telling people what to do. And mean people. No patience for meanness. Unnecessary.



Here's my **problem...**

Real People, Real Choices

The Levi's brand was losing relevance and market share. Although technically we were the leader in denim in terms of market share, it didn't necessarily feel like we were leading; our market share was being eaten up by premium brands and then most recently fast fashion. We needed to reposition for success—in terms of both financial and equity performance and the overall future health of the brand. We needed to create a clear brand value proposition that was relevant and differentiated, broadly appealing and globally viable. My job was to lead this process and create a long-standing marketing campaign off of this positioning, while inspiring the organization more broadly with this brand direction.

Jen considered her Options 1·2·3

1 First and foremost we looked at the obvious: **Levi's is THE original blue jean.** Our founder Levi Strauss and tailor Jacob Davis obtained a U.S. patent on the process of putting rivets in men's work pants in 1873, and the company has a rich history that spans almost 150 years. This positioning asserts the brand's innovator status; it's the oldest but also the first. No other company can make this claim. No one else created the blue jean—or the product category. Although this is a powerful statement it's not that relevant to modern consumers. It doesn't give them a reason to choose the brand TODAY. We know that millennials value authenticity, but we need to either promote this attribute more forcefully or give them additional reasons to choose our brand.

2 We also looked at a different definition of Originality. Our idea is that "originality" means not only "first." This concept also refers to the quality of being new, fresh, creative, and independent. We looked at creating an association between the brand and the wearer with a position built around the idea that **Levi's is as original as you are.** This statement is relevant and aspirational. Everyone wants to see themselves as original, unique, and individualistic. And it is certainly believable for Levi's to be associated with this position. The brand has long told a story about individuality, most notably through its strong association with the cultural

icon James Dean. The actor's appearance in the 1950s movie *Rebel Without a Cause* wearing a white shirt, leather jacket, and a pair of Levi's 501s is one of the most legendary images in pop culture. On the other hand, this link with originality no longer makes the statement it used to. Many jeans and apparel brands make this claim (justified or not). We couldn't be sure that this position would differentiate us in the market and give people a reason to choose Levi's versus another brand. However, there is no question that our brand has a legitimate claim to this space if we choose to remind consumers of our long heritage.

3 As we embarked on research with consumers around the world, we heard a lot of people telling us about all the amazing life experiences they have had in their Levi's. They related stories about road trips, first loves, concerts, and all-night dance parties. They talked about the bond they have with their Levi's because of these experiences. And they said that they did not have this kind of relationship with their other jeans or clothing items. The relationship with their Levi's jeans was special. This inspired this idea of: **You wear other jeans but you live your life in Levi's.** This claim is highly differentiated and more importantly it makes an emotional connection with our customers. The down side is that today blue jeans are more of a fashion-oriented product than they used to be. We need to be able to drive a style message in addition to an emotional message. And this connection isn't as strong in all of our global markets. For example, in China, where people haven't been wearing Levi's for very long, people haven't had time to forge these connections yet.

Now, put yourself in Jen's shoes. Which option would you choose, and why?

You Choose

Which **Option** would you choose, and **why**?

☐ **Option 1** ☐ **Option 2** ☐ **Option 3**

See what **Option** Jen chose in **MyMarketingLab™**

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Chapter 7

7.1

Target Marketing:
Select and Enter a Market

OBJECTIVE

Identify the steps in the target marketing process.

(p. 204)

market fragmentation

The creation of many consumer groups due to a diversity of distinct needs and wants in modern society.

target marketing strategy

Dividing the total market into different segments on the basis of customer characteristics, selecting one or more segments, and developing products to meet the needs of those specific segments.

Way back in Chapter 1, we defined a market as all the customers and potential customers who share a common need that can be satisfied by a specific product, who have the resources to exchange for it, who are willing to make the exchange, and who have the authority to make the exchange. And at this point in your study of marketing, you know that key goals of the marketer are to create value, build customer relationships, and satisfy needs. But in our modern, complex society, it's naive to assume that everyone's needs are the same—even for a pair of blue jeans.

Today, it's a complex task to understand people's differing needs because technological and cultural advances create a condition of **market fragmentation**. This means that people's diverse interests and backgrounds naturally divide them into numerous groups with distinct needs and wants. Because of this diversity, the same good or service will not appeal to everyone.

Consider, for example, the effects of fragmentation in higher education. Before you faced the big decision of which classes to register for, including this one, you had the even bigger task of deciding on which one of the numerous types of colleges or universities you would attend. Not only did you have the more traditional schools to choose from—community or technical colleges and public or private four-year schools—but you also had newer schools, such as the for-profit University of Phoenix or Kaplan University, and several online-only schools, such as Western Governors University. Each of these institutions of higher learning serves a different market need, and what may meet your needs currently might not meet your needs in the future. Fortunately, there are plenty of options to choose from, depending on your abilities, background, and of course the old checkbook!

Marketers must balance the efficiency of mass marketing where they serve the same items to everyone, with the effectiveness that comes when they offer each individual exactly what he or she wants. Mass marketing certainly costs much less—when we offer one product to everyone, we eliminate the need for separate advertising campaigns and distinctive packages for each item. However, consumers see things differently. From their perspective the best strategy would be to offer the perfect product just for them. Unfortunately, that's often not realistic.

For 40 years, Burger King's motto was "Have It Your Way," but in 2014 the fast food company scrapped that iconic theme for an updated version of the slogan: "Be Your Way." Burger King says that the new motto is intended to remind people that "they can and should live how they want anytime. It's ok to not be perfect ... Self-expression is most important and it's our differences that make us individuals instead of robots."¹ This change is convenient for Burger King, because the huge chain could deliver on the old promise only to a point: "Having" it your way is fine as long as you stay within the confines of familiar condiments, such as mustard or ketchup. Don't dream of topping your burger with blue cheese, mango sauce, or some other "exotic" ingredient.

So, instead of trying to sell the same thing to everyone, marketers select a **target marketing strategy** in which they divide the total market into different segments based on customer characteristics, select one or more segments, and develop products to meet the needs of those specific segments.  Figure 7.1 illustrates the three-step process of segmentation, targeting, and positioning, and it's what we're going to check out in this chapter. Let's start with the first step—segmentation.

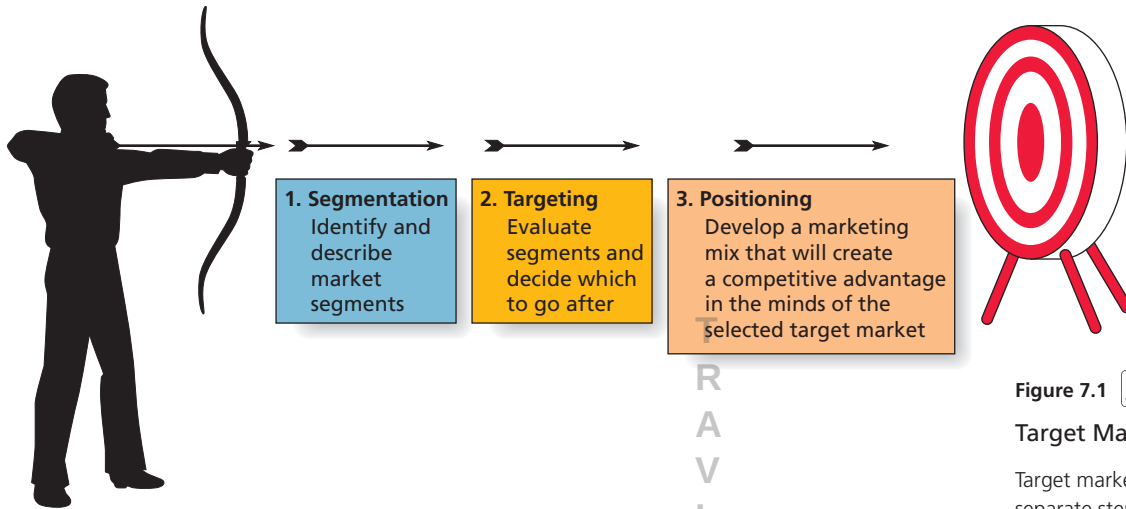


Figure 7.1 **Process** | Steps in the Target Marketing Process

Target marketing strategy consists of three separate steps. Marketers first divide the market into segments based on customer characteristics, then select one or more segments, and finally develop products to meet the needs of those specific segments.

segmentation

The process of dividing a larger market into smaller pieces based on one or more meaningfully shared characteristics.

segmentation variables

Dimensions that divide the total market into fairly homogeneous groups, each with different needs and preferences.

7.2 Step 1: Segmentation

OBJECTIVE

Understand the need for market segmentation and the approaches available to do it.

(pp. 205–217)

Segmentation is the process of dividing a larger market into smaller pieces based on one or more meaningful, shared characteristics. This process is a way of life for almost all marketers in both consumer and business-to-business markets. The truth is that you can't please all the people all the time, so you need to take your best shot. Marriott, for example, segments its market by offering 16 separate brands that range from the value-oriented Courtyard to the deluxe Ritz-Carlton. Newer brands include the Moxy chain in partnership with IKEA and the uber-hip Edition hotels it is opening in partnership with Ian

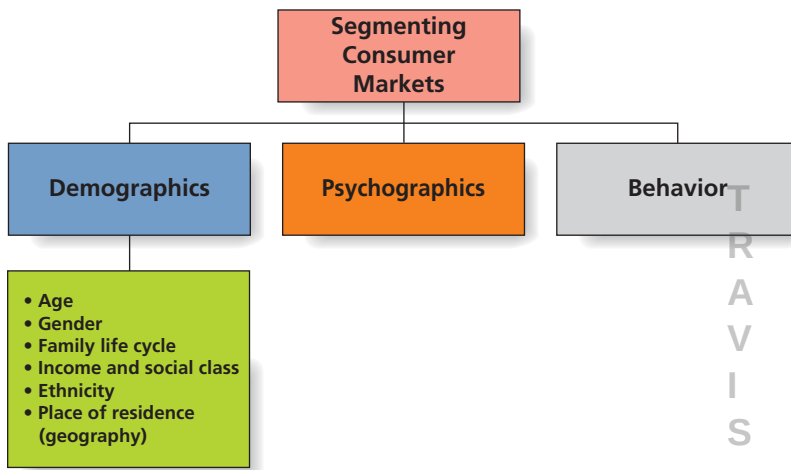
Schrager who created the boutique hotel concept in the 1980s and is most famous for his Studio 54 disco.² Just how do marketers segment a population? How do they divide the whole pie into smaller slices they can "digest"? The marketer must decide on one or more useful **segmentation variables**—that is, dimensions that divide the total market into fairly homogeneous groups, each with different needs and preferences. In this section, we'll take a look at this process, beginning with the types of segmentation variables that marketers use to divide up end-user consumers. Then we'll move on to business-to-business segmentation.

Segment Consumer Markets

At one time, it was sufficient to divide the sports shoe market into athletes and non-athletes. But take a walk through any sporting goods store today and you'll quickly see that the athlete market has fragmented in many directions. Shoes designed for jogging, basketball, tennis, cycling, cross training, and even skateboarding beckon us from the aisles. We need several segmentation variables if we want to slice up the market for all the shoe variations available today. First, not everyone is willing or able to drop several hundred bucks on the latest sneakers, so marketers consider income (Note: A pair of Air Jordan Friends and Family edition kicks will run you a cool \$6,000).³ Second, men may be more interested in basketball shoes for shooting hoops with the guys, whereas women snap up the latest Pilates styles, so marketers also consider gender. Because not all age groups are equally interested in buying specialized athletic shoes, we slice the larger consumer "pie" into smaller pieces in a number of ways, including demographic, psychographic, and

Figure 7.2  **Snapshot** | Segmenting Consumer Markets

Consumer markets can be segmented by demographic, psychographic, or behavioral criteria.



behavioral differences. In the case of demographic segmentation, there are several key subcategories of demographics: age (including generational differences), gender, family life cycle, income and social class, ethnicity, and place of residence, sometimes referred to separately as geographic segmentation.  Figure 7.2 summarizes the dominant approaches to segmenting consumer markets.

In the sections that follow, we'll consider each of these segmentation approaches in turn, but first a note of caution. When it comes to marketing to some groups—in particular, lower-income individuals, the poorly educated, nonnative-language speakers, and children—it is incumbent on marketers to exercise the utmost care not to take undue advantage of their circumstances. In Chapter 2, we introduced a global segment called the *bottom of the pyramid (BOP)*, which is the collective name for the group of more than 4 billion consumers throughout the world who live on less than \$2 a day. Ethical marketers must be sensi-

tive to the different conditions in which people find themselves, and proactively work to uphold a high level of honesty and trust with all segments of the public. Doing so is nothing short of marketing's social responsibility.

One other caveat is needed before we jump into our discussion of different market segments. Identifying segments is not, repeat *not*, intended by marketers as a form of stereotyping. The idea of segmenting markets is to identify groups of consumers with similar needs so that marketing to them can be done more efficiently and effectively versus a mass-market approach. That doesn't necessarily mean that we want to pigeonhole a group of people because they happen to share an important characteristic such as gender or place of residence.

Segment by Demographics: Age

As we stated in Chapter 2, **demographics** are statistics that measure observable aspects of a population, including size, age, gender, ethnic group, income, education, occupation, and family structure. These descriptors are vital to identify the best potential customers for a good or service. Because they represent objective characteristics, they usually are easy to identify, and then it's just a matter of tailoring messages and products to relevant age groups. Consumers of different age groups have different needs and wants. Members of a generation tend to share the same outlook, values, and priorities. When these characteristics are combined for purposes of market segmentation and targeting, such an approach is called **generational marketing**.

For example, *children* are an attractive age segment for many marketers. Although kids obviously have a lot to say about purchases of toys and games, they influence other family purchases as well (just watch them at work in the grocery store!). According to a recent YouGov Omnibus survey, 42 percent of parents said that they gave in to a child's request to buy a product when the child put substantial effort into arguing for the purchase. Savvy children are famous for negotiation tactics such as promising to do more chores or to work harder in school to get better grades.⁴ It's not hard to see how these persuasive little guys could quickly wear down a parent's resistance—buying the item is easier than fighting the fight. For Netflix, developing content to win over children to the platform has become a key strategy. The company developed 20 out of 70 "Netflix Original" programs specifically for children. Netflix recognizes the importance of this segment in cementing its position as the main source of entertainment for families and

demographics

Statistics that measure observable aspects of a population, including size, age, gender, ethnic group, income, education, occupation, and family structure.

generational marketing

Marketing to members of a generation, who tend to share the same outlook, values, and priorities.

as a key source of growth in delivering long-term customer value.⁵ **Generation Z** is a relatively new term coined to denote individuals who were born after 1994. This is the first generation of the 21st century and it's the most diverse we've ever experienced: 55 percent are Caucasian, 24 percent are Hispanic, 14 percent are African American, and 4 percent are Asian. They are accustomed to blurred gender roles, where household responsibilities don't split along traditional lines. And, of course they are **digital natives** who spend a big chunk of their time online, so they expect brands to engage them in two-way digital conversations.

Marketers are just starting to figure out what this new group of youngsters will be like as consumers. Having grown up during the "Great Recession," they are not as likely to believe in an idealized, carefree world. They tend to be independent and gravitate to stores like Free People rather than Abercrombie & Fitch.⁶ They learn about new styles from around the globe via social media, so they are equally at home watching *The Hunger Games* or listening to Korean K-pop. Their idols are "self-made" Internet stars like the Swedish video producer PewDiePie, who has the world's most subscribed YouTube channel, and the teenage video sensation Evan who has 25 million followers.⁷

The 13- to 18-year-old age group is reported to spend more than \$200 billion (both through purchases made by them and purchases made for them) on different products.⁸ Much of this money goes toward "feel-good" products: music, video games, cosmetics, and fast food—with the occasional tattoo or hookah pen thrown in as well. Because they are so interested in many different products and have the resources to obtain them, many marketers avidly court the teen market.⁹ Snapchat has designed a platform that contains cool features (such as the ability to manipulate selfies to incorporate some of the features of a unicorn into your face) that appeal heavily to a younger crowd, including teenagers. The platform is designed to make it hard for one user (say for instance a parent) to eavesdrop on the activity of another user (say for instance the child of that parent) without knowing their username. One of the platform's investors, social media guru Gary Vaynerchuk, states that, after Instagram, for "everyone from 14 to 24 in America, (Snapchat) is either the No. 1 or No. 2 app in their lives."¹⁰

Generation Y, often also called **millennials** or "Echo Boomers", consists of people born between the years 1979 and 1994. This age segment is the first generation to grow up online. Generation Y is an attractive market for a host of consumer products because of its size (approximately 27 percent of the population) and free-spending nature—as a group, it spends about \$1.3 trillion annually.¹¹

But Generation Y consumers can be hard to reach through traditional media because they resist reading and increasingly turn off the TV to opt instead for streaming video and digital video recordings. As a result, many marketers have had to develop other ways to reach this generation "where they live," which is in large measure through their smartphones and tablets, using social media and related technology. We'll talk more about the shift to new-age marketing communications techniques later in this book.

We already know that Gen Yers are tech savvy, but what else defines them as a generation compared to past generations? A Pew Research study shows that compared to past generations (when they were in the same age range) Gen Yers are more racially diverse and more highly educated. In addition, a greater proportion of them have never been married when compared to other generations (68 percent compared to 56 percent for Generation X, which is the next closest generation).¹²

The group of consumers born between 1965 and 1978 consists of 46 million Americans known as **Generation X**, who unfortunately and undeservedly came to be called slackers, or busters (for the "baby bust" that followed the "baby boom"). Many of these people have a cynical attitude toward marketing—a chapter in a famous book called *Generation X* is titled "I Am Not a Target Market!"¹³

Generation Z

The group of consumers born after 1994.

digital natives

Individuals who spend a big chunk of their time online, so they expect brands to engage them in two-way digital conversations.

Generation Y (millennials)

The group of consumers born between 1979 and 1994.

Generation X

The group of consumers born between 1965 and 1978.

baby boomers

The segment of people born between 1946 and 1964.

Despite this tough reputation, members of Generation X, the oldest of whom are now in their early fifties, have mellowed with age. In retrospect, they also have developed an identity for being an entrepreneurial group. One study revealed that Gen Xers led much of the modern technology revolution, and now firms seek them out for their entrepreneurial talents. Many people in this segment were determined to have stable families after being brought up as latch-key children themselves as both their parents put in long days at work. Gen Xers tend to view the home as an expression of individuality rather than material success. More than half are involved in home improvement and repair projects.¹⁴ So much for Gen Xers as slackers!

Baby boomers, consumers born between 1946 and 1964 and who are now in their fifties and sixties, are an important segment to many marketers—if for no other reason than that there are so many of them who have a lot of money. The baby boom occurred when soldiers came flooding home after World War II and there was a rush to get married and start families. Back in the 1950s and 1960s, couples started having children younger and had more of them than the previous generation. The resulting glut of kids really changed the infrastructure of the country: more single-family houses, more schools, migration to the suburbs, and freeways to commute from home to work.

More recently some research has suggested that it may be beneficial for marketers to treat this generational segment as two different groups for purposes of considering their discretionary and non-discretionary spending capabilities. A survey by Gallup indicates that there are significant differences between baby boomer spending for those born in the first half of the generation's age range ("leading-edge Boomers") compared to those born in the second half of the generation's age range ("trailing-edge Boomers"). In general, the trailing-edge boomers find themselves spending significantly more on non-discretionary items (e.g., house maintenance, groceries, etc.) than their leading-edge boomer counterparts. One explanation for this difference in spending capabilities between these two groups may relate to differences in financial obligations. The older group of Baby Boomers (aged 59 to 68) may have reached a point where they are no longer paying off mortgages or higher education debts. For marketers that sell non-discretionary products, this knowledge provides important guidance to develop marketing strategies.¹⁵

Currently, the U.S. Census Bureau estimates that there are slightly more than 46 million Americans aged 65 or older, an increase from prior years. Florida and Maine ranked first and second in the highest percentage of individuals aged 65 and older with about 19 percent and 18 percent, respectively.¹⁶ To better accommodate the senior market, companies are changing their stores and their products. CVS, for example, introduced carpeting in its stores to reduce slipping, and Walgreens added magnifying glasses in aisles that featured products with fine print. Kimberly-Clark not only redesigned its Depends line to look more like regular underwear but also will now shelve the product among other general hygiene products and not in an "old person's" section of the store.¹⁷

Many *mature consumers* enjoy leisure time and continued good health. Indeed, a key question today is, "Just what is a senior citizen, when people live longer and 80 is the new 60?" As we will see later in the chapter, perhaps it isn't age but rather lifestyle factors, including mobility, that best define this group. More and more marketers offer products that appeal to active-lifestyle seniors. And they often combine the product appeal with a nostalgia theme that includes music popular during the seniors' era of youth. People tend to prefer music that was released when they were teenagers or young adults, with interest peaking between ages 24 and 25. For years, Sandals Resorts, whose advertising imagery tends to favor Boomers, has used the song "(I've Had) The Time of My Life" in commercials for its romantic vacation destinations in the Caribbean. The song, recorded by Bill Medley and Jennifer Warnes, was made famous in the classic 1987 movie *Dirty Dancing*. As nostalgia, it does double duty because the movie itself was set in 1963, so it conjures up memories of both the 1980s and the 1960s for this key boomer demographic segment for Sandals.¹⁸ And more recently history repeated itself, as ABC presented a three-hour remake of the show starring Abigail Breslin of *Scream Queens* fame.¹⁹

Segment by Demographics: Gender

Many products, from fragrances to fashion apparel and accessories, specifically appeal to men or women. Segmenting by gender starts at an early age—even diapers come in pink for girls and blue for boys.

In some cases, manufacturers develop parallel products to appeal to each sex. For example, male grooming products have traditionally been Gillette's priority since the company's founder King Gillette (yes, his first name was actually King) introduced the safety razor in 1903. But today, the Venus line by Gillette is a top-selling razor for women of all ages.

A small microbrewer in California called She Beverage Co. applied to register with the U.S. Patent and Trademark Office the phrase "Queen of Beer," which it has been using on its website as well as in its social media communications. "The King of Beers" Budweiser contested the application and general use of the phrase on the grounds that it might cause confusion for consumers, resulting in drawing the incorrect conclusion that the beer is affiliated with the Anheuser-Busch company (and all of the brand benefits that come along with that association). She Beverage Co. recently has begun to sell its beers in restaurants and stores with a focus on the female consumer and the claim that its beers are made to better fit to female taste and style preferences that are underserved within the male-dominated beer market. She Beverage continues to pursue its trademark, vowing to keep up the fight so the company can communicate to female beer drinkers that this is beer formulated specifically with their preferences in mind.²⁰

Metrosexual as a marketing buzzword gained steam beginning in the late 2000s. The term describes a straight, urban man who is keenly interested in fashion, home design, gourmet cooking, and personal care. Metrosexuals are usually well-educated urban dwellers who are in touch with their feminine side. Although many men are reluctant to overtly identify with the metrosexual, there's no denying that a renewed interest in personal care products, fashion accessories, and other "formerly feminine" product categories creates many marketing opportunities. Mainstream newspapers such as the *New York Times* offer regular segments dedicated to male fashion and grooming.

Recently, there's been broad acceptance and assimilation of the values and behaviors ascribed to metrosexuals within the mainstream market. Retailers have been making an extra effort to provide a more pleasurable experience to men who are spending more time on extensive in-store browsing and purchasing across product lines, in stark contrast to the quick in-and-out style of shopping primarily associated with men before. For instance, the high-end retailer Club Monaco now offers bars, cafes, bookstores, and even barbershops in some of its retail locations.²¹

You've no doubt heard of the "Great Recession" that began in late 2007, which was a shock to marketers who had to quickly scramble to understand its impact on purchasing habits. An interesting trend related to gender segmentation fueled by the recession and its aftermath is that men now are increasingly likely to marry wives with more education and income than they have, and the reverse is true for women. In recent decades, with the rise of well-paid working wives, the economic gains of marriage have been a greater benefit for men. The education and income gap has grown even more in the latest recession, when men held about three in four of the jobs that were lost. In 1960, 13.5 percent of wives had husbands who were better educated, and 6.9 percent were married to men with less education. By 2012, the comparable figures were 19.9 percent and 20.7 percent—for the first time in history, more women "married down," educationally speaking, than men.²² In 1960, 6.2 percent of husbands had wives who made more money; in 2007, 24 percent did.²³

metrosexual

A straight, urban male who is keenly interested in fashion, home design, gourmet cooking, and personal care.



SHE Beer specifically targets female brew drinkers.

Segment by Demographics: Family Life Cycle

Because family needs and expenditures change over time, one way to segment consumers is to consider the stage of the family life cycle they occupy. (You learned about the family life cycle in Chapter 6.) Not surprisingly, consumers in different life cycle segments are unlikely to need the same products, or at least they may not need these things in the same quantities. Single-person households have grown over the years, influenced by such factors as changing views toward marriage and other shifting lifestyle choices. This trend is expected to continue to grow over time and is projected to have an impact on marketing in many industries including housing and health care.²⁴ A report from the research firm the NPD Group noted that recent growth in snack food consumption could be attributed largely to the growth in single-person households.^{25,26}

But not all attempts at marketing to the family life cycle succeed. Gerber once tried to market single-serving food jars to single seniors—a quick meal for one person who lives alone. The manufacturer called these containers “Singles.” However, Gerber’s strong identification with baby food worked against it: The product flopped because their target market was embarrassed to be seen buying baby food.²⁷

As families age and move into new life stages, different product categories ascend and descend in importance. Young bachelors and newlyweds are the most likely to exercise, go to bars and movies, and consume alcohol (in other words, party while you can). Older couples and bachelors are more likely to use maintenance services. Seniors are a prime market for resort condominiums and golf products. Marketers need to identify the family life cycle segment of their target consumers by examining purchase data by family life cycle group.

Cultural changes continually create new opportunities as people’s roles change. For example, boomer women in their sixties are a hot new market for what the auto industry calls “reward cars”: sexy and extravagant vehicles. Says president of Women-Drivers.com Anne Fleming, “As they graduate from baseball and ballerina mom, they are seizing their new-found freedom and buying sexy, indulgent ‘me-mobiles.’”²⁸

Segment by Demographics: Income and Social Class

The distribution of wealth is of great interest to marketers because it determines which groups have the greatest **buying power**. Buying power can help marketers to determine how to better match different products and versions of products to different consumer groups based on an understanding of what discretionary and nondiscretionary allocations of funds they are able to make. After a more than 50-year run during which the truly wealthy just kept getting richer, the Great Recession took some of the wind out of their sails because of heavy investment losses. While at this writing the losses have been moderated by a rebound in the stock market, that history of risk and volatility in investments has likely impacted the consumer behavior of the rich just as it has other income segments. Of course, households making \$100,000 or more certainly do not in most cases come close to being part of that “truly wealthy” crowd, but marketers mightily depend on their discretionary spending. Although they represent only 20 percent of U.S. households, they control more than half of all income and are far less likely than everyone else to be restrained by tight credit markets. On average, historically the affluent are 2.6 times more likely to make purchases in general, and when they do, they spend 3.7 times more.²⁹

In the past, it was popular for marketers to consider *social class segments*, such as upper class, middle class, and lower class. However, many consumers buy not according to where they actually fall in that framework but rather according to the image they wish to portray. In recent years, luxury car manufacturers such as Mercedes, BMW, and Audi have developed versions of cars that are priced at less than half the price they charge for one of their traditional models. Seeking to attract consumers who view the brands as aspirational purchases, the approach has been so successful at increasing

buying power

A concept in segmentation that can help marketers to determine how to better match different products and versions of products to different consumer groups based on an understanding of what discretionary and nondiscretionary allocations of funds they are able to make.

sales and market share that *avant-garde* electric car manufacturer Tesla unveiled a “low-end” Model III for less than half the price of its roadster to compete for these consumers, and the company can’t keep up with the demand after getting blanketed with preorders.³⁰

Segment by Demographics: Ethnicity

A consumer’s national origin is often a strong indicator of his or her preferences for specific magazines or TV shows, foods, apparel, and leisure activities. Marketers need to be aware of these differences and sensitivities—especially when they invoke outmoded stereotypes to appeal to consumers of diverse races and ethnic groups.

African Americans, Asian Americans, and Hispanic Americans are the largest ethnic groups in the U.S. The Census Bureau projects that by the year 2050, non-Hispanic whites will make up just less than 50 percent of the population (compared to 74 percent in 1995) as these other groups grow. Let’s take a closer look at each of these important ethnic segments.

African Americans make up more than 13 percent of the U.S. population.³¹ Many marketers recognize the huge impact of this racial subculture and work hard to identify products and services that will appeal to these consumers. The toy market is no exception—children tend to gravitate toward toys and characters that look like them. The Disney TV show *Doc McStuffins* that stars an African American character who fixes toys in her backyard clinic illustrates this appeal. The blockbuster show sold about \$500 million in merchandise last year. Its success reflects demographic changes in the United States that create opportunities for a diversity of ethnic characters.³²

Although their numbers are still relatively small, Asian Americans are the fastest-growing minority group in the U.S. Between 2002 and 2014, the Asian American population grew by 46 percent to reach 19.4 million individuals with an expected growth of 150 percent between 2015 and 2050. For marketers this segment is especially attractive given its’ substantial buying power that is estimated to be close to \$800 billion. An amazing fact is that this figure is almost quadruple the buying power estimated for *all* millennials (\$200 billion)!³³ BuzzFeed makes an effort to court Asian-Americans by publishing content on topics and experiences highly relatable to this group, such as posts tailored to specific Asian subsegments like “22 Signs You Grew up with Immigrant Chinese Parents” and “21 Annoying Comments Filipinos Are Tired of Hearing.” This approach to delivering fresh and specifically relatable content to different segments enables BuzzFeed to connect with distinct cultural groups of Asian Americans as well as other types of consumer segments.³⁴ It also makes BuzzFeed attractive to marketers who want to develop **content marketing** that will resonate with specific customer groups. This term refers to the strategy of establishing thought leadership in the form of bylines, blogs, commenting opportunities, videos, sharable social images, and infographics. A key departure is that these messages look like the kind of content that “ordinary” people post rather than the traditional advertising messages consumers are used to seeing.

content marketing

The strategy of establishing thought leadership in the form of bylines, blogs, commenting opportunities, videos, sharable social images, and infographics.

The Hispanic American population is a real emerging superstar segment for this decade, a segment that mainstream marketers today actively cultivate. Hispanics have overtaken African Americans as the nation’s largest minority group.³⁵ In the U.S., Hispanic buying power is estimated to exceed \$1.5 trillion—a greater than 50 percent increase from where the segment’s buying power was in 2010.³⁶ In addition to its rapid growth, five other factors make the Hispanic segment attractive to marketers:

- Hispanics tend to be brand loyal, especially to products made in their country of origin.
- They tend to be highly concentrated by national origin, which makes it easy to fine-tune the marketing mix to appeal to those who come from the same country.

- This segment is young (the median age of Hispanic Americans is 23.6, compared with the U.S. average of 32), which is attractive to marketers because it is a great potential market for youth-oriented products, such as cosmetics and music.
- The average Hispanic household contains 3.5 people, compared to only 2.7 people for the rest of the U.S. For this reason, Hispanic households spend 15 to 20 percent more of their disposable income than the national average on groceries and other household products.
- In general, Hispanic consumers are receptive to relationship-building approaches to marketing and selling. For this reason, there are many opportunities to build loyalty to brands and companies by emphasizing relationship aspects of the customer encounter.³⁷

As with any ethnic group, appeals to Hispanic consumers need to take into account cultural differences. For example, Hispanics didn't appreciate the successful mainstream "Got Milk?" campaign because biting, sarcastic humor is not part of their culture. In addition, the notion of milk deprivation is not funny to a Hispanic mother—if she runs out of milk, this means she has failed her family. To make matters worse, "Got Milk?" translates as "Are You Lactating?" in Spanish. Thus, new Spanish-language versions were changed to "And you, have you given them enough milk today?" with tender scenes centered on cooking *flan* (a popular pudding) in the family kitchen. And Taco Bell's "Yo quiero Taco Bell" uttering Chihuahua dog was put out to pasture years ago.

It is not an overstatement to say that Latino youth are changing mainstream culture. Many of these consumers are "young biculturals" who bounce back and forth between hip-hop and rock en Español, blend Mexican rice with spaghetti sauce, and spread peanut butter and jelly on tortillas. In fact, we find many bicultural Hispanics in both younger and older age groups—one study reported that fully 44 percent of the Hispanic-American population identifies as bicultural. Within that group there are those who place a greater emphasis on preserving their heritage and those who are more open to experimenting with it in the context of new cultural influences.³⁸ One caution about the Hispanic market is that the term *Hispanic* itself actually is a misnomer. For example, Cuban Americans, Mexican Americans, and Puerto Ricans may share a common language, but their history, politics, and culture have many differences. Marketing to them as though they are a homogeneous segment can be a big mistake. However, the term is still widely used as a demographic descriptive. By 2020, the U.S. Census Bureau estimates, the number of Hispanic teens will grow by 62 percent, compared with 10 percent growth in teens overall. They seek spirituality, stronger family ties, and more color in their lives—three hallmarks of Latino culture. Music crossovers from the Latin charts to mainstream lead the trend, including pop idols Shakira, Enrique Iglesias, Marc Anthony, Jennifer Lopez, and Reggaeton sensation Daddy Yankee.

An important outcome of the increase in multiethnicity is the opportunity for increased cultural diversity in the workplace and elsewhere. **Cultural diversity**, a management practice that actively seeks to include people of different sexes, races, ethnic groups, and religions in an organization's employees, customers, suppliers, and distribution channel partners, is today business as usual rather than an exception. Marketing organizations benefit from employing people of all kinds because they bring different backgrounds, experiences, and points of view that help the firm develop strategies for its brands that will appeal to diverse customer groups.

cultural diversity

A management practice that actively seeks to include people of different sexes, races, ethnic groups, and religions in an organization's employees, customers, suppliers, and distribution channel partners.



Aristidis Vafeiadakis/Getty Images

The crossover sensation Marc Anthony is helping to make Latino music mainstream.

Segment by Demographics: Place of Residence

Recognizing that people's preferences often vary depending on where they live, many marketers tailor their offerings to specific geographic areas, an approach called **geographic segmentation**. Google Earth and other similar applications of a **geographic information system (GIS)** have ramped up geographic approaches to segmentation. A GIS system can elegantly combine a geographic map with digitally stored data about the consumers in a geographic area. Thus, market information by geographic location is much more convenient for use in market planning and decision making than ever before.

When marketers want to segment regional markets even more precisely, they sometimes combine geography with demographics using the technique of **geodemography**. A basic assumption of geodemography is that "birds of a feather flock together"—people who live near one another share similar characteristics. Sophisticated statistical techniques identify geographic areas that share the same preferences for household items, magazines, and other products. This lets marketers construct segments of households with a common pattern of preferences. This way, they can hone in on those customers most likely to be interested in its specific offerings, in some cases so precisely that families living on one block will belong to a segment, whereas those on the next block will not.

One widely used geodemographic system is PRIZM, which is a large database developed by Nielsen Claritas. This system classifies the U.S. population into 66 segments based on various socioeconomic data, such as income, age, race, occupation, education, and household composition as well as lifestyle attributes that are critical to marketing strategies, shopping patterns such as where they vacation, what they drive and their favorite brands, and media preferences. The 66 segments range from the highly affluent "Upper Crust" and "Blue Blood Estates" to the lower-income "Big City Blues" or "Low-Rise Living" neighborhoods.

Here are a few thumbnail sketches of different segments of relatively younger consumers a marketer might want to reach depending on the specific product or service he or she sells:

- *Young Digerati* are tech-savvy and live in fashionable neighborhoods on the urban fringe. Affluent, highly educated, and ethnically mixed, Young Digerati communities are typically filled with trendy apartments and condos, fitness clubs and clothing boutiques, casual restaurants, and all types of bars—from juice to coffee to microbrew. The Young Digerati are much more likely than the average American consumer to shop at Bloomingdale's, travel to Asia, read *Dwell*, watch the Independent Film Channel, and buy an Audi A3.
- *Kids & Cul-de-Sacs* are upper-middle-class, suburban, married couples with children—that's the skinny on Kids & Cul-de-Sacs, an enviable lifestyle of large families in recently built subdivisions. This segment has a high rate of Hispanics and Asian Americans. It is also a refuge for college-educated, white-collar professionals with administrative jobs and upper-middle-class incomes. Their nexus of education, affluence, and children translates into large outlays for child-centered products and services. They are much more likely than the average American consumer to order from target.com, play fantasy sports, read *Parents* magazine, watch X Games, and buy a Honda Odyssey.
- *Shotguns & Pickups* came by its moniker honestly: it scores near the top of all lifestyles for owning hunting rifles and pickup trucks. These Americans tend to be young, working-class couples with large families, living in small homes and manufactured housing. Nearly a third of residents live in mobile homes, more than anywhere else in the nation. They are much more likely than the average American consumer to order from Mary Kay, own a horse, read *Four Wheeler*, watch *Maury*, and drive a Ram diesel pickup.

geographic segmentation

An approach in which marketers tailor their offerings to specific geographic areas because people's preferences often vary depending on where they live.

geographic information system (GIS)

A system that combines a geographic map with digitally stored data about the consumers in a particular geographic area.

geodemography

A segmentation technique that combines geography with demographics.

Metrics Moment

It should be clear from your reading that geodemographic and related approaches to segmentation can be powerful and allow for a high level of precision in identifying potentially fruitful segments to target. When it comes to metrics, good data about the characteristics of the various consumer segments that you may wish to ultimately target is critical because target marketing is ultimately a strategic investment of resources in the segments that appear to have the best return on investment.

To make the power of the geodemographic technique and resulting information for decision making come alive, let's try a demonstration of the PRIZM database that gets close to home.

Apply the Metrics

1. Go to the Nielsen My Best Segments website (search for the phrase "Nielsen My Best Segments" website on any search engine).
2. Click on Zip Code Lookup, and then type in your own ZIP code along with the provided security code, then click SUBMIT.
3. Several segments should then come up that comprise your ZIP code. Click on each for more detail.
4. You will also see some quick facts in a box that further describe some basic demographics of your ZIP code (population, median age, median income, and consumer spend total and per household).
5. What is your reaction to the segment profiles and other information about your ZIP code? Are you surprised with the results, or was it what you expected?
6. Given the profile provided, what sort of products and services do you think are most likely to be particularly attractive to the segments represented?

geotargeting

Determining the geographic location of a website visitor and delivering different content to that visitor based on his or her location.

micromarketing

The ability to identify and target very small geographic segments that sometimes amount to individuals.

psychographics

The use of psychological, sociological, and anthropological factors to construct market segments.

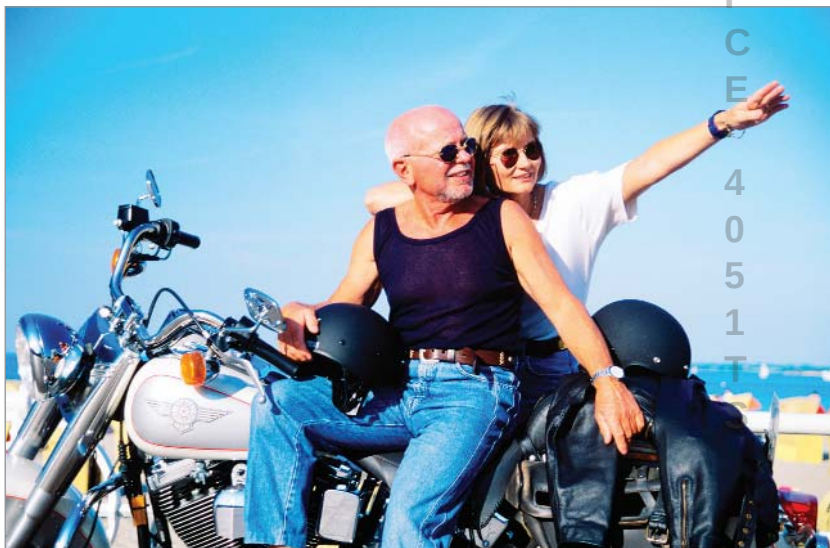
One interesting specific approach to location-based targeting is **geotargeting**, which in Internet marketing refers to determining the geographic location of a website visitor and delivering different content to that visitor based on his or her location, such as country, region/state, city, metro code/ZIP code, organization, IP address, Internet service provider (ISP), or other criteria.³⁹ Campari America, for instance, targeted consumers who were between the ages of 21 and 34 while they were in neighborhoods with a high proportion of bars and restaurants during times when consumers are known to have a few drinks, using a promotion for \$5 off of a future ride using the ride-sharing app Lyft. The deal was offered through specific mobile apps that this targeted segment is known to use while out unwinding at restaurants and bars. The overall intention of the campaign was to both promote responsible behavior while out drinking and to increase awareness and favorable attitudes toward Campari and some of its staple brands of alcohol. More than 20 percent of those who received the offer chose to accept it, a high rate of acceptance by digital advertising standards.^{40,41}

Ultimately, highly precise geodemographic segmentation enables marketers to practice **micromarketing**, which is the ability to identify and target small geographic segments that sometimes amount to just one or a few individuals—a capability you read about in Chapter 5 that we referred to as one-to-one marketing.

Segment by Psychographics

Demographic information is useful, but it does not always provide enough information to divide consumers into meaningful segments. Although we can use demographic variables to discover, for example, that the female college student segment uses perfume, we won't be able to tell whether certain college women prefer perfumes that express an image of, say, sexiness rather than athleticism.

As we said in Chapter 6, **psychographics** segment consumers in terms of psychological and



A Harley rider's profile includes both thrill-seeking and affinity for a countercultural image (at least on weekends).

behavioral similarities, such as shared activities, interests, and opinions, or AIOs.⁴² Marketers often develop profiles of the typical customers for whom they desire to paint a more vivid picture. Although some marketers and their creative agencies develop their own psychographic techniques to classify customers, others subscribe to services that divide the entire U.S. population into segments and then provide this information to clients for use in proprietary marketing project applications such as strategy planning. The best known of these systems is **VALS™**, which is a product of Strategic Business Insights (SBI). VALS™ divides U.S. adults into eight groups according to what drives them psychologically as well as by their economic resources.

One segment that combines a psychographic/lifestyle component with a heavy dose of generational marketing is the **gamer segment**, sometimes referred to as the gamer generation—“gamer” as in “video games,” of course. This group grew up playing video games as second nature for primary recreation, and as they have entered college and the workforce, they continue to carry many gaming sensibilities with them. Video gaming is clearly a lifestyle, and much as the company Google turned into the generic verb “to google” in the 2000s, in this decade the buzz term du jour is *gamification*, which, as we saw in Chapter 6, is a strategy in which marketers apply game design techniques, often by awarding points or badges to nongame experiences, to drive consumer behavior (e.g., the gamification of practice exams where you might earn badges for getting right answers and moving to the next level of difficulty in your homework). And, by the way, just in case you didn’t know, a **badge** is some type of milestone or reward a player earns when he or she progresses through a gamified application. If you’ve ever checked into Foursquare and earned a badge for a (dubious) achievement like “Gym Rat,” “Overshare,” or even “Crunked,” you know how this works. Marketers would be wise to think about what sorts of badges might appeal to the gamer segment as they become more and more engaged as consumers who are highly likely to do much of their shopping online.

Segment by Behavior

People may use the same product for different reasons, on different occasions, and in different amounts. So, in addition to demographics and psychographics, it is useful to study what consumers actually do with a product. **Behavioral segmentation** slices consumer segments on the basis of how they act toward, feel about, or use a product. One way to segment on the basis of behavior is to divide the market into users and nonusers of a product. Then marketers may attempt to reward current users or try to win over new ones. In addition to distinguishing between users and non-users, marketers can describe current customers as heavy, moderate, and light users. They often do this according to a rule of thumb we call the **80/20 Rule**: 20 percent of purchasers account for 80 percent of the product’s sales (the ratio is an approximation, not gospel). This rule means that it often makes more sense to focus on the smaller number of people who are really into a product rather than on the larger number who are just casual users.

Starbucks recently chose to redefine its loyalty program to better reward consumers who spend more with the company, in contrast to the old structure that rewarded consumers for the number of transactions they made. Consider, for instance, that before the change a customer who bought a tall coffee received the same number of stars as a customer who purchased a venti white chocolate mocha and a breakfast sandwich—clearly a big difference in revenue generation for the firm. Although the change to Starbucks’ loyalty program received a fair amount of initial negative feedback (presumably from those customers who will not benefit as greatly under the new terms of the program), industry analysts view the move as smart in the long term because it will ultimately enable Starbucks to offer greater rewards to its *most valuable customers* (those who spend more through larger purchases while also purchasing more frequently).⁴³

VALS™

A psychographic segmentation system that divides U.S. adults into eight groups according to what drives them psychologically as well as by their economic resources.

gamer segment

A consumer segment that combines a psychographic/lifestyle component with a heavy dose of generational marketing.

badge

A milestone or reward earned for progressing through a video game.

behavioral segmentation

A technique that divides consumers into segments on the basis of how they act toward, feel about, or use a good or service.

80/20 Rule

A marketing rule of thumb that 20 percent of purchasers account for 80 percent of a product’s sales.



Stephen Sale Photography/Alamy Stock Photo

The Biltmore Estate in Asheville, North Carolina, increased attendance during its annual Christmas celebration as part of a strategy to segment by usage occasion. The estate's marketers developed four separate strategies to target different types of visitors, including heavy users who have made a Christmas pilgrimage an annual family tradition.

usage rate

A measurement that reflects the quantity purchased or frequency of use among consumers of a particular product or service.

long tail

A new approach to segmentation based on the idea that companies can make money by selling small amounts of items that only a few people want, provided they sell enough different items.

usage occasions

An indicator used in behavioral market segmentation based on when consumers use a product most.

A related concept to the 80/20 Rule in behavioral segmentation is **usage rate**, which reflects the quantity purchased or frequency of use among consumers of a particular product or service. The entire travel and hospitality industry cultivates high users through their loyalty programs, such as American Airlines AAdvantage or Marriott Rewards. The high-use segment is often incredibly profitable over the long run.

Although the 80/20 Rule still holds true in the majority of situations, the Internet's ability to offer an unlimited choice of goods to billions of people has changed how marketers think about segmentation. An approach called the **long tail** turns traditional thinking about the virtues of selling in high volume on its head. The basic idea is that we need no longer rely solely on big hits (like blockbuster movies or best-selling books) to find profits. Companies can also make money when they sell small amounts of items that only a few people want—if they sell enough different items.

For many companies the selling of digital products that can be transferred to purchasers through an Internet connection helps to support a long tail approach because it reduces the cost of storage of products and allows for the fulfillment of consumer demand on an as-needed basis. Amazon, the Apple iTunes Store, and the Google Play Store are prime examples of sites that are set up to be able to benefit from the large and small sales of a wider array of goods, which should also benefit both the big and small sellers that offer products through their platforms.

Another way to segment a market on the basis of behavior is to look at **usage occasions**, or when consumers use the product most. We associate many products with specific occasions, whether time of day, holidays, business functions, or casual get-togethers. Businesses often divide up their markets according to when and how their offerings are in demand. Ruth's Chris Steakhouse is by far the market leader in the high-end steak restaurant category featuring USDA Prime Beef as its signature dish. Ruth's is well aware that it is a special-occasion location—graduations, birthdays, promotions, you name it—and folks want to celebrate at Ruth's. And they are all too happy to accommodate, often surprising guests with special table decorations for the occasion and a nice dessert treat, compliments of the chef.

And in the online space, Google enables its advertising clients to target certain ads to certain segments of search engine users based on data such as Google domain, query entered, IP address, and language preference. This way, companies can have Google automatically sort and send the intended ad to certain market segments. Thus, it is possible for advertisers on Google to tailor their automatically targeted ads based on seasonality—you will see more TurboTax ads on Google pages during tax season, even if people aren't querying tax software.⁴⁴

Segment B2B Markets

We've reviewed the segmentation variables marketers use to divide up the consumer pie, but how about all those B2B marketers out there? Adding to what we learned about business markets in Chapter 6, it's important to know that segmentation also helps them better understand their customers. Although the specific variables may differ,

the underlying logic of classifying the larger market into manageable pieces that share relevant characteristics is the same whether the product you sell is pesto or pesticides.

Organizational demographics are organization-specific dimensions that marketers use to describe, classify, and organize different organizations for the purpose of segmenting business-to-business markets. Organizational demographics also help a B2B marketer understand the needs and characteristics of its potential customers. These classification dimensions include the size of the firms (either in total sales or in number of employees), the number of facilities, whether they are a domestic or a multinational company, their purchasing policies, and the type of business they are in. B2B markets may also be segmented on the basis of the production technology they use and whether the customer is a user or a nonuser of the product.

Many industries use the North American Industry Classification System (NAICS) we discussed in Chapter 6 to obtain information about the size and number of companies operating in a particular industry. B2B marketers often consult general informational business and industry databases on the web, such as Hoover's or Yahoo! Finance for insight and up-to-date information on private and public companies worldwide.

organizational demographics

Organization-specific dimensions that can be used to describe, classify, and organize different organizations for the purpose of segmenting business-to-business markets.

7.3 Step 2: Targeting

OBJECTIVE

Explain how marketers evaluate segments and choose a targeting strategy.

(pp. 217–220)

We've seen that the first step in a target marketing strategy is segmentation, in which the firm divides the market into smaller groups that share certain characteristics. The next step is **targeting**, in which marketers evaluate the attractiveness of each potential segment and decide in which of these groups they will invest resources to try to turn them into customers. The customer group or groups they select are the firm's **target market**, which, as you learned in Chapter 1, is the segment(s) on which an organization focuses its marketing plan and toward which it directs its marketing efforts.

In this section, we'll review the three phases of targeting: evaluate market segments, develop segment profiles, and choose a targeting strategy. Figure 7.3 illustrates these three phases.

Phases of Targeting

Phase 1: Evaluate Market Segments

Just because a marketer identifies a segment does not necessarily mean that it's a useful target. A viable target segment should satisfy the following requirements:

- *Are members of the segment similar to each other in their product needs and wants and, at the same time, different from consumers in other segments?* Without real differences in consumer needs, firms might as well use a mass-marketing strategy. It's a waste of time to develop two separate lines of skin care products for working women and nonworking women if both segments have the same complaints about dry skin.
- *Can marketers measure the segment?* Marketers must know something about the size and purchasing power of a potential *segment* before they decide if it's worth their efforts.
- *Is the segment large enough to be profitable now and in the future?* For example, a graphic designer who hopes to design web pages for Barbie-doll

targeting

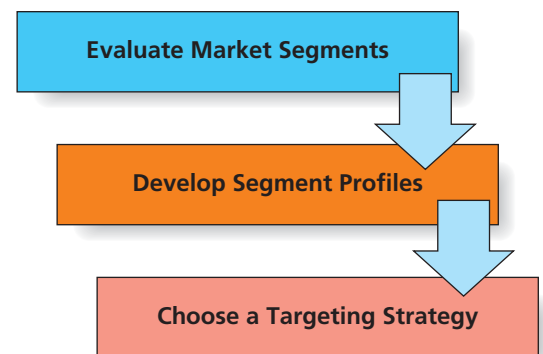
A strategy in which marketers evaluate the attractiveness of each potential segment and decide in which of these groups they will invest resources to try to turn them into customers.

target market

The market segments on which an organization focuses its marketing plan and toward which it directs its marketing efforts.

Figure 7.3  **Process** | Phases of Targeting

Targeting involves three distinct phases of activities.



collectors must decide whether there are enough hard-core aficionados to make this business worthwhile and whether the trend will continue.

- *Can marketing communications reach the segment?* It is easy to select TV programs or magazines that will efficiently reach older consumers, consumers with certain levels of education, or residents of major cities because the media *they* prefer are easy to identify. However, it is unlikely that marketing communications can reach only left-handed blondes with multiple piercings who listen to Taylor Swift overdubbed in Mandarin Chinese.
- *Can the marketer adequately serve the needs of the segment?* Does the firm have the expertise and resources to satisfy the segment better than the competition? Some years ago, consumer-products manufacturer Warner-Lambert (now a part of Pfizer) made the mistake of trying to enter the pastry business by purchasing Entenmann's Bakery. Entenmann's sells high-end boxed cakes, cookies, pastries, and pies in supermarkets. Unfortunately, Warner-Lambert's expertise at selling Listerine mouthwash and Trident gum did not transfer to baked goods, and it soon lost a lot of "dough" on the deal.

Phase 2: Develop Segment Profiles

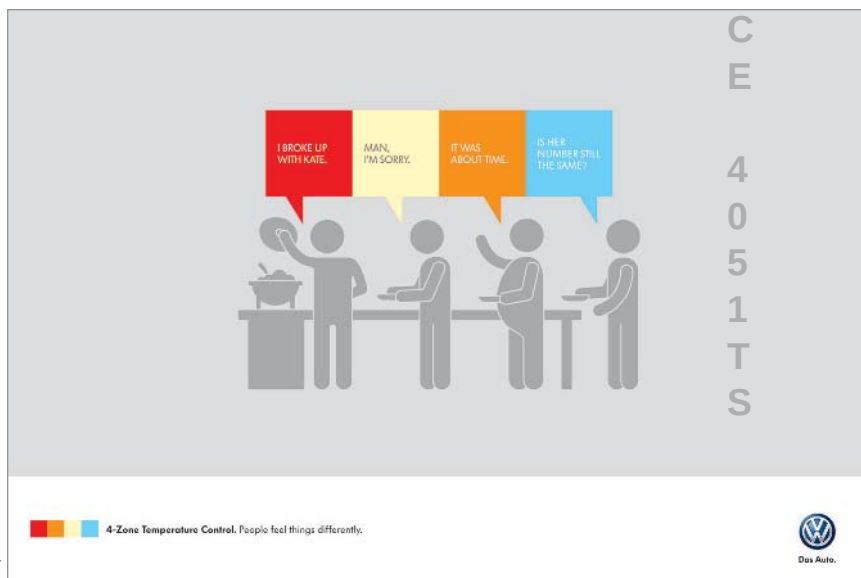
Once a marketer identifies a set of usable segments, it is helpful to generate a profile of each to really understand segment members' needs and to look for business opportunities. This segment profile is a description of the "typical" customer in that segment. A **segment profile** might, for example, include customer demographics, location, lifestyle information, and a description of how frequently the customer buys the product. When the marketers of General Mills' product Hamburger Helper decided to target cash-strapped millennials, they had to adjust the image they presented on social media. On one April Fools' Day, the packaged food company announced through social media the release of a mixtape titled "Watch the Stove" containing five light-hearted Hamburger Helper-themed rap songs created by a group of college students at McNally Smith's College of Music. The mixtape was well received, and was played more than 270,000 times on SoundCloud by 5 P.M. on the day of release. One of the company's marketing communications planners describes the target segment of consumers as "a young, urban, millennial guy making Hamburger Helper in his dorm room."⁴⁵

segment profile

A description of the "typical" customer in a segment.

undifferentiated targeting strategy

Appealing to a broad spectrum of people.



Volkswagen reminds us that the same product won't work for everyone.

Phase 3: Choose a Targeting Strategy

A basic targeting decision centers on how finely tuned the target should be: Should the company go after one large segment or focus on meeting the needs of one or more smaller segments? Let's look at four targeting strategies, which Figure 7.4 summarizes.

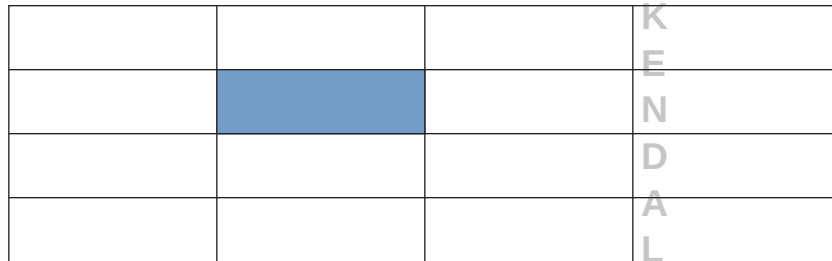
A company like Walmart that selects an **undifferentiated targeting strategy** appeals to a broad spectrum of people. If successful, this type of operation can be efficient because production, research, and promotion costs benefit from *economies of scale*—it's cheaper to develop one product or one advertising campaign than to choose several targets and create separate products or messages for each.



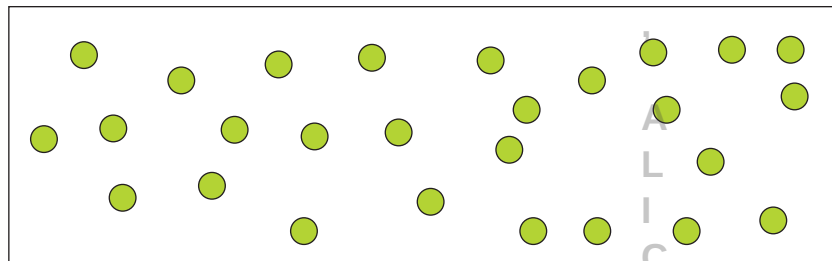
Undifferentiated Marketing



Differentiated Marketing



Concentrated Marketing



Customized Marketing

Figure 7.4  **Snapshot** | Choose a Targeting Strategy

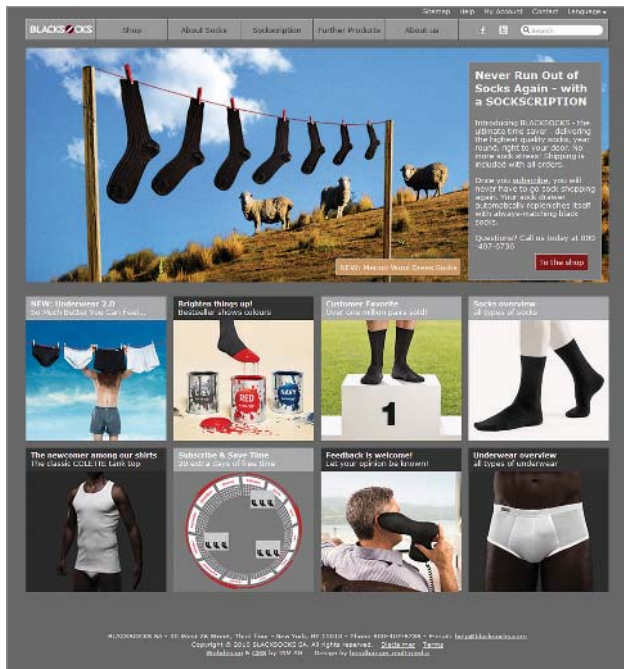
Marketers must decide on a targeting strategy. Should the company go after one total market, one or several market segments, or even target customers individually?

But the company must be willing to bet that people have similar needs so that the same product and message will appeal to many customers.

A company that chooses a **differentiated targeting strategy** develops one or more products for each of several customer groups with different product needs. A differentiated strategy is called for when consumers choose among well-known brands that have distinctive images, and the company can identify one or more segments that have distinct needs for different types of products.

Despite its highly publicized product safety issues in 2014, GM historically has been a leader in differentiated strategy with distinct product lines that satisfy the needs of multiple customer groups. Its Cadillac and Buick product lines cater to consumers who want luxury. The Chevrolet Volt hybrid provides value to drivers who want to save gas money and the environment. And finally, the GMC product line appeals to

differentiated targeting strategy
Developing one or more products for each of several distinct customer groups and making sure these offerings are kept separate in the marketplace.



Blacksocks US

Blacksocks practices a highly concentrated targeting strategy.

concentrated targeting strategy

Focusing a firm's efforts on offering one or more products to a single segment.

customized marketing strategy

An approach that tailors specific products and the messages about them to individual customers.

mass customization

An approach that modifies a basic good or service to meet the needs of an individual.

drivers who need an everyday truck, crossover, or SUV that is both dependable and stylish.

Differentiated marketing can also involve connecting one product with multiple segments by communicating differently to appeal to those segments. Again using the venerable "Got Milk?" campaign as an example, one of the campaign's most classic ads featured Aerosmith's Steven Tyler to appeal to both aging boomers who got into the band in the 1970s and Gen Yers who discovered the band in the 1990s as a result of Run-DMC's remake of "Walk This Way" as well as Tyler's resurgence during his run as a judge on *American Idol*.

When a firm offers one or more products to a single segment, it uses a **concentrated targeting strategy**. Smaller firms that do not have the resources or the desire to be all things to all people often do this. The company GreatCall Wireless developed a cellphone known as the Jitterbug back in the mid-2000s. This product ran counter to the trend toward increasingly technologically sophisticated cell phones (and smartphones) by offering a flip cellphone with fewer and larger buttons, as well as a focused range of capabilities. The original Jitterbug was primarily targeted toward seniors with a desire for a simpler communication device. But over the years it has evolved to offer options including a model that "resembles" a smart-

phone in appearance (important for today's seniors to "look hip") but with a streamlined range of choices on its touch screen interface and features such as an urgent care button that are of particular value to this older segment.⁴⁶

Ideally, marketers should be able to define segments so precisely that they can offer products that exactly meet the unique needs of each individual or firm. This level of concentration does occur (we hope) in the case of personal or professional services we get from doctors, lawyers, and hairstylists. A **customized marketing strategy** also is common in industrial contexts where a manufacturer often works with one or a few large clients and develops products that only these clients will use.

Of course, in most cases this level of segmentation is neither practical nor possible when mass-produced products such as computers or cars enter the picture. However,

advances in computer technology, coupled with the new emphasis on building solid relationships with customers, have focused managers' attention on devising new ways to tailor specific products and the messages about them to individual customers. In fact, some entrepreneurs are working on the possibility of using new 3-D printing technology to let you print your own car.⁴⁷ This is an extreme example of the growing trend of **mass customization**, where a manufacturer modifies a basic good or service to meet an individual's specific needs.⁴⁸ Levi Strauss was a pioneer in this area. Company researchers found that 80 percent of women around the world fall into three distinct body shapes, so it's physically impossible to offer a one-size-fits-all product. The Levi's CURVE ID program employs an interactive custom fit experience to tell a customer whether she should buy a Slight Curve, Demi Curve, or Bold Curve version of the jeans.⁴⁹



Local Motors

New 3-D printing technology allows consumers to literally print their own car.

7.4

Step 3: Positioning

OBJECTIVE

Recognize how marketers develop and implement a positioning strategy.

(pp. 221–225)

The final stage of developing a target marketing strategy is to provide consumers who belong to a targeted market segment with a good or service that meets their unique needs and expectations. **Positioning** means developing a marketing strategy to influence how a particular market segment perceives a good or service in comparison to the competition. A key word in this definition is *perceives*—that is, positioning is in the eye of the beholder.

A firm may truly believe that its customers think about its offering in a certain way, but unless market research bears this out, what the marketer “thinks” doesn’t matter as it is trumped by what the consumer perceives. To position a brand, marketers must clearly understand the criteria target consumers use to evaluate competing products and then convince them that their product, service, or organization will meet those needs. In addition, the organization has to come up with a plan to communicate this position to its target market.

Positioning happens in many ways. Sometimes it’s just a matter of making sure that cool people use your product—and that others observe them doing this. After finding out that a close friend was flying to Los Angeles to audition for the film *Any Given Sunday*, the president of the high-performance sportswear company Under Armour sent along with him a bunch of free samples of its athletic wear to give to the film’s casting director as a gift. The director liked the quality of the clothes so much that he gave them to the wardrobe company the filmmakers hired, and they also really liked the clothes. The next thing you know, the movie (starring Al Pacino and Jamie Foxx) featured both the actors wearing Under Armour clothes on screen—and there was even a scene in the film when Jamie Foxx undressed in the locker room with a clear shot of the Under

positioning

Developing a marketing strategy to influence how a particular market segment perceives a good or service in comparison to the competition.

Ripped from the Headlines

Ethical/Sustainable Decisions in the Real World

Candy companies have received scrutiny in the past for advertising directly to children, given the widely held belief that children are more impressionable and more susceptible to advertising than older groups. Recent massive publicity about childhood obesity, diabetes, and dental impacts because of too much sugar haven’t helped matters any for candy marketers.

In 2007 the Children’s Food and Beverage Advertising Initiative (CFBAI) was launched to help move the food and beverage industries toward creating advertising messages for children (defined as individuals under the age of 12) that promote healthier products and generally healthier nutritional habits.⁵⁰ Despite the launch of this initiative and some candy companies pledging to reduce or altogether eliminate their marketing efforts directed toward children, a research study found that between 2008 and 2011 children’s exposure to ads for candy actually went up 74 percent along with evidence that candy ads children were exposed to peripherally (that is, not specifically directed to a child) also increased.⁵¹

Determining whether an advertisement is directed to a particular segment is a somewhat subjective exercise, which creates word games between advertisers and regulators as to whether a particular advertisement is “directed” to (in this case) children. The vagueness of this situation also potentially provides room for unscrupulous marketers to make a pledge to do one thing when in reality they plan on doing another without technically failing to honor their pledge (whether this is true in the candy company example is for them to say).

In 2016, soon after Easter passed, a large number of major candy companies announced that they would no longer advertise directly to children. These companies include the Ferrara Candy Company, Ghirardelli Chocolate Company, Jelly Belly Candy Company, Just Born Quality Confections, Promotion in Motion Inc., and the R.M. Palmer Company. This announcement was quickly praised by candy industry oversight groups.⁵² But the extent to which this announced decision actually reduces the amount of candy-related marketing directed at children (as well as peripheral exposure of candy advertising) remains to be seen.

ETHICS CHECK:

Should candy companies be allowed to advertise directly to children?

☐ YES ☐ NO

Figure 7.5  **Process** | Steps in Positioning

Four key steps comprise the decision-making process in positioning.



Armour logo on his jock strap. After the movie's release, hits on Under Armour's website spiked, and, as they say, the rest is history.⁵³ More recently Under Armour was able to sign NBA phenom Stephen Curry to an endorsement deal that has benefitted the brand enormously as a result of Curry's popularity and meteoric success on the court. The company's CEO in a recent earnings call spoke about (among other things) how the footwear division saw a 95 percent increase in sales from the same period in the prior year. The reason he gave for the significant increase in sales within footwear: Stephen Curry's popularity. One analyst on Wall Street believes Curry adds \$14 billion to the value of Under Armour's outstanding shares of stock.⁵⁴

Steps in Positioning

 Figure 7.5 shows the steps marketers go through to decide just how to position their product or service: analyze competitors' positions, offer a good or service with a competitive advantage, finalize the marketing mix, and evaluate responses and modify as needed. Let's take a closer look at each of these positioning steps.

Step 1: Analyze Competitors' Positions

The first stage is to analyze competitors' positions in the marketplace. To develop an effective positioning strategy, marketers must understand the current lay of the land. What competitors are out there, and how does the target market perceive them? Aside from direct competitors in the product category, are there other goods or services that provide similar benefits?

Sometimes the indirect competition can be more important than the direct, especially if it represents an emerging consumer trend. For years, McDonald's developed positioning strategies based only on its direct competition, which it defined as other large fast-food hamburger chains (translation: Burger King and Wendy's). McDonald's failed to realize that in fact many indirect competitors fulfilled consumers' needs for a quick, tasty, convenient meal—from supermarket delis to frozen microwavable single-serving meals to call-ahead takeout from full-service restaurants like Applebee's, T.G.I. Friday's, Outback, and Chili's—all of whom have convenient curbside service instead of backed-up drive-through lines. Ultimately, McDonald's began to understand that it must react to this indirect competition by serving up a wider variety of adult-friendly food and shoring up lagging service. These days the company also offers its McCafé concept, with coffee products aimed squarely at taking business away from morning mainstays Starbucks and Dunkin' Donuts, along with a tasty breakfast menu all day long to compete in a brand-new space.

Step 2: Define Your Competitive Advantage

The second stage is to offer a good or service with a competitive advantage to provide a reason why consumers will perceive the product as better than the competition. Toward this end, a **positioning statement** can help the company frame internally how a product is positioned so that any associated marketing communication remains focused on articulating to consumers the specific *value* offered by a product. Positioning statements typically include the segment(s) to which the product is targeted, the most important claim (differentiator) to be attributed to the product for the targeted segment(s), and the most important piece of evidence that supports the claim made about the product. If the company offers only a "me-too product," it can induce people to buy for a lower price. Other forms of competitive advantage include offering a superior image (Giorgio Armani), a unique product feature (Levi's 501 button-fly jeans), better service (Cadillac's roadside assistance

positioning statement

An expression of a product's positioning that is internally developed and maintained in order to support the development of marketing communication that articulates the specific *value* offered by a product.

program), or even better-qualified people (the legendary salespeople at Nordstrom's department stores).

Step 3: Finalize the Marketing Mix

Once they settle on a positioning strategy, the third stage for marketers is to finalize the marketing mix as they put all the pieces into place. The elements of the marketing mix must match the selected segment. This means that the good or service must deliver benefits that the segment values, such as convenience or status. Put another way, it must add value and satisfy consumer needs (sound familiar?). Furthermore, marketers must price this offering at a level these consumers will pay, make the offering available at places they are likely to go, and correctly communicate the offering's benefits in locations where these targets are likely to take notice. In other words, the positioning strategy translates into the organization's marketing mix that we discussed in Chapter 1.

Beginning with Chapter 8, all the remaining chapters in the book provide you with the details of developing strategies for each element of the marketing mix: product, price, physical distribution, and promotion. The sum of these individual marketing mix strategies results in the overall positioning strategy for your offering.

Step 4: Evaluate Responses and Modify as Needed

In the fourth and final stage, marketers evaluate the target market's responses so they can modify strategies if necessary. Over time, the firm may find that it needs to change which segments it targets or even alter a product's position to respond to marketplace changes. Consider this classic example: Both TGI Fridays and Jack Daniel's are venerable brands in separate market spaces. But like peanut butter and chocolate in the case of a Reese's peanut butter cup, Fridays and Jack Daniel's partnered to create a set of new menu items like the Jack Daniel's® Burger which repositioned TGIF from "your father's restaurant" to a hipper place for the younger urban crowd.

A change in positioning strategy is **repositioning**, and it's fairly common to see a company try to modify its brand image to keep up with changing times. Take as an example Charles Schwab, which used to be pegged primarily as a self-service stock brokerage. Competition in the budget broker business, especially from online brokers, prompted Schwab's repositioning to a full-line, full-service financial services firm that still pays attention to frugal prices for its services. Think of it this way: There's not much value Schwab can add as one of a dozen or more online providers of stock trades. In that environment, customers simply will view the firm as a commodity (i.e., just a way to buy stocks) with no real differentiation. Schwab still has its no-frills products, but the real growth in sales and profits comes from its expanded product lines and provision of more information—both online and through personal selling—that warrant higher fees and build deeper customer relationships. Repositioning also occurs when a marketer revises a brand thought to be inextricably past its prime. Sometimes these products rise like a phoenix from the ashes to ride a wave of nostalgia and return to the marketplace as **retro brands**—venerable brands like Oxydol laundry detergent, Breck Shampoo, Ovaltine cereal, Frontier airlines, and Tab cola all are examples of brands that were nearly forgotten but got a new lease on life.⁵⁵

Three guys built a powerful community through Facebook called the SURGE Movement to bring back the carbonated beverage that had some

repositioning

Redoing a product's position to respond to marketplace changes.

retro brands

A once-popular brand that has been revived to experience a popularity comeback, often by riding a wave of nostalgia.



The SoBe Beverage Company started in Miami's South Beach (hence the name "So-Be") in 1996 when the founders saw a lizard on the art deco façade of the Abbey Hotel, and the rest is history. SoBe has masterfully executed the process of segmentation, target marketing, and positioning you've read about in this chapter and today boasts an amazing brand and product line that appeals to a definitive set of demographic/psychographic targets.

popularity in the 1990s but had been out of production for over a decade. The group amassed a large following of active supporters (more than 300,000 people support the Facebook Cause page) and worked fervently to let the Coca-Cola Company, the creators of SURGE, know about their love for the product. The SURGE Movement's efforts ultimately were successful and now the three founders of the movement are working hard to make sure the effort doesn't lose any steam and that SURGE remains a viable product into the future.⁵⁶

Bring a Product to Life: Brand Personality

brand personality

A distinctive image that captures a good's or service's character and benefits.

In a way, brands are like people: We often describe them in terms of personality traits. We may use adjectives such as *cheap*, *elegant*, *sexy*, or *cool* when we talk about a store, a perfume, or a car. That's why a positioning strategy often tries to create a **brand personality** for a good or service—a distinctive image that captures its character and benefits. An advertisement for *Elle*, an amazingly chic fashion magazine for women, proclaimed, "She is not a reply card. She is not a category. She is not shrink-wrapped. *Elle* is not a magazine. She is a woman."

brand anthropomorphism

The assignment of human characteristics and qualities to a brand.

One of the more effective ways to give a brand a personality in the minds of consumers is to engage in deliberate marketing actions that make the brand seem more human. The phenomenon of attributing to a brand human characteristics is known as **brand anthropomorphism** and it can be seen in action when, for instance, a brand's Twitter account makes a quirky comment in reply to someone's tweet (that is, "humanizing the brand through a response") or through the interactions of a brand's mascot in a commercial. The Pillsbury Doughboy, who has been active in advertising for more than 50 years, is a prime example of the latter with his friendly demeanor and the trademark giggle he lets out when poked in the belly that help shape consumer perceptions of the brand.⁵⁷ We'll talk a lot more about brands in Chapter 9.

Products as people? It seems funny to say, yet marketing researchers find that most consumers have no trouble describing what a product would be like "if it came to life." People often give clear, detailed descriptions, including what color hair the product would have, the type of house it would live in, and even whether it would be thin, overweight, or somewhere in between.⁵⁸ If you don't believe us, try doing this yourself.

Part of creating a brand personality is to develop an identity for the product that the target market will prefer over competing brands. How do marketers determine where their product actually stands in the minds of consumers? One solution is to ask consumers what characteristics are important and how competing alternatives would rate on these attributes, too. Marketers use this information to construct a **perceptual map**—a vivid way to construct a picture of where products or brands are "located" in consumers' minds.

perceptual map

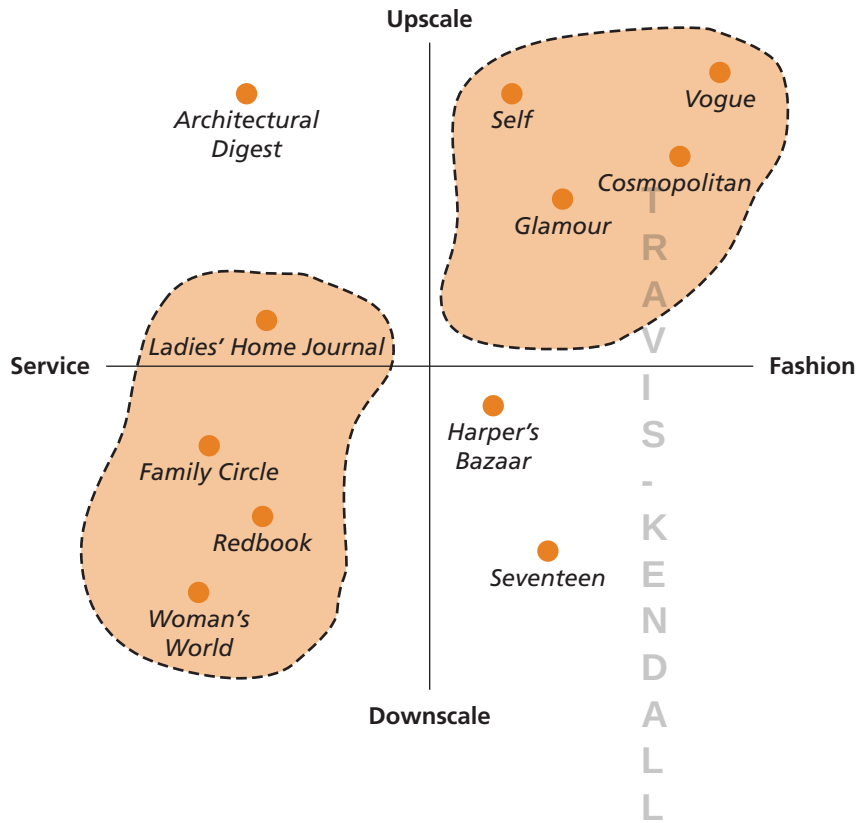
A technique to visually describe where brands are "located" in consumers' minds relative to competing brands.

For example, suppose you want to develop an idea for a new publication that will appeal to American women in their twenties. You might construct a perceptual map of how these target customers perceive the magazines out there now to help you develop an idea for a new publication they would like. After you interview a sample of female readers, you might identify two key questions women ask when they select a magazine: (1) Is it "traditional," that is, oriented toward family, home, or personal issues, or is it "fashion-forward," oriented toward personal appearance and fashion? (2) Is it for "upscale" women who are older and established in their careers or for relatively "downscale" women who are younger and just starting out in their careers?

The perceptual map in  Figure 7.6 illustrates how these ratings might look for a set of major women's magazines. The map provides some guidance as to where you might position your new magazine. You might decide to compete directly with either the cluster of "service magazines" in the lower left or the traditional fashion magazines

Figure 7.6  **Snapshot** | Perceptual Map

Perceptual mapping allows marketers to identify consumers' perceptions of their brand in relation to the competition.



in the upper right. In this case, you would have to determine what benefits your new magazine might offer that these existing magazines do not. Media firm Condé Nast, for example, positions *Allure* to compete against other fashion magazines by going into more depth than they do on beauty issues, such as the mental, physical, and emotional dangers of cosmetic surgery.

You might try to locate an unserved or underserved area in this perceptual map. There may be room for a magazine that targets “cutting-edge” fashion for college-age women. A neglected segment is the “Holy Grail” for marketers: With luck, they can move quickly to capture a segment and define the standards of comparison for the category. This tactic paid off for Chrysler, which first identified the minivan market for soccer moms; JetBlue, which found a spot for low fares and high tech without the poor-boy service attitude and cattle-call boarding procedure of other budget airlines; and Liz Claiborne, which pioneered the concept of comfortable, “user-friendly” clothing for working women. In the magazine category, perhaps *Marie Claire* comes closest to this position.

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Objective Summary → Key Terms → Apply

Chapter 7

Study Map

7.1 Objective Summary (p. 204)

Identify the steps in the target marketing process.

Marketers must balance the efficiency of mass marketing, serving the same items to everyone, with the effectiveness of offering each individual exactly what he or she wants. To accomplish this, instead of trying to sell something to everyone, marketers follow these steps: (1) select a target marketing strategy, in which they divide the total market into different segments based on customer characteristics; (2) select one or more segments; and (3) develop products to meet the needs of those specific segments.

Key Terms

market fragmentation, p. 204

target marketing strategy, p. 204

7.2 Objective Summary (pp. 205–217)

Understand the need for market segmentation and the approaches available to do it.

Market segmentation is often necessary in today's marketplace because of market fragmentation—that is, the splintering of a mass society into diverse groups due to technological and cultural differences. Most marketers can't realistically do a good job of meeting the needs of everyone, so it is more efficient to divide the larger pie into slices in which members of a segment share some important characteristics and tend to exhibit the same needs and preferences. Marketers frequently find it useful to segment consumer markets on the basis of demographic characteristics, including age, gender, family life cycle, social class, race or ethnic identity, and place of residence. A second dimension, psychographics, uses measures of psychological and social characteristics to identify people with shared preferences or traits. Consumer markets may also be segmented on the basis of how consumers behave toward the product, for example, their brand loyalty, usage rates (heavy, moderate, or light), and usage occasions. B2B markets are often segmented on the basis of industrial demographics, type of business based on the North American Industry Classification codes, and geographic location.

Key Terms

segmentation, p. 205

segmentation variables, p. 205

demographics, p. 206

generational marketing, p. 206

Generation Z, p. 207

digital natives, p. 207

Generation Y (millennials), p. 207

Generation X, p. 207

baby boomers, p. 208

metrosexual, p. 209

buying power, p. 210

content marketing, p. 211

cultural diversity, p. 212

geographic segmentation, p. 213

geographic information system (GIS), p. 213

geodemography, p. 213

geotargeting, p. 214

micromarketing, p. 214

psychographics, p. 214

VALS™, p. 215

gamer segment, p. 215

badge, p. 215

behavioral segmentation, p. 215

80/20 Rule, p. 215

usage rate, p. 216

long tail, p. 216

usage occasions, p. 216

organizational demographics, p. 217

7.3 Objective Summary (pp. 217–220)

Explain how marketers evaluate segments and choose a targeting strategy.

To choose one or more segments to target, marketers examine each segment and evaluate its potential for success as

a target market. Meaningful segments have wants that are different from those in other segments, can be identified, can be reached with a unique marketing mix, will respond to unique marketing communications, are large enough to be profitable, have future growth potential, and possess needs that the organization can satisfy better than the competition.

After marketers identify the different segments, they estimate the market potential of each. The relative attractiveness of segments also influences the firm's selection of an overall marketing strategy. The firm may choose an undifferentiated, differentiated, concentrated, or custom strategy based on the company's characteristics and the nature of the market.

Key Terms

targeting, p. 217

target market, p. 217

segment profile, p. 218

undifferentiated targeting strategy, p. 218

differentiated targeting strategy, p. 219

concentrated targeting strategy, p. 220

customized marketing strategy, p. 220

mass customization, p. 220

7.4 Objective Summary (pp. 221–225)

Recognize how marketers develop and implement a positioning strategy.

After marketers select the target market(s) and the overall strategy, they must determine how they wish customers to perceive the brand relative to the competition—that is, should the brand be positioned like, against, or away from the competition? Through positioning, a brand personality is developed. Marketers can compare brand positions by using such research techniques as perceptual mapping. In developing and implementing the positioning strategy, firms analyze the competitors' positions, determine the competitive advantage offered by their product, tailor the marketing mix in accordance with the positioning strategy, and evaluate responses to the marketing mix selected. Marketers must continually monitor changes in the market that might indicate a need to reposition the product.

Key Terms

positioning, p. 221

positioning statement, p. 222

repositioning, p. 223

retro brands, p. 223

brand personality, p. 224

brand anthropomorphism, p. 224

perceptual map, p. 224

Chapter Questions and Activities

Concepts: Test Your Knowledge

- 7-1. What is market fragmentation, and what are its consequences for marketers?
- 7-2. What is a target marketing strategy?
- 7-3. What is market segmentation, and why is it an important strategy in today's marketplace?
- 7-4. List and explain the major demographic characteristics frequently used in segmenting consumer markets.
- 7-5. Explain the process of consumer psychographic segmentation.
- 7-6. What is behavioral segmentation?
- 7-7. What are some of the ways marketers segment B2B markets?
- 7-8. List the criteria marketers use to determine whether a segment may be a good candidate for targeting.

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- 7-9. Explain the differences between undifferentiated, differentiated, concentrated, and customized marketing strategies. What is mass customization?
- 7-10. What is product positioning?
- 7-11. What do marketers mean by creating a brand personality? What examples can you come up with of uses of brand anthropomorphism?
- 7-12. How do marketers use perceptual maps to help them develop effective positioning strategies?

Activities: Apply What You've Learned

- ★ 7-13. *Creative Homework/Short Project* You are an entrepreneur who is designing a new line of boutique hotels located along Florida's coastlines. Each of the 75 guest rooms in each hotel will offer upscale decor, Wi-Fi,

a mini bar stocked with high-end snacks, premium beers, and top label liquors for a nightly rate of \$299. The hotels will have a spa, an on-site restaurant and a separate full-service bar that features local musicians. Describe in detail the demographics—age, gender, family life cycle, income and social class, ethnicity, and place of residence—of your target customer.

- ★ **7-14. Creative Homework/Short Project** As the marketing director for a company that is planning to enter the B2B market for photocopy machines, you are attempting to develop an overall marketing strategy. You have considered the possibility of using mass-marketing, concentrated marketing, differentiated marketing, and custom marketing strategies.

- Prepare a summary explaining what each type of strategy would mean for your marketing plan in terms of product, price, promotion, and distribution channel.
- Evaluate the desirability of each type of strategy.
- Describe your final recommendations for the best type of strategy.

- 7-15. In Class, 10–25 Minutes for Teams** To better market the university to potential students, you and your classmates have been asked to create a segment profile of the typical college student at your school. Write up a descriptive segment profile, or “persona,” of the targeted consumer. Share your description with the class.

- 7-16. In Class, 10–25 Minutes for Teams** As an account executive for a marketing consulting firm, your newest client is a university—your university. You have been asked to develop a positioning strategy for the university. With your team, develop an outline of your ideas, including the following:

- Who are your competitors?
- What are the competitors’ positions?
- What target markets are most attractive to the university?
- How will you position the university for those segments relative to the competition?

- 7-17. For Further Research (Individual):** A geographic information system (GIS) combines a geographic map with digitally stored data about the consumers in a particular geographic area. Using the web, find an example or case study of a business or nonprofit that is using a GIS such as Google Earth to generate market information by location. Write a short summary of this example or case study and present this summary to your class.

- 7-18. For Further Research (Individual)** Select any consumer packaged goods company’s product that has been around for at least two decades and find at least five print advertisements from throughout that time frame. From the marketing communication content, how has the product’s target customers and positioning changed over time and why do you believe these changes have occurred? If the product’s target customers or positioning have not changed, what might

explain the product’s ability to remain the same in its targeting and positioning?

- 7-19. Creative Homework/Short Project** Imagine you are the marketing director for a new soft drink brand called Verve and that you have been charged with determining what kind of brand personality the product should have in order for it to have broad appeal with members of Generation Z. Describe the desired brand personality and identify specific elements of the marketing mix (product, place, price, promotion) that should be implemented to assist in establishing the desired brand personality.

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Concepts: Apply Marketing Metrics

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to be usable, a segment must be large enough to be profitable now and in the future and that some small segments get ignored because they can never be profitable. So how large should a segment be? How do you think a firm should go about determining if a segment is profitable? Have technological advances made it possible for smaller segments to be profitable? Do firms ever have a moral or ethical obligation to develop products for small, unprofitable segments? When?

- 7-23. Ethics** Marketers are in business to make a profit, but they also have an ethical obligation not to take advantage of consumers, especially disadvantaged consumers like those at the bottom of the pyramid. Would you consider it ethical to sell mosquito nets in Africa to prevent the spread of malaria? Would you consider it ethical to sell Coca-Cola or Pepsi to consumers in rural India? Why or why not? Is there a line between what is ethical to sell and what is not? How would you describe that line?
- 7-24. Critical Thinking** Sometimes marketers will develop strategies to target multiple social class segments with the same product by offering it at different prices. What are some examples of products or brands that use this strategy and how do they accomplish it? Are there any potential risks to taking this approach with specific products or brands and what might make some products or brands more susceptible to these kinds of risks?
- 7-25. Critical Thinking** In this chapter, you learned about the use of geotargeting and its capability to more precisely provide consumers with benefits such as promotions that are especially relevant and impactful to a particular group. Could geotargeting backfire for a company? What might be some examples where geotargeting has negative reactions or consequences and what might be the impact on the company's image?
- 7-26. Critical Thinking** A few years ago, Anheuser-Busch Inc. created a new division dedicated to marketing to Hispanics and announced it would boost its ad spending in Hispanic media by two-thirds to more than \$60 million, while Miller Brewing Co. signed a \$100 million, three-year ad package with Spanish-language broadcaster Univision. But Hispanic activists immediately raised public health concerns about the beer ad blitz on the grounds that it targets a population that skews young and is disproportionately likely to abuse alcohol. Surveys of Hispanic youth show that they are much more likely to drink alcohol, get drunk, and engage in binge drinking than their white or black peers. A senior executive at Anheuser-Busch responded, "We would disagree with anyone who suggests beer billboards increase abuse among Latino or other minority communities. It would be poor business for us in today's world to ignore what is the fastest-growing segment of our population."

- a. Manufacturers of alcohol and tobacco products have been criticized for targeting unwholesome products to certain segments of the market—the aged, ethnic minorities, the disabled, and others. Do you view this as a problem? Should a firm use different criteria in targeting such groups? Should the government oversee and control such marketing activities?

7-27. Ethics Gamification was discussed in Chapter 6. For specific segments of a market, a gamification approach might help elicit a desired behavior from consumers, and of course in many cases the desired behavior is an increase in consumption of the related product. When a product is generally associated with potential health problems if consumed in large quantities (e.g., alcohol, sugar) should a marketer be allowed to engage the consumer in gamification activities or similar "fun" approaches that encourage or induce excessive consumption of the product?

7-28. Critical Thinking Marketers commonly ask celebrities to endorse products, but tying a brand to a celebrity can come with risks if that celebrity falls out of favor with the public as the result of a something they do or say that is perceived negatively. How would you determine if the signing of a celebrity to an endorsement deal is worth the risk? What would you want to know to make that determination and reduce the risk potential?

Miniproject: Learn by Doing

This miniproject will help you to develop a better understanding of how firms make target marketing decisions. The project focuses on the market for men's athletic shoes.

- Gather ideas about different dimensions useful for segmenting the men's athletic shoes market. You may use your own ideas, but you probably will also want to examine advertising and other marketing communications developed by different athletic shoe brands.
 - Based on the dimensions for market segmentation that you have identified, develop a questionnaire and conduct a survey of consumers. You will have to decide which questions should be asked and which consumers should be surveyed.
 - Analyze the data from your research and identify the different potential segments.
 - Develop segment profiles that describe each potential segment.
 - Generate several ideas for how the marketing strategy might be different for each segment based on the profiles.
 - Define your competitive advantage.
- 7-29.** Develop a presentation (or write a report) outlining your ideas, your research, your findings, and your marketing strategy recommendations.

Marketing in Action Case Real Choices at Sprig

What's for dinner? Sprig would like to play a part in a health-conscious customer's answer to that question. Sprig is an on-demand delivery restaurant that offers balanced meals which are fully prepared and delivered in 15 to 20 minutes. The company focuses on using the freshest ingredients to create innovatively delicious food that supports a healthy lifestyle. Its target market includes those who have busy schedules and desire meals that include servings of fruits, vegetables, proteins, and other nutrients. Sprig's website claims, "We use the best ingredients to create dishes that are high on flavor and low on butter, oils, and sugar." Customers have a choice of ordering meals via the Internet or by an app.

CEO Gagan Biyani realized as he worked at ride-sharing company Lyft that when he ordered on-demand meal delivery he was relying way too much on unhealthy options like pizza. So in 2013 he created a company that gives the health-conscious consumer better choices without compromising speed or convenience. Jessica Entzel, executive R&D chef and Biyani's first employee, manages Sprig's menu development. She teams with Nate Keller, a former executive chef for Google, who develops relationships with local farmers and manages the company's sustainability efforts. Keller has a great deal of freedom and a large budget to experiment with recipes and then test them with a host of eager tasters. Sample menu selections include grilled jerk chicken with habanero slaw, beef keema with roasted red potatoes and cabbage, and truffled mac and cheese with cauliflower béchamel.

Sprig uses data continuously collected from customers to refine the menu and ensure consistent delivery of desirable, innovative meals that offer high value. Entzel studies customer feedback on each item to see if it meets and exceeds customer expectations. When the ratings are not as expected, she digs deeper into the responses to discover ways to fix the problem before including that item on the menu again. She also makes sure the presentation of the meal is first-rate, a difficult task to accomplish consistently in on-demand delivery. Hence, the meal development process takes into account how to transport the food without it arriving to the customer as an unattractive mess.

The on-demand delivery segment of the restaurant industry is developing and attracting attention from many new players. Munchery delivers fresh-food entrees, sides, desserts, drinks, and kids' meals in San Francisco, New York, Los Angeles, and Seattle. It offers ready-to-cook meals that are delivered with directions on how to successfully complete the dish. Postmates operates a network of local couriers to deliver meals through a service called Pop that promises food delivery in 15 minutes or less. Pop is fast because it eliminates the pickup leg. Rather than spending time traveling to a specific merchant location or waiting for the food to be prepared, Postmates drivers who participate in Pop carry an inventory of freshly made items ready to drop off immediately. Even Uber is in the market with UberEats, its own on-demand meal delivery service that uses existing Uber technology and customer relationships for competitive advantage.

So what's next for Sprig? Are they on the right track targeting only the smaller health-conscious segment of on-demand delivery? Biyani expects the on-demand delivery market to experience shake-out among competitors similar to what was experienced by the search engine, social media, and other tech markets—that is, a shake-out of initial providers with only a few remaining competitors today. How does Sprig become one of those few that survives?

You Make the Call

- 7-30.** What is the decision facing Sprig?
- 7-31.** What factors are important in understanding this decision situation?
- 7-32.** What are the alternatives?
- 7-33.** What decision(s) do you recommend?
- 7-34.** What are some ways to implement your recommendation?

Sources: Based on Harry McCracken, "The R&D behind Meal Delivery Startup Sprig's New Recipes," *Fast Company* (January 27, 2016), <http://www.fastcompany.com/3055772/the-rd-behind-meal-delivery-startup-sprigs-new-recipes> (accessed April 21, 2016); "Homepage," *Sprig*, <https://www.sprig.com/#/> (accessed April 21, 2016); Melia Robinson, "This Idealistic Food Startup Could Change the Way We Eat—If It Survives," *Business Insider* (April 21, 2016), <http://www.techinsider.io/sprig-food-delivery-on-demand-startup-2016-4> (accessed April 21, 2016); <http://blog.postmates.com/post/130627727422/poprocks> (accessed April 29, 2016).

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MyMarketingLab™

Go to **mymktlab.com** for Auto-graded writing questions as well as the following Assisted-graded writing questions:

- 7-35. Creative Homework/Short Project.** Assume that a small regional microbrewery has hired you to help them with their target marketing. They are pretty unsophisticated about marketing—you will need to explain some things to them and provide ideas for their future. In the past, the microbrewery has simply produced and sold a single beer brand to the entire market—a mass-marketing strategy. As you begin your work, you come to believe that the firm could be more successful if it developed a target marketing strategy. Write a memo to the owner outlining the following:
- The basic reasons for doing target marketing in the first place
 - The specific advantages of a target marketing strategy for the microbrewery
 - An initial “short list” of possible target segment profiles
- 7-36. Creative Homework/Short Project.** You have been a contributing author to several marketing newsletters, and you have been asked to submit a one-page article on market segmentation. First, describe the need for market segmentation and then, in turn, discuss the various approaches marketers can take, including the advantages of each approach.

MARKETING - REAL PEOPLE, REAL CHOICES

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