# SEGMENTATION AND TARGET MARKETING REMIX (ARTHUR)

# Segmentation and Target Marketing Remix

Compiled for Santa Barbara City College

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MKT 215: Segmentation and Target Marketing

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# CHAPTER OVERVIEW

## 1: Introduction



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# 1.1: Why It Matters- Segmentation and Targeting

## Why determine market segments and target customers?

Suppose you have just accepted a product marketing job with a technology company called Chumber. You're excited about the company and the team you'll be working with. Chumber's main product is an automated, fully online system for checking the references of job candidates and getting feedback from coworkers about their professional skills.

After a morning orientation session and a product demonstration on the first day, your boss gives you your first assignment: spend a half day doing research. Then come back to her with recommendations about whom Chumber should be targeting in its sales and marketing activities, and why.

After you give your boss a puzzled look, she adds, "Don't look so worried. I already know who I think we should be targeting. But with you coming in fresh, I'd like to hear what you think. We can probably learn something from each other!"

As you sit down at your new desk, the wheels start turning in your head.

> Q: What problem is Chumber's product solving?
>
> A: The hassle of checking references for job candidates and finding out who is really a good fit.
>
> Q: Who has this problem?
>
> A: Companies that hire people.

You recognize that this is a business-to-business marketing challenge, not a business-to-consumer issue. But "companies that hire people" covers a lot of ground. How effective will Chumber be if you try marketing and selling to every company in the world? And within any given company, which people would be most interested in using this product?

The question of whom to target is a foundational part of any marketing activity. Marketers use the tools of segmentation and targeting to answer this question. **Segmentation** helps you understand your market and divide it into groups that share common needs and characteristics. **Targeting** helps you figure out which of these groups to focus on in your sales and marketing activities.

As you work through this class, you will learn about segmentation, targeting, and positioning. You will also learn how these tools help you shape the marketing mix to reach your target audiences effectively.

### Learning Outcomes

- Explain how target markets are defined and what criteria is used to segment target markets
- Describe common segmentation approaches
- Explain the process of selecting an appropriate segmentation approach and deciding which customer segments to target for marketing activities
- Describe how demographic, psychographic, geographic, and benefit segmentation impacts the promotional program and pricing for a product

# 1.2: Segmentation and Targeting Rationale

# 1.3: Factors Shaping the Global Marketing Environment

# 1.4: Global Brand Structures

Multinational companies typically operate with one of three brand structures: (a) a corporate-dominant, (b) a product-dominant, or (c) a hybrid structure. A corporate-dominant brand structure is most common among firms with relatively limited product or market diversity, such as Shell, Toyota, or Nike. Product-dominant structures, in contrast, are often used by (mostly industrial) companies, such as Akzo Nobel, that have multiple national or local brands or by firms such as Procter & Gamble (P&G) that have expanded internationally by leveraging their "power" brands. The most commonly used structure is a hybrid (think of Toyota Corolla cars or Cadbury Dairy Milk chocolate) consisting of a mix of global (corporate), regional, and national product-level brands or different structures for different product divisions.

In many companies, "global" branding evolves as the company enters new countries or expands product offerings within an existing country. Typically, expansion decisions are made incrementally, and often on a country-by-country, product-division, or product-line basis, without considering their implications on the overall balance or coherence of the global brand portfolio. As their global market presence evolves and becomes more closely interlinked, however, companies must pay closer attention to the coherence of their branding decisions across national markets and formulate an effective global brand strategy that transcends national boundaries. In addition, they must decide how to manage brands that span different geographic markets and product lines, who should have custody of international brands and who is responsible for coordinating their positioning in different national or regional markets, as well as making decisions about use of a given brand name on other products or services.

To make such decisions, companies must formulate a coherent set of principles to guide the effective use of brands in the global marketplace. These principles must define the company's "brand architecture," that is, provide a guide for deciding which brands should be emphasized at what levels in the organization, how brands are used and extended across product lines and countries, and the extent of brand coordination across national boundaries.

Minicase: Henkel's "Fox" Brands: An Example of a Hybril Strategy (Arnold (2007); Schroiff and Arnold (2004)).

Like many European companies, Henkel, the German consumer-brands corporation, has globalized mostly via acquisitions, and, consequently, it has a portfolio of localized brands with a national heritage and good local market shares. As the portfolio grew, escalating media costs, increased communication and stronger linkages across markets, and the globalization of distribution created pressures for parsimony in the number of the firm's brands and the consolidation of architecture across countries and markets. Henkel executives understood very well that a focus on a limited number of global strategic brands can yield cost economies and potential synergies. At the same time, they also knew that they needed to develop procedures for managing the custody of these brands, and that these should be clearly understood and shared throughout all levels of the organization, thus promoting a culture focused on global growth. They knew that failing to do so would likely trigger territorial power struggles between corporate and local teams for control of the marketing agenda.

While many companies would have focused on deciding between sacrificing local brand equity to develop "global power brands" (aggregation) or continuing to sacrifice global marketing economies of scale by investing separately in its portfolio of local brands (adaptation), Henkel chose an ingenious middle path. Henkel's choice serves as a model for globalization of marketing concepts without loss of local brand equity through the grouping of all its "value-for-money" brands under the umbrella "Fox" brand. In each country, Henkel retained the local brand name but identifies it with the Fox umbrella brand. (In most cultures, the fox is seen as clever, selfish, and cunning—the sort of character who would buy a value-for-money brand but not a brand so cheap that its quality might be compromised.)

By using a fox to represent smart and cunning shoppers, Henkel has created a "global power brand concept" that can travel to almost any culture to enrich a local brand—especially local brands that individually could not have been globalized. But the scale economies Henkel gains from this program are more managerial than economic in nature. Programs and ideas to promote the Fox brands, and the concept of value-for-money detergents, are managed centrally and offered as a menu to all local markets in which these brands participate. Thus, a manager experienced in managing one of the Fox families of brands in one market can be transferred to another market and rapidly reach effective levels of performance. Because each brand still requires local investment, financial economies of scale are more modest.

Compare Henkel's success to the failures of its major competitors as they tried to fully globalize their brand portfolios. Years ago, P&G, for example, attempted to globalize its European laundry detergent operations. In 2000, the company renamed its popular "Fairy" laundry detergent in Germany "Dawn" to position the latter as a global brand. There was no change in the product's formulation. But by the end of 2001, P&G's market share of Dawn in Germany had fallen drastically. While Fairy had represented a familiar and trusted brand persona to German consumers, Dawn meant nothing. With the renaming, the bond between consumers and the brand was broken; not even changing the brand's name back to Fairy could restore it.

This experience suggests that attempting to achieve global brand positioning by deleting local brands can be problematic. In fact, a strategy of acquisition, and the subsequent shedding, of local brands by multinationals may actually create fragmentation in consumer demand rather than be a globalizing force. Such a scenario is particularly plausible if one or more of the local brands have reached "icon" status. Icon brands do not necessarily have distinctive features, deliver good service, or represent innovative technology. Rather, they resonate deeply with consumers because they possess cultural brand equity. Most of these brands fall into lifestyle categories: food, apparel, alcohol, and automobiles.

# 1.5: Determinants of Global Brand Structure

The kinds of issues a company must resolve as it tries to shape a coherent global branding strategy reflect its globalization history—how it has expanded internationally and how it has organized its international operations. At any given point, the structure of a brand portfolio reflects a company's past management decisions as well as the competitive realities the brand faces in the marketplace. Some companies, such as P&G and Coca-Cola, expanded primarily by taking domestic "power" brands to international markets. As they seek to expand further, they must decide whether to further extend their power brands or to develop brands geared to specific regional or national preferences and how to integrate the latter into their overall brand strategy. Others, such as Nestlé and Unilever, grew primarily by acquisition. As a consequence, they relied mainly on country-centered strategies, building or acquiring a mix of national and international brands. Such companies must decide how far to move toward greater harmonization of brands across countries and how to do so. This issue is particularly relevant in markets outside the United States, which often are fragmented, have small-scale distribution, and lack the potential or size to warrant the use of heavy mass-media advertising needed to develop strong brands.

Specifically, a company's international brand structure is shaped by three sets of factors: *(a) firm-based characteristics, (b) product-market characteristics,* and *(c) underlying market dynamics. (*Douglas, Craig, and Nijssen (2001)).

## Firm-Based Characteristics

Firm-based characteristics reflect the full array of past management decisions. First, a company's *administrative heritage*—in particular, its organizational structure—defines the template for its brand structure. Second, a firm's *international expansion strategy*—acquisition or organic growth—affects how its brand structure evolves over time. What is more, the use of strategic alliances to broaden the geographic scope of the firm's operations often results in a "melding" of the brand strategies of the partners. Third and fourth, the importance of *corporate identity* and the *diversity of the firm's product lines and product divisions* also determine the range and number of brands.

An appreciation of a company's administrative heritage is critical to understanding its global brand structure.Bartlett and Ghoshal (1989). A firm that has historically operated on a highly decentralized basis, in which country managers have substantial autonomy and control over strategy as well as day-to-day operations, is likely to have a substantial number of local brands. In some cases, the same product may be sold under different brand names in different countries. In others, a product may be sold under the same brand name but have a different positioning or formulation in different countries.

Firms with a centralized organizational structure and global product divisions, such as Panasonic or Siemens, are more likely to have global brands. Both adopted a corporate branding strategy that emphasizes quality and reliability. Product lines are typically standardized worldwide, with minor variations in styling and features for local country markets.

Firms that *expand internationally* by acquiring local companies, even when the primary goal is to gain access to distribution channels, often acquire local brands. If these brands have high local recognition or a strong customer or distributor franchise, the company will normally retain the brand. This is particularly likely if the brand does not occupy a similar positioning to that of another brand currently owned by the firm. Nestlé and Unilever are examples of companies following this type of expansion strategy.

Expansion is often accompanied by diversification. Between 1960 and 1990, Nestlé expanded by acquiring a number of companies in a range of different product-markets, mostly in the food and beverage segment. These acquisitions included well-known global brands such as Perrier and San Pellegrino (mineral water), confectionery companies such as Rowntree and Perugina, pet food companies and brands such as Spillers and Alpo, and grocery companies such as Buitoni, Crosse & Blackwell, and Herta. The resulting proliferation of brands created the need to consolidate and integrate company-branding structures.Douglas, Craig, and Nijssen (2001), p. 101.

Firms that have expanded predominantly by extending strong domestic, so-called power brands into international markets primarily use product-level brand strategies. P&G, for instance, has rolled out several of its personal products brands, such as Camay and Pampers, into international markets. This strategy appears most effective when customer interests and desired product attributes are similar worldwide and brand image is an important cue for the consumer.

The relative importance placed by the firm on its corporate identity also influences brand structure. Companies such as General Electric (GE) and Apple place considerable emphasis on corporate identity in the communications strategies. In the case of GE, "Imagination at Work" is associated with a corporate reputation dedicated to turning innovative ideas into leading products and services that help alleviate some of the world's toughest problems. Equally, Apple uses its apple logo to project the image of a vibrant innovator in the personal computer market. Increasingly, companies use their corporate identity as a means of reassuring customers and distributors that the company is reliable and stands behind its products. As a result, even companies with highly diverse product lines—such as Samsung—rely on the corporate brand name (and its logo) to project an image of reliability.

A fourth determinant of a company's brand structure is the *diversity, or, conversely, the interrelatedness of the product businesses* in which the firm is involved. Firms that are involved in closely related product lines or businesses that share a common technology or rely on similar core competencies often emphasize corporate brands. 3M Corporation, for example, is involved in a wide array of product businesses worldwide, ranging from displays and optics to health care products to cleaners to abrasives and adhesives. All rely heavily on engineering skills and have a reputation of being cutting-edge. The use of the 3M brand provides reassurance and reinforces the firm's reputation for competency and reliable products worldwide.

**Minicase: Pharmaceutical Companies Try Global Branding**

In Paris, stomach ulcers are treated with Mopral; in Chicago, it is called Prilosec. These two products are, in fact, exactly the same drug. Prilosec is the U.S. brand of AstraZeneca's omeprazole; Mopral is its French counterpart. Unlike manufacturers of consumer goods, the pharmaceutical industry traditionally has been wary of creating big, international brands. But that is about to change. Take a look at pharmacists' shelves. Viagra is there. So are Celebrex for arthritis pain, the antidiabetic agent Avandia, and the anticoagulant Plavix.

It is perhaps surprising that companies did not consider global branding sooner because a drug works for everybody in the same way in every country. While the industry has become global from a technological and geopolitical perspective, few companies have mastered globally integrated marketing practices. But change is coming—and fast. As more people travel internationally and the Internet makes information—including drug advice—readily available for doctors and patients, companies want to avoid any brand inconsistencies while maximizing exposure. Another globalizing force is growing standardization of the regulatory environment. With the establishment of the European Medical Evaluations Agency, for example, which approves drugs for all the members of the European Union, the borders are coming down. Japan has also adapted its approval system to facilitate the entry of Western products.

And then there is direct-to-consumer (DTC) advertising. While doctors and health care professionals remained the targets for pharmaceutical marketing, consumer-style branding was unnecessary. But companies are preparing for the spread of DTC beyond the shores of the United States. The introduction of global branding anticipates the transition to a more consumer-driven market.

Pressure to cut or contain costs is perhaps the most powerful driver behind the industry's move to global branding. Mega mergers were a way to contain the costs of research and development and find pipeline products, yet the big companies still need about five new blockbuster products each year to return the promised growth. Global branding promises reduced marketing costs and much faster and higher product rollout.

Local market conditions, such as reimbursement policies, however, may still override the benefits of global strategies and therefore inhibit the globalization of brands. Local flexibility will be key to success. Significant cost savings may therefore be slow in coming. Even with a centralized, global brand, most companies will still likely use local agencies for their marketing campaigns.

## Product-Market Factors

Three product-market factors play an important role in brand architecture: the *nature and scope of the target market*, the product's *cultural associations*, and the *competitive market structure*. (Douglas, Craig, and Nijssen (2001), p. 103.)

When companies target a global market segment with relatively homogeneous needs and preferences worldwide, global brands provide an effective means of establishing a distinctive global identity. Luxury brands such as Godiva, Moet and Chandon, and Louis Vuitton, as well as brands such as deBeers, Benetton, and L'Oreal are all targeted to the same market segment worldwide and benefit from the cachet provided by their appeal to a global consumer group. Sometimes it is more effective to segment international markets by region and target regional segments with similar interests and purchase behavior, such as Euro-consumers. This provides cost efficiencies when such segments are readily accessible through targeted regional media and distribution channels.

A critical factor influencing brand structure is the extent to which the *product is associated with a particular culture*, that is, the extent to which there are strong and deeply ingrained local preferences for specific products or product variants (think of beer) or the products are an integral part of a culture (think of bratwurst, soccer teams). The stronger the cultural association, the less likely it is that global product brands will thrive; instead, local branding may be called for.

A third product-market driver of a company's brand structure is the product's competitive market structure, defined as the relative strength of local (national) versus global competitors in a given product market. If markets are fully integrated and the same competitors compete in these markets worldwide, as in aerospace, the use of global brands helps provide competitive differentiation on a global basis. If strong local, national, or regional competitors, as well as global competitors, are present in a given national or regional market, the use of a multitier branding structure, including global corporate or product brands as well as local brands, is desirable. Coca-Cola, for example, beyond promoting its power brands, has introduced several local and regional brands that cater to specific market tastes around the world.

Minicase: Use of Country of Origin Effects in Global Branding (Silverstein (2008, November 24)).

Whether you prefer obscure imports or something mainstream, most beer brands like to invoke their country of origin. Guinness comes from Ireland, Corona is Mexican, Heineken and Amstel are Dutch, and Budweiser is a truly American brand.

The use of "country of origin effects" is an essential part of beer branding. Using the country of origin as part of the brand equity is free, so companies can avoid having to build an image from scratch over decades. For a long time, Foster's used a kangaroo in its advertisements, while Lapin Kulta, from Lapland in Finland, relies heavily on its unusual provenance in its marketing. Images of Finland's stark landscapes adorn communications material and bottle labels.

Swiss watchmakers certainly know the value of their "Swiss made" brand. The Federation of the Swiss Watch Industry actively polices all uses of the term and has strict guidelines on how it may be used on clocks and watches. In a similar vein, the French leverage their reputation for good wine, cooking, and fashion and the Italians view themselves as the masters of style.

German companies have been particularly effective in leveraging country effects. Of Interbrand's Top 100 Global Brands in 2008, 10 were German brands—five automobile brands (BMW, Porche, Mercedes-Benz, Volkswagen, and Audi), while brands in technology (SAP and Siemens), clothing (Adidas), financial services (Allianz), and cosmetics (Nivea) were also represented. Together, this group of German brands is valued at over $98 billion. Germany was second only to the United States in the number of brands making the Top 100 list.

It should come as no surprise, then, that Germany itself was ranked the best overall "country brand" in the 2008 Anholt-GfK Roper Nation Brands Index, which measures the world's perception of each nation as if it were a public brand. Fifty nations were measured in the study. The United States, the world's leading branding powerhouse, ranked seventh. So what is it about German brands, and the country that produces them, that is so special? Two words might be all the explanation that's required: discipline and quality.

German companies are highly disciplined in their approach to creating, introducing, and selling brands. They have the ability to consistently produce exceptional-quality products that are of lasting value. "German engineering" is a term closely associated with the country's automobile industry, which has seen a level of global success second only to the Japanese automakers. In fact, between 1990 and 2000, Mercedes-Benz and BMW more than doubled their sales in the United States alone.

Why do customers like German brands? German companies are widely admired for their intense focus on product quality and service, thought to be less interested in competing on price and strict about adhering to safety and other government standards.

BMW, a maker of premium automobiles, is one such revered brand. Founded in 1917 in Munich, Germany, as "Bavarian Motor Works," BMW produced aircraft engines during World War I, then built motorcycles in 1923 and went on to make cars in 1928. In recent years, BMW has been recognized as much for its innovative, quality marketing as for its high-performance cars.

But Germany's branding power extends well beyond automobiles. NIVEA, whose name comes from the Latin for "snow white," was created in late 1911. From its origins as a simple cream, NIVEA has now grown into a global manufacturer of a broad range of cosmetic and personal care products. NIVEA was voted the most trusted skin-care brand in 15 countries in the *Reader's Digest* survey of European Trusted Brands 2007.

Adidas, named after its founder Adolf (Adi) Dassler (Das), is an 80-year-old company that today is a global leader in sports footwear, apparel, and accessories. In 1996, Adidas equipped 6,000 Olympic athletes from 33 countries with its athletic gear. “Adidas athletes” won 220 medals, including 70 gold, and apparel sales increased 50%.

SAP, founded in 1972, is the world’s largest business software company and the third-largest software supplier overall. The company employs almost 52,000 people and serves more than 76,000 customers in over 120 countries.

Other well-known global brands, from Bayer (pharmaceuticals) to Becks (beer) to Boss (clothing) to Braun (consumer products), are a testament to the fact that Germany is, and will continue to be, a prolific producer of some of the world’s finest products. It is Germany’s disciplined approach to quality that inspires consumer loyalty to German brands.

## Market Dynamics

Finally, while the firm’s history and the product markets in which it operates shape its brand structure, market dynamics—including *ongoing political and economic integration, the emergence of a global market infrastructure, and consumer mobility*—shape and continually change the context in which this evolves.Douglas, Craig, and Nijssen (2001), p. 104.

Increasing political and economic integration in many parts of the world has been a key factor behind the growth of international branding. As governments remove tariff and nontariff barriers to business transactions and trade with other countries, and as people and information move easily across borders, the business climate has become more favorable to the marketing of international brands. Firms are less frequently required to modify products to meet local requirements or to develop specific variants for local markets and increasingly can market standardized products with the same brand name in multiple country markets. In many cases, harmonization of product regulation across borders has further facilitated this trend.

The growth of a global *market infrastructure* is also a major catalyst to the spread of international brands. Global and regional media provide economical and effective vehicles for advertising international brands. At the same time, global media help lay the groundwork for consumer acceptance of, and interest in, international brands by developing awareness of these brands and the lifestyles with which they are associated in other countries. In many cases, this stimulates a desire for the brands that consumers perceive as symbolic of a coveted lifestyle.

The globalization of retailing has further facilitated and stimulated the development of international manufacturer brands. As retailers move across borders, they provide an effective channel for international brands and, at the same time, increase their power. This forces manufacturers to develop strong brands with an international appeal so that they can negotiate their shelf position more effectively and ensure placement of new products.

A final factor shaping the context for international branding is increased consumer mobility. While global media provide passive exposure to brands, increasing international travel and movement of customers across national boundaries provides active exposure to brands in different countries. Awareness of the availability and high visibility of an international brand in multiple countries enhances its value to consumers and provides reassurance of its strength and reliability. Increased exposure to, and familiarity with, new and diverse products and the lifestyles and cultures in which they are embedded also generate greater receptivity to products of foreign origin or those perceived as international rather than domestic. All these factors help create a climate more favorable to international brands.

# 1.6: Segmenting and Targeting Considerations

## S-T-P and reaching consumers

In the following sections, we will examine these factors used to segment and target consumers.

1. Consumer Analysis
    1. Understand the factors influencing the consumer decision-making process.
    2. Examine demographic, psychological, and psychographic characteristics of the consumers.
    3. Analyze the characteristics of current consumers and their behaviors from internal transactional data.
2. Segmentation
    1. Define segment distinctions and characteristics using your consumer analysis.
    2. Evaluate the accessibility and profitability of segments to allocate resources toward reaching them with a unique marketing mix.
3. Targeting
    1. Develop consumer personas that reflect characteristics of segments that would influence purchase decisions.
    2. Create storylines for consumer personas that connect the product or service to the target group.
4. Positioning
    1. Identify competitors in the marketplace and evaluate your competitive edge.
    2. Communicate that competitive edge to targeted consumers.
5. Evaluate Campaigns
    1. Value Propositions
    2. Collecting data
    3. Return on Investment

Sections in this textbook will examine the many factors influencing a brand's success at each of these stages of developing a target market campaign.

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# CHAPTER OVERVIEW

## 2: Consumer Analysis

## SECTION OVERVIEW

### 2.1: Consumer Behavior



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# 2.1.1: Why It Matters- Consumer Behavior

## Why learn about consumer behavior?

### Please welcome a new arrival

At 1:26 a.m. this morning, in Houston's Memorial Hermann Hospital, a consumer was born. His name is Finnegan Henry James. By the time he goes home three days later, some of America's biggest marketers will be pursuing him with samples, coupons, and assorted freebies. Proctor & Gamble hopes its Pampers brand will win the battle for Finn's bottom, but retailer Target has a lower-priced contender. To welcome Finn's family, Johnson & Johnson has already sent his mother a sample of its gentle baby wash. Bristol-Myers Squibb Company is sending a free, bulky box of Enfamil baby formula.

Like no generation before, Finn enters a consumer culture surrounded by logos, labels, and messages almost from the moment of birth. As an infant, he may wear Sesame Street diapers and a miniature NBA jersey. Right away, this little boy will begin influencing his parents' purchasing decisions–that's what spitting out spoonfuls of baby food is all about. By the time he is twenty months old, he will start to recognize some of the thousands of brands flashed in front of him each day. Around age four, Finn will begin making decisions about how to spend his own money. At age seven, if he is anything like the typical kid, he will see some forty thousand commercials a year.[1] By the time he is twelve, he will have his own entry in the massive data banks of marketers.

Many forces are at work influencing Finn's consumer choices from a very early age. Some of these forces are social: his parents, cousins, and play group. Some of these forces are cultural: Finn is a Texan and an American. As Finn grows and matures, his age, gender, education, economic status, life stage, and personality all play a role in his decisions as a consumer. Multiply Finn by millions of babies born in the U.S. every year, and you have new, increasingly marketing-savvy generations flooding the market.

This is Finn's story. And if you're living in the U.S. today, your story probably sounds a lot like his.

### You Are the Target and the Hunter

Setting aside the ethics of marketing to children, the fact remains that you are a consumer living in a highly commercialized, modern society. Marketing artifacts are so woven into the fabric of our lives that many people hardly recognize them. Every year, companies and marketing organizations spend billions of dollars focused on one central goal: to influence consumers' purchasing decisions.

As a consumer, hopefully your growing understanding of marketing is helping you see the world around you a little differently, with more and better information about the forces that are trying to influence you.

With your increasing skills as a marketer, you recognize how important it is to understand your customers if you are going to reach them effectively. Part of that is understanding the factors that influence their purchasing decisions. Once you're educated about those influencing factors, they'll be tools you can use to create effective marketing.

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1. http://www.apa.org/pi/families/resources/advertising-children.pdf ↩

- Chapter 4: Understanding Buyer Behavior, from Introducing Marketing. **Authored by**: John Burnett. **Provided by**: Global Marketing. **Located at**: http://solr.bccampus.ca:8001/bcc/file/ddbe3343-9796-4801-a0cb-7af7b02e3191/1/Core%20Concepts%20of%20Marketing.pdf. **License**: *CC BY: Attribution*
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# 2.1.2: Buying-Process Stages

## What you'll learn to do: describe the stages of the buying process

Take a moment to think about the last time you bought something. What factors played a role in your decision to buy? What process did you go through on the way to deciding?

Were you on autopilot, or was it a thoughtful, deliberate decision? What alternatives did you consider? How did you know where to go to make that purchase? And would you buy that same thing again?

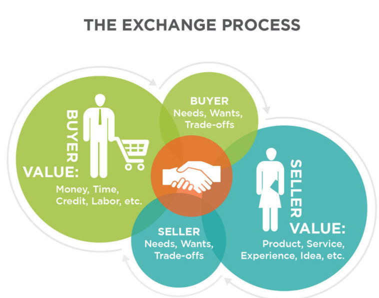
Many decisions about what to buy are so routine that we hardly think about them. Other decisions may take days, weeks, or even months to finally get made. Believe it or not, there is a fairly common process that consumers follow when they make decisions about what to buy. Learning about that process is an important first step in unlocking the mystery of consumer behavior—and how to influence it.

The specific things you'll learn in this section include:

- Describe theories of consumer decision-making

## The "Black Box" of Consumer Behavior

The relationship between the customer (also called the buyer) and the provider (the seller) forms through a phenomenon called a market exchange. During the exchange process, each party assesses the relative trade-offs they must make to satisfy their respective needs and wants. On the part of the seller, the trade-offs are guided by company polices and objectives. For example, company policy may dictate that it can proceed with an exchange only when the profit margin is 10 percent or greater. The buyer—the other party in the exchange—also has policies and objectives that guide his or her decisions in an exchange. For individual buyers, these are usually unwritten personal policies and objectives that people make at each stage of a purchasing decision based on the information and options available to them. Even more likely, individuals often are not fully conscious of what prompts them to behave in a particular manner.




### Essential Questions About Buyer Behavior

Buyers are essential partners in the exchange process. Without them, exchanges would stop. Buyers are the focus of successful marketing; their needs and wants are the reason for marketing. Without an understanding of buyer behavior, it isn't possible to tailor an offering to the demands of potential buyers. When potential buyers are not satisfied, exchange does not proceed, and the goals of the marketer are not met. As long as buyers have free choice and competitive offerings from which to choose, they are ultimately in control of the marketplace.

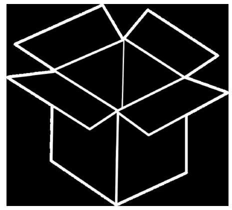
A *market* can be defined as a group of potential buyers with needs and wants and the purchasing power to satisfy them. During the exchange process, the potential buyers "vote" (usually with their dollars) for the market offering they feel best meets their needs. When marketers understand how buyers arrive at a decision, they can create offerings that will attract buyers. Two key questions a marketer needs to answer related to buyer behavior are:

- How do potential buyers go about making purchase decisions?
- What factors influence their decision process and in what way?

The answers to these two questions form the basis for the design of a market offering.

When we use the term “buyer,” we are referring to an individual, group, or organization that engages in market exchange. In fact, there are differences in the characteristics of these three entities and how they behave in an exchange. Therefore, individuals and groups are traditionally placed in the *consumer* category, while *organization* is the second category. This module will first discuss consumer purchasing decisions, followed by business-to-business purchasing decisions.

## Opening the “Black Box” of Consumer Behavior



*Consumer behavior* refers to buyers who are purchasing products for personal, family, or group use. Over time, marketers have turned to the work of behavioral scientists, philosophers, economists, social psychologists, and others to help them understand consumer behavior. As a result, there are many different theories and models used to explain why consumers act as they do. Are consumers fundamentally active or passive? Rational or emotional? How do they make buying decisions?

### The Economic Man Theory

One early theory of consumer decision making based on principles of economics is known as the “economic man.” According to the “economic man” model, consumers are rational and narrowly self-interested. This theory assumes people act selfishly as consumers, always trying to maximize the benefits they derive from the exchange process. (This theory asserts that the seller/producer is also an economic man, who always strives to maximize his profits from an exchange.) The economic man model suggests consumers actively use information about all the available options before making a decision to purchase.

Although this model may help explain some consumer decisions, most would agree it is too simplistic to explain every consumer choice. In fact, people often make decisions based on irrational factors as well. For example, some consumers may be heavily influenced by word-of-mouth information from friends or peers. They might choose something because of herd mentality rather than because it provides the greatest objective value. Similarly, many people are averse to change, and so they make suboptimal consumer choices because a familiar choice seems easier or safer.

### The Stimulus-Response Model

Another model of consumer behavior, called the stimulus-response or “black box” model, focuses on the consumer as a thinker and problem solver who responds to a range of external and internal factors when deciding whether or not to buy. These factors are shown in Figure 1, below:

attitudes, Values, Knowledge, Motives, Perception, and Lifestyle. The Decision-Making Process list contains the following items: Problem solving, Information search, Alternative evaluation, Purchas, Post purchase, and Evaluation. The Response column contains two items: Purchase and No Purchase. The Purchase list contains the following items: Product, Brand, Source, Amount, and Method of Payment. The No Purchase list contains no items.

Figure 1. Black Box Model

As illustrated in the figure above, the external stimuli that consumers respond to include the marketing mix and other environmental factors in the market. The marketing mix (the four Ps) represents a set of stimuli that are planned and created by the company. The environmental stimuli are supplied by the economic, political, and cultural circumstances of a society. Together these factors represent external circumstances that help shape consumer choices.

The internal factors affecting consumer decisions are described as the “black box.” This “box” contains a variety of factors that exist inside the person’s mind. These include characteristics of the consumer, such as their beliefs, values, motivation, lifestyle, and so forth. The decision-making process is also part of the black box, as consumers come to recognize they have a problem they need to solve and consider how a purchasing decision may solve the problem. As a consumer responds to external stimuli, their “black box” process choices based on internal factors and determine the consumer’s response–whether to purchase or not to purchase.

Like the economic man model, this model also assumes that regardless of what happens inside the black box (the consumer’s mind), the consumer’ response is a result of a conscious, rational decision process. Many marketers are skeptical of this assumption and think that consumers are often tempted to make irrational or emotional buying decisions. In fact, marketers understand that consumers’ irrationality and emotion are often what make them susceptible to marketing stimuli in the first place.

For this reason, consumer purchasing behavior is considered by many to be a mystery or “black box.” When people themselves don’t fully understand what drives their choices, the exchange process can be unpredictable and difficult for marketers to understand.

### Buyer Behavior As Problem Solving

A common way for marketers to think about consumer behavior today is as a set of activities a person goes through in order to solve problems. This problem-solving process is triggered when a consumer identifies some unmet need. For instance, a family consumes all of the milk in the house, or a birthday party is coming up and a gift is needed, or a soccer team is planning an end-of-season picnic. Each buying scenario presents a problem the buyer must solve. These problems can involve two types of needs: physical (such as a need for milk, a birthday gift, or picnic food) or psychological (for example, the need to feel secure, the need to be loved, or the need to have fun).

This problem-solving process also involves needs and wants. A *need* is a basic deficiency for an essential item. You need food, water, air, security, and so forth. A *want* places specific, personal criteria on how a need must be fulfilled. To illustrate, when we are hungry, food is a need. When we have a specific food item in mind, that item is a want. That difference is illustrated by the familiar scenario of standing in front of a full refrigerator and complaining that there is nothing to eat.

Most of marketing is in the want-fulfilling business, not the need-fulfilling business. Swatch and Timex do not want you to buy just any watch. They want you to want their brands of watches. Likewise, H&M wants you to desire their brand of clothing when you shop for clothes. On the other hand, the American Cancer Association markets to you in the hope that you will feel the *need* to get a checkup, and it doesn't care which doctor you go to. But in the end, marketing is mostly about creating and satisfying *wants*.

This model of consumer behavior acknowledges that both rational and irrational factors may shape a buyer's purchasing decisions. It also recognizes that internal and external factors play a role in the decision process. In fact, the problem-solving model helps us map a consistent process individuals go through as they make buying decisions. When marketers understand this process and the factors that influence it, they can take action to influence buyer perceptions and behavior at various stages of the process.

The next reading will discuss the stages of the decision-making process in greater detail.

## Buying-Process Stages

### The Consumer Decision Process

Figure 1 outlines the process a consumer goes through in making a purchase decision. Once the process is started, a potential buyer can withdraw at any stage before making the actual purchase. This six-stage process represents the steps people undergo when they make a conscious effort to learn about the options and select a product–the first time they purchase a product, for instance, or when buying high-priced, long-lasting items they don't purchase frequently. This is called *complexdecisionmaking*.

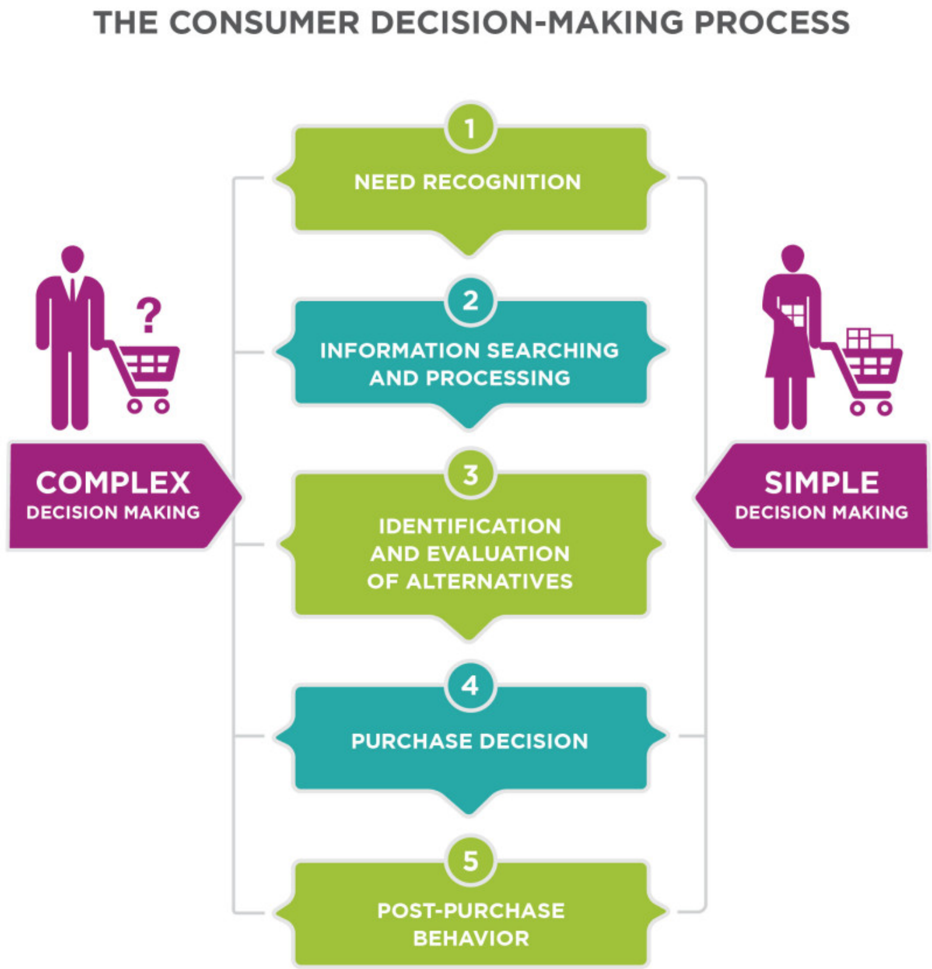



Figure 1

For many products, the purchasing behavior is routine: you notice a need and you satisfy that need according to your habit of repurchasing the same brand or the cheapest brand or the most convenient alternative, depending on your personal assessment of trade-offs and value. In these situations, you have learned from your past experiences what will best satisfy your need, so you can bypass the second and third stages of the process. This is called *simple decision making*. However, if something changes appreciably (price, product, availability, services), then you may re-enter the full decision process and consider alternative brands.

The following section discusses each step of the consumer decision-making process.

### Need Recognition

The first step of the consumer decision process is recognizing that there is a problem–or unmet need–and that this need warrants some action. Whether we act to resolve a particular problem depends upon two factors: (1) the magnitude of the difference between what we have and what we need, and (2) the importance of the problem. A man may desire a new Lexus and own a five-year-old Ford Focus. The discrepancy may be fairly large but relatively unimportant compared to the other problems he faces. Conversely, a woman may own a two-year-old car that is running well, but for various reasons she considers it extremely important to purchase another car this year. Consumers do not move on to the next step until they have confirmed that their specific needs are important enough to act on.

Part of need recognition is defining the problem in a way that allows the consumer to take the next step toward finding a solution. In many cases, problem recognition and problem definition occur simultaneously: a consumer runs out of toothpaste, for instance. In other cases, these are separate tasks. Consider a scenario in which you injure your knee. You may know that your knee hurts, and you can't walk very well, but you need to further define the problem before you can take action: Do you need a good night's sleep? A brace? Pain medication? Physical therapy? Surgery? All of these things? As a consumer, you will be able to begin solving your problem once it is adequately defined.

Marketers get involved in the need recognition state at three points:

1. Knowing what problems consumers are facing, so they can develop a marketing mix to address these problems
2. Activating problem recognition, in order to trigger the start of the purchasing process
3. Shaping how consumers define the need or problem, in order to influence their wants as they look for a solution

Marketing interactions through ads, Web sites, salespeople, and any number of other activities create opportunities for marketers to communicate with consumers and become engaged in need recognition. Listening to customers through social media or the customer support team provides insight into the ways consumers perceive the problems they face. A public service announcement espousing the dangers of cigarette smoking helps trigger a sense of needing to do something about cancer prevention. Advertising weekend and evening shopping hours triggers awareness of the problem of limited weekday shopping opportunities for busy working parents. Once a young man recognizes that he needs a new coat, marketing tries to influence his choices: Should it be a trendy, bargain-priced jacket from Old Navy or the pricey North Face coat he can wear snowboarding (assuming he can scrape together money for a lift pass after buying the coat). In each of these scenarios, marketing plays an active role in facilitating need recognition.

#### Information Search

After recognizing a need, the prospective consumer may seek information to help identify and evaluate alternative products, services, experiences, and outlets that will meet that need. Information may come from any number of sources: family and friends, search engines, Yelp reviews, personal observation, *Consumer Reports*, salespeople, product samples, and so forth. Which sources are most important depends on the individual and the type of purchase he or she is considering.

The promotion element of the marketing mix should provide information to assist consumers in the decision process. When marketers understand which information sources their target consumers turn to during the search process, they can develop a promotion strategy and tactics that put their offerings and message into the search path. For instance, teen boys rely heavily on peer networks to know what's interesting, cool, and desirable. A social media strategy is essential for virtually any product—video games, fashion, gadgets, sports gear, music, and on—targeting these consumers.

In some cases, consumers already have the information they need based on past purchasing and consumption experience–for better or for worse. Good experiences reinforce customer loyalty, while bad experiences destroy opportunities for repeat purchases. For instance, a consumer who needs new tires may look for sales in the local newspaper or ask friends for a recommendation. If she has bought tires before and had a good experience, she may go to the same dealer and buy the same brand.

The information-search process can also identify new needs. As a tire shopper looks for information, she may decide that the tires are not the real problem, but instead she needs a new car. At this point, her newly perceived need may trigger a new information search.

Information search involves both mental and physical activities that consumers must perform in order to make decisions and solve their problems through the marketplace. As anyone who has purchased a car, computer, or pet knows, it takes time, energy, and money to achieve a satisfactory outcome. Often it means foregoing more desirable activities. Eventually most consumers learn that the benefits of information search can outweigh the costs, particularly for bigger-ticket purchases. A thorough information search may save money, improve the quality of selection, or reduce risks.

#### Evaluation of Alternatives

As a consumer finds and processes information about the problem she is trying to solve, she identifies the alternative products, services, and outlets that are viable options. The next step is to evaluate these alternatives and make a choice, assuming a choice is possible that meets the consumer's financial and psychological requirements. Evaluation criteria vary from consumer to consumer and from purchase to purchase, just as the needs and information sources vary. One consumer may consider price most important while another puts more weight on quality or convenience.

The information search helps inform consumers about the criteria they might consider as they are evaluating options and making a final selection. For any given purchasing decision, each consumer develops a set of criteria–often only a mental list–along with the relative importance of each quality in their final selection. This evaluation process may be very systematic and comprehensive for some people and purchases. There are also people who find the selection process difficult or frustrating, and so they cope with their discomfort by keeping the number of alternatives to a minimum, or by making an impulse purchase at the last moment. Note that the selection and evaluation phases of consumer problem solving are closely related and often happen simultaneously.

Consider a situation in which you are buying a new vacuum cleaner. During your information search process, you identified five leading models in online reviews, as well as a set of evaluation criteria that are most important to you: 1) price, 2) suction power, 3) warranty, 4) weight, 5) noise level, and 6) ease of using attachments. After visiting Sears and Home Depot to check out all the options in person, you're torn between two models you short-listed. Finally you make the agonizing choice, and the salesperson heads to the warehouse to get one for you. He returns with bad news: The vacuum cleaner is out of stock, but a new shipment is expected in three days. Strangely relieved, you take that as a sign to go for the other model, which happens to be in stock. Although convenience wasn't on your original list of selection criteria, you need the vacuum cleaner before the party you're having the next day. You pick the number-two choice and never look back.

From the marketer's perspective, understanding your target consumer's evaluation criteria is critical. You need to demonstrate these qualities in order to be short-listed in the selection set. Often these qualities make the difference in your offering being selected over competitors'. In the end, selection remains something of an unpredictable black box because people think differently, and the circumstances for any given purchasing situation are unique to the person, the product, and the problem being solved.

### The Purchase Decision

After much searching and evaluating (or perhaps very little), consumers at some point have to decide whether they are going to buy. Anything marketers can do to simplify purchasing will be attractive to buyers. For example, in advertising, marketers might suggest the best size of product for a particular use or the right wine to drink with a particular food. Sometimes several decision situations can be combined and marketed as one package. For example, travel agents often package travel tours, and stores that sell appliances try to sell them with add-on warranties.

To do a better job of marketing at this stage of the buying process, a seller needs to have answers to questions about consumers' shopping behavior. Those answers will increase the likelihood of closing the sale and maximizing value at the moment of purchase. Useful questions to ask include the following:

- How much effort is the consumer willing to spend in shopping for the product?
- What factors influence when the consumer will actually make the purchase?
- Are there any conditions that would prohibit or delay the purchase?

Marketers should look for opportunities to influence things in their favor at the point of purchase. Product pricing, labeling, and packaging can be hugely influential at this stage of the process. Product sampling, coupons, and rebates may also give an extra incentive to buy. Personal selling, product display, convenience, and ease of finding the product may also lead the consumer to make one choice over another. Actually determining how a consumer goes through the decision-making process is a difficult research task, in part because it can vary so much from consumer to consumer. The key for marketers is to be aware of the influencing factors and how to shape them to your advantage.

#### Postpurchase Behavior

All the behavior determinants and the steps of the buying process up to this point take place before or during the time a purchase is made. However, a consumer's feelings and evaluations after the sale are also significant to a marketer, because they can influence repeat sales and what the customer tells others about the product or brand.

Marketing is all about keeping the customer happy at every stage of the decision-making process, including postpurchase. It is normal for consumers to experience some postpurchase anxiety after any significant or nonroutine purchase. This anxiety reflects a phenomenon called *cognitive dissonance*. According to this theory, people strive for consistency among their cognitions (knowledge, attitudes, beliefs, and values). When there are inconsistencies, dissonance arises, which people try to eliminate.

In some cases, the consumer makes the decision to buy a particular brand already aware of dissonant elements or things that are inconsistent with their internal criteria. A common example is price: a consumer falls in love with every aspect of a product, but it costs more money than he intended to spend. His cognitive dissonance is whether to spend the extra money for a product he loves or else stick with a second-best product that fits the budget. In other cases, dissonance is aroused by information received after the purchase. For instance, a disturbing report about sweatshop labor comes out days after you purchase a pair of athletic shoes from the company involved.

Marketers may take specific steps to reduce postpurchase dissonance. One obvious way is to help ensure delivery of a quality solution that will satisfy customers. Another step is to develop advertising and new-customer communications that stress the many positive attributes or confirm the popularity of the product. Providing personal reinforcement has proven effective with big-ticket items such as automobiles and major appliances. Salespeople in these areas may send cards or even make personal calls in order to reassure customers about their purchase.

# 2.1.3: Low-Involvement vs. High-Involvement Decisions

## What you'll learn to do: explain the different buying processes for low-involvement and high-involvement decisions

In our discussion of the consumer decision process, we noted that not all purchasing decisions go through all six stages of the process. Some consumer decisions are quick and easy, requiring little if any focused attention. Others can be long, involved, and tough.

The next section will explore each of these situations in more detail, as we discuss how the buying process differs between *low-involvement products* and *high-involvement products*.

## How Involved Are You?

You're at the grocery store, looking at the dog food selection. How long does it take you to choose a product, buy it, and get out the door?

Change of scene.

You're on a car sales lot, looking at the selection of vehicles for sale. How long does it take you to choose a product, buy it, and drive off the lot?

For most people these scenarios are worlds apart in terms of the time, effort, emotional, and psychological work it takes to make a purchasing decision.

When a purchasing decision involves a low-cost item that is frequently bought—such as bread or toothpaste—the buying process is typically quick and routinized. Buying a new car is quite different. The extent to which a decision is considered complex or simple depends on the following:

- Whether the decision is novel or routine
- The extent of the customers' involvement with the decision

**High-involvement decisions** are those that are important to the buyer. These decisions are closely tied to the consumer's ego and self-image. They also involve some risk to the consumer. This may include financial risk (highly priced items), social risk (products that are important to the peer group), or psychological risk (the wrong decision may cause the consumer some concern and anxiety). In making these decisions, consumers generally feel it is worth the time and energy needed to do research and consider solution alternatives carefully. The full, six-stage, complex process of consumer decision making is more likely to happen with high-involvement product purchases. In these cases, a buyer gathers extensive information from multiple sources, evaluates many alternatives, and invests substantial effort in making the best decision.

**Low-involvement decisions** are more straightforward, require little risk, are repetitive, and often lead to a habit. In effect, these purchases are not very important to the consumer. Financial, social, and psychological risks are not nearly as great. In these cases, it may not be worth the consumer's time and effort to search for exhaustive information about different brands or to consider a wide range of alternatives. A low-involvement purchase usually involves an abridged decision-making process. In these situations, the buyer typically does little if any information gathering, and any evaluation of alternatives is relatively simple and straightforward. Consumers are diligent enough to get a product they want, but they generally spend no more time or effort than is needed.

There are general patterns about what constitutes a high-involvement decision (buying cars, homes, engagement rings, pets, computers, etc.) versus a low-involvement decision (buying bread, chewing gum, toothpaste, dishwasher detergent, trash bags, etc.). However, the real determinant is the individual consumer and how involved they choose to be in solving the problem or need they have identified.

## Marketing Considerations About Consumer Involvement

Let's imagine another couple of scenarios.

Situation 1: You have just moved in with roommates for the first time. Excitement about your new independence temporarily dims when you scour the kitchen and find just three forks, four spoons, and zero table knives. On your way to Walmart, you stop off at Goodwill, and you are delighted to pay less than $4 for an unmatched service for eight.

Situation 2: You are a soon-to-be bride. You have spent days looking through magazines, browsing online, and visiting shops to find the perfect silverware to match the dishes on your wedding registry. It gives you pause, though, when you learn that your dream flatware costs $98 per place setting. Still, you rationalize that you only get married once—or at least that's your plan.

In each of these situations, the consumer is making a purchasing decision about the same product: silverware. But the level of involvement in each situation is very different. The new roommate wants to spend as little time and money as possible to get a product that will get the job done. The soon-to-be-bride is pinning her future happiness on selecting the right pattern. Who is more involved?

Now suppose you are a marketer trying to promote the flatware designs your company makes. Which of these consumers will pay any attention to the full-page ads you have placed in seven popular women's magazines? Which of these consumers will click on the paid search listing Google placed in their search results for new silverware patterns? Which one is most likely to come to a store to see the beautiful sheen of your new product line and feel its perfectly balanced weight with her fingertips?

As a marketer you should recognize high-involvement versus low-involvement consumers of your products and strategize accordingly. It is entirely possible for your target segments to include a mix of both. When you recognize the differences in how they make decisions, you can create a marketing mix designed to impact each type of consumer. For the customer who wants little involvement, your marketing mix can simplify their buying process. For the consumer who is highly involved, you can provide the information and validation they seek.

# 2.1.4: Factors Influencing Consumer Decisions

The consumer decision process helps you understand the steps people go through when they are deciding whether and what to buy. Many different factors can influence the outcomes of purchasing decisions.

Some of these factors are specific to the buying situation: what exactly you are buying and for what occasion. Other factors are specific to each person: an individual's background, preferences, personality, motivations, and economic status. Because no two people are exactly alike, it is difficult to predict how the tangled web of influencing factors will ultimately shape a final purchasing decision.

For marketers, an understanding of these factors provides a more complete view into the mind of the customer. As you learn more about what influences decisions for your particular target segment, product category, brand, and competitive set, you can use these influencing factors to your advantage. What you say to customers, the words you use, the people who say them, the images they evoke—all of these things can link back to that web of influencing factors at work in a purchaser's mind. Great marketing uses those connections powerfully and effectively to win the minds and hearts of customers.

## What, Exactly, Influences a Purchasing Decision?

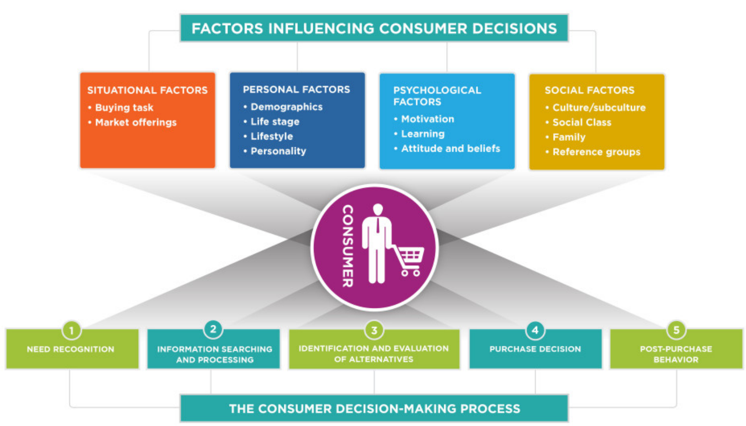
While the decision-making process itself appears quite standardized, no two people make a decision in exactly the same way. People have many beliefs and behavioral tendencies—some controllable, some beyond our control. How all these factors interact with each other ensures that each of us is unique in our consumer actions and choices.

Although it isn't feasible for marketers to react to the complex, individual profiles of every single consumer, it is possible to identify factors that tend to influence most consumers in predictable ways.

The factors that influence the consumer problem-solving process are many and complex. For example, as groups, men and women express very different needs and behaviors regarding personal-care products. Families with young children tend to make different dining-out choices than single and married people with no children. A consumer with a lot of prior purchasing experience in a product category might approach the decision differently from someone with no experience. As marketers gain a better understanding of these influencing factors, they can draw more accurate conclusions about consumer behavior.

We can group these influencing factors into four sets, illustrated in the figure below:

- **Situational Factors** pertain to the consumer's level of involvement in a buying task and the market offerings that are available
- **Personal Factors** are individual characteristics and traits such as age, life stage, economic situation, and personality
- **Psychological Factors** relate to the consumer's motivation, learning, socialization, attitudes, and beliefs
- **Social Factors** pertain to the influence of culture, social class, family, and reference groups




## Situational Factors

## Buying Task

The buying task refers to the consumer’s approach to solving a particular problem and how much effort it requires. The level of consumer involvement is an important part of the buying task: whether the buyer faces a high-involvement decision with lots of associated risk and ego involved, versus a low-involvement decision with little risk or ego on the line.

Product or brand familiarity is another, related dimension of the buying task. When a consumer has purchased a similar product many times in the past, the decision making is likely to be simple, regardless of whether it is a high- or low-involvement decision. Suppose a consumer initially bought a product after much care and involvement, was satisfied, and continued to buy the product. For the buyer, this is still a high-involvement decision, but now it’s simpler to make. The customer’s careful consideration of a product and the subsequent satisfaction have produced brand loyalty, which resulted from involvement in the product decision.

Once a customer is brand loyal, a simple decision-making process is all that is required for subsequent purchases. The consumer now buys the product through habit, which means making a decision without additional information or needing to evaluate alternatives. Selling to and satisfying brand-loyal customers can be a great position for marketers, although it’s important not to rest on one’s laurels and take them for granted. New competitors are always looking for ways to break existing brand-loyal habits and lure the consumer into an enticing new product experience.

## Market Offerings

The available market offerings are another relevant set of situational influences on consumer problem solving. The more extensive the product and brand choices available to the consumer, the more complex the purchase decision process is likely to be. And the more limited the market offerings are, the simpler the purchase decision process is likely to be.


For example, if you already have purchased or are considering purchasing a smartphone, you know that there are multiple brands to choose from—Samsung Galaxy, Apple iPhone, Sony, LG, HTC One, and Nokia, to name several. Each manufacturer sells several models that differ in various features–design, screen size, memory, speed, camera quality, and so on. What criteria are important to you? Is purchasing a smartphone an easy decision? If a consumer has a need that can be met by only one product or one outlet in the relevant market, the decision is relatively simple: Either buy the product or let the need go unmet.

This is not ideal from the customer’s point of view, but it does happen. For example, suppose you are a student on a campus in a small town many miles from another marketplace. Your campus and town have only one bookstore. You need a textbook for class tomorrow; only one particular book will do, and only that bookstore carries it. Amazon and other online retailers have the book at a lower price, but they can’t get the book to you overnight, so you’re stuck. In this case the limitation on alternative market offerings has a clear influence on your purchase behavior.

As you saw in the smartphone example, when the extent of market offerings increases, the complexity of the problem-solving process and the consumers’ need for information also increase. A wider selection of market offerings is better from the customers’ perspective, because it allows them to tailor their purchases to their specific needs. However, lots of choices may also confuse and frustrate the consumer, such that less-than-optimal choices are made.

Marketers can find opportunities in either scenario—a crowded competitive set and a complex decision for the consumer, or a narrow competitive set with limited choices and a simpler decision for the consumer. In a crowded field, the marketer’s challenge is to make compelling offerings and useful information prominent in the consumer’s processes for gathering information and evaluating alternatives. In a narrow field with limited choices, effective marketing can help the consumer feel good about the choice they had to make. A good experience with the product during and after purchase is a recipe for brand loyalty.

1. Holland, Stephanie. “Marketing to Women Quick Facts.” *She-Conomy*, 15 Sept. 2016, http://she-conomy.com/report/marketing-to-women-quick-facts. ↵
2. https://journalofinternationalmanagement.wordpress.com/2011/05/16/walmarts-downfall-in-germany-a-case-study/ ↵

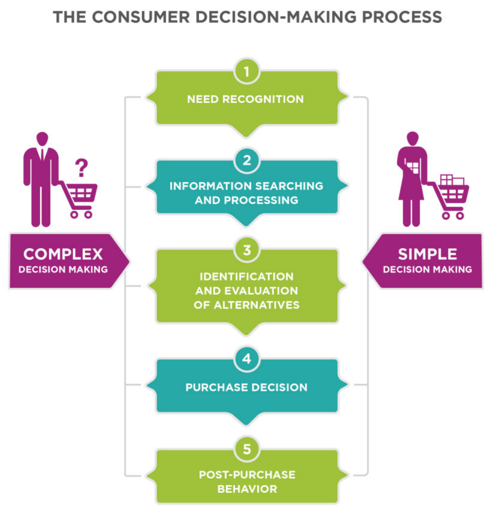
# 2.1.5: B2B Purchasing Decisions

# 2.1.6: Putting It Together- Consumer Behavior

## Applying the Concepts: Finn's Family Buys a Pet

Do you remember Finn, the newest little consumer who arrived at the beginning of this module? Let's suppose that Finn's parents decide they want him to grow up with an animal friend. This gives us a chance to apply what we've been discussing about consumer behavior and see what happens as they go through the consumer decision process to buy a pet.

Since finding a pet is definitely a high-involvement decision for them, these are the steps they will go through:

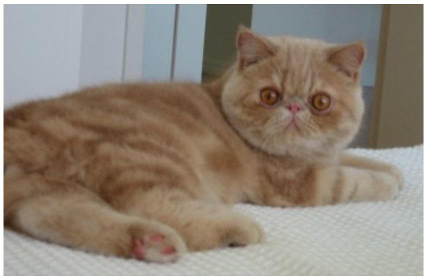



### Recognize Needs

**The Consumer Perspective:** Finn's parents, Robert and Amanda, know they want a pet. They're not sure what kind of pet. They're pretty sure they want it to be cuddly and lovable—something a child can interact with and not get too wet, bitten, or diseased (or maybe just a little). They also want a pet with some longevity, so that Finn can grow up with his animal friend. Although they are busy getting used to a new infant in their lives, Robert and Amanda are both on leave from their jobs for eight weeks, so it could be a good time to get used to a new animal, too. They decide it's time to get serious about finding a pet.

**The Marketer's Perspective and Tactics:** You manage marketing for an animal rescue organization in your local community. Somehow you need to get in front of Finn's family to let them know about your animals and why they should start their search with you. Fortunately, you've been working with Google to get a paid placement for your organization near the top of Google searches for kittens and puppies in your area, so when Robert does his first search, he sees your listing. You also routinely post fliers on information boards around your community, and you've been working on your Web site to make sure it is search optimized for people searching for pets in your area.

### Search for Information



I am so much better than a dog. Take me home.

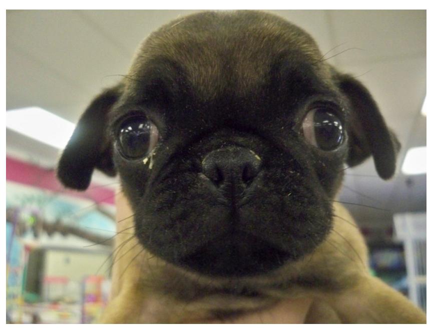
**The Consumer Perspective:** Robert has grown skilled at searching the Internet while rocking Finn to sleep at the same time. He and Amanda need to research a few questions:

- What kind of pet should they get: dog, cat, guinea pig, ferret, something else?
- Where should they get the pet: pet shop, breeder, online provide, animal rescue, someplace else?
- How much should they expect to pay for the pet?
- How should they take care of the pet once they get it?

Robert is already leaning strongly toward getting a dog. His family had dogs when he was growing up, and he loves the idea of his son having the same experience. Amanda is on the fence, until they start reading about best pets for kids in parenting articles online, and they start talking to friends. Robert's family preference for dogs is validated in articles claiming that dogs are good pets for children and that potential problems (allergies, behavior issues) can be minimized by having the dog around children from a young age. As they begin to investigate places to get a dog, Amanda and Robert are disturbed to read about puppy mills and warnings against buying dogs from unscrupulous online sellers. They agree that they should stay local and check out pet shops, breeders, or animal rescue organizations in their area. Animal rescue would probably be the cheapest option, but they want to shop around and see what's available.

**The Marketer's Perspective and Tactics:** One of your organization's board members is a well-known mommy blogger who feels passionately about pets and kids. At your request, she's written a few posts over the past several months providing advice for parents who are considering a pet, and recommending animal rescue as the way to go. You've cross-posted her pieces on the rescue organization's Web site blog, and she's linked to your Web site in her posts. You know from Google Analytics that you're getting pretty good traffic to your Web site from that link and her posts. The Web site also contains information to educate people about the advantages of adopting rescue animals, reinforcing how rewarding it is to offer these pets a loving home. You know from research that families tend to get interested in pets when they have young children, so you update the Web site with adorable recent-adoption photos showing young families welcoming their new pets. You also know that people have lots of questions when they're looking for pets, so you prominently feature "Adopting a Pet: What To Expect" on your Web site.

### Evaluate Alternatives



Sad pet-store dog. Eye problems.

**The Consumer Perspective:** Now that Robert and Amanda know they want a dog, they are honing in on what type of dog and where to get it. They've been reading dog owner sites about different breeds, and they've been reading Yelp reviews about people's experiences with the local pet shops, breeders, and rescue organizations. They are keeping an eye on Craigslist to see what shows up there, and they've made a couple of visits to see some of the breeds they are considering. Robert is really charmed by a local breeder's labradoodles, and online communities rave about how good these dogs are with children, but there is a yearlong waitlist for the puppies and they cost upwards of $1,500. Amanda has joined a mothers' group, and two of the moms have dogs. One has a golden retriever. She bought the dog at a local pet shop and loves him, but she has been surprised by the number of health problems he's had. The other mom has a friendly terrier mix she got from a local rescue organization, and she was very happy with the experience.

**The Marketer's Perspective and Tactics:** You're trying to do more with word-of-mouth and social media promotion, so you've started asking each family that adopts one of your animals to post about their experience on Yelp and Google reviews. You've been doing more with Facebook and Instagram, building up followers and posting pictures of some of the sweet rescue animals people can meet and adopt. Since it's free, you also post regularly in the "Pets" area of Craigslist and you've found that is a great way to connect with local area families looking for pets. Craigslist shoppers tend to be good candidates for adopting rescue animals. When people come in to the center, you find out what they are looking for, and you make sure they learn about the advantages of adopting a rescue animal and how simple the process can be. You also get their contact information so you can stay in touch with them electronically and let them know when a new animal arrives that might be a good fit for their family.

### Make a Purchase

**The Consumer Perspective:** Amanda is very moved by their visit to the local animal rescue center. She is impressed with several of the dogs they met, and she loves the idea of adopting an already-house-trained pet, instead of starting from scratch with a puppy. Robert's heart is still with the labradoodles, but they agree that the yearlong wait and hefty price tag probably aren't worth it. Although the pet store puppies are adorable, Amanda keeps thinking about her friend's golden retriever and health problems, which are probably linked to overbreeding. After thinking things over, they decide to return to the rescue center with Finn and meet the dogs there again. This time, one of the dogs is a standout: a smart little Scottish terrier mix named Bonnie who makes Finn's eyes light up every time she comes near. The choice is made, and the James family is delighted.

**The Marketer's Perspective and Tactics:** Once a family comes to the center a second time, you know from experience that they're hooked. You need to make sure they fall in love with an animal that will be a good fit for their children and living situation. You've designed the application process to make sure that it helps you screen people and also match them with the best pets. But it's also a thoughtful, informative experience for the people who come in, so they can learn about what it takes to be a good pet owner. Once a new pet owner finds "The One," you snap photos for the happy family bulletin board at the center and ask permission to share the pictures on your Web site and social media. You also invite them to post the picture on social media and share their experience with the center in a Yelp or Foursquare review. A going-home packet includes useful information about caring for their new animal and contact information in case they have questions or concerns.

### Post-Purchase Behavior

Bonnie, the winner.

**The Consumer Perspective:** The new addition to the James family is everything Amanda and Robert had hoped for. Bonnie is sweet-tempered, playful, gentle with Finn, and smart as a whip. For Robert, Bonnie brings back the joy and companionship he remembers from his childhood pets. Amanda is so delighted that she tells everyone who will listen about their wonderful experience adopting a rescue animal. Next time they are considering a pet, they'll know exactly where to go.

**The Marketer's Perspective and Tactics:** You've developed a process for checking in on adoption families after a couple of weeks to make sure things are working out. If they haven't done so already, you nudge them to write a review about their adoption experience on Yelp or another review site, assuming their experience has been good. If they aren't doing so well, you try to find out why and suggest some tips and strategies for turning things around. If red flags come up during these conversations, you make a note for one of the center's volunteers to do a wellness check on the owner and animal, so that the center can intervene and avoid serious problems. Fortunately the follow-up process usually results in happy stories about how much the animals and their new families love each other. And that's a major reason why you keep doing this job.

## Contributors and Attributions

- Tchiorny Terrier. **Authored by**: Stephan Czuratis. **Located at**: https://commons.wikimedia.org/wiki/File:Tchiorny_Terrier.jpg. **License**: *CC BY-SA: Attribution-ShareAlike*

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## 2.2: Demographic Analysis

In this section we look at Demographics as a category of consumer analysis. For marketers, an understanding of the demographics of their buyers provides a generalized view into the experiences of the consumer based on their age, gender, stage of family life cycle, and culture. As you learn more about what influences decisions for your particular target segment, product category, brand, and competitive set, you can use these influencing factors to your advantage. What you say to customers, the words you use, the people who say them, the images they evoke—all of these things can link back to that web of influencing factors at work in a purchaser's mind. Great marketing uses those connections powerfully and effectively to win the minds and hearts of customers.

### Demographics

Demographics are an important set of factors that marketers should not overlook when trying to understand and respond to consumers. Demographics include variables such as age, gender, income level, educational attainment, and marital status. Each of these can have a strong influence on consumer behavior.

Historically, marketers have made much of generational differences—focusing on the best ways of reaching different cohorts such as Baby Boomers, Generation Xers, Millennials, and Generation Z. Many of the distinctions between these groups are related to the groups' ages and related needs at any given point. For example, as Baby Boomers head into their retirement years, marketers target them with messages about prescription drugs and other health care products, insurance, home and financial security—all issues of growing concern for people as they age. Generational differences can also be factors in they ways people use media and where they go for information to inform their consumer choices. A 2013 study found that Millennial moms (birth years 1981–1997) were online "followers" of 22.5 brands, on average, while Generation X moms (birth years 1965–1980) followed just 13.7 brands online. [1] Understanding differences like these can be essential to developing the right marketing mix whenever age is an identifying factor in market segmentation.

Gender is also a defining characteristic for many consumers, as is the marketing that targets them. You have only to watch TV ads during an NFL game and the TV ads during the women-oriented talk show *The View* to see how the different needs and wants of men and women are translated into marketing messages and imagery.

DeBeers Limited, which has commanded an 80 percent share of the market for diamonds used in engagement rings, employs a consumer demographic profile in the development of its promotional programs. Their primary target market for engagement rings is single women and single men between the ages of 18 and 24. The company combined this profile with some additional lifestyle-related factors to develop a successful promotional program.

The demographic marker of economic status is another strong influencer in consumer decisions. Not surprisingly, people in different income brackets tend to buy different types of products, shop in very different ways, and look for different qualities. Many designer clothing shops, for example, aim their marketing at higher-income shoppers. Meanwhile, a retail chain like Wal-Mart sticks closely to its "lowest prices" positioning in order to maintain its appeal for middle- and lower-income shoppers.

### Life Stage

Linked to demographics is the concept of life stage: consumer behavior is tied to the significant life events and circumstances people are experiencing at any given moment. Moving out of your parents' home, going to college, getting married, buying a house, starting a family, sending children to college, retiring: all of these are life events that shape consumer attitudes, behaviors, and decisions.

Life stage has a big enough impact on consumer decisions that many marketing organizations develop proprietary segmentation schema to help them better understand this dimension of the consumer experience and better target products and services to individual needs. A representative example is the set of lifestyle segments developed by the consumer data company Experian. Experian’s life stage segments include Independent Youth, Young Families, Maturing Couples & Families, Elderly Singles, and six other segments it uses to encompass the entire U.S. adult population.

American consumers experience life-stage marketing when offers relevant to their life events appear in their in-boxes, mailboxes, and even in the checkout line. Producers and sellers of baby products like Procter & Gamble, Johnson & Johnson, and Target send a barrage of product samples, coupons, and other promotions to expecting and new parents. Families of young children are invited to sign their kids up for LEGO’s free quarterly magazine and become part of the Toys-R-Us Rewards program for frequent shoppers. Financial services companies target new college students and their parents with credit card offers and banking plans. Home Depot, Lowe’s, and even the U.S. Postal Service send promotional welcome packets to new homeowners, hoping to win their business as they settle into a new residence.

### Learning and Socialization

In the context of consumer behavior, learning is defined as changes in behavior that result from previous experiences. Learning is an ongoing process that is dynamic, adaptive, and subject to change. Learning does not include behavior associated with instinctive responses or temporary states of an individual, such as hunger, fatigue, or sleep.

Learning is an experience and practice that actually brings about changes in behavior. For example, in order to learn to play tennis, you might learn about the rules of the game and the skills tennis players need. You would practice the skills and participate in tennis games to gain experience. Learning can also take place without actually participating in the physical experience. You can learn about something conceptually, too. In other words, you could learn to play tennis by observing experts and reading about it without actually doing it. This is called *nonexperiential learning*.

Consumer decisions can be influenced by both experiential and nonexperiential learning. Take an example of buying wine. Suppose you are at a winery and you are considering buying a bottle of zinfandel, which you have never tried before. If you taste the wine and discover you don't care for the strong, spicy flavor, you have learned experientially that you don't like zinfandel. On the other hand, you could ask the tasting-room host about the flavor of zinfandel, and she might say that it resembles strong ginger ale, in which case you might decide not to buy the wine because you don't like ginger ale. In this second case, you have learned about the product nonexperientially.

Marketing relies heavily on nonexperiential learning, using tactics like customer testimonials, case studies, and blogger reviews to teach new customers through the experiences and opinions of others. Consumers themselves seek out resources for nonexperiential learning when they read book and product reviews on Amazon, film reviews on Rotten Tomatoes, and restaurant reviews on Yelp.

Another characteristic of learning is that the changes may be immediate or anticipated. In other words, learning may be taking place even if there is no evidence of it. We can store our learning until it's needed, and we do this often with purchasing decisions. For example, a person might read up on product reviews for the latest set of tablet computers even though she doesn't expect to buy one soon. Eventually she may be in the market, and at that point she can put her learning to use.

*Reinforcement* is the process of having your learning validated through rewards or punishments, which confirm that what you learned was correct. Over time, reinforcement can shape strong patterns of behavior. Suppose a consumer's first car purchase is a Subaru. He loves the car and finds it to be safe, reliable, energy efficient, and a great value for the money. Each positive experience with his car rewards him and reinforces what he has learned about Subarus: they are great cars. When he decides to replace the car, positive reinforcement will almost certainly lead him to consider a Subaru again. Reinforcement can work in positive or negative ways, with consumers experiencing rewards or punishments that influence their decisions.

*Socialization* is the process by which people develop knowledge and skills that make them more or less able members of their society. Socialized behaviors are learned and modified throughout a person's lifetime. This social learning approach stresses "socialization agents" (i.e., other people), who transmit cognitive and behavioral patterns to the learner. These people can be anyone: a parent, friend, celebrity spokesperson, teacher, role model, etc. In the case of socialization in consumer behavior, this takes place in the course of the person's interaction with other people in various social settings. Socialization agents may include any person, organization, or information source that comes into contact with the consumer.

Consumers acquire this information from other individuals through the processes of modeling, reinforcement, and social interaction. *Modeling* involves imitation of the agent's behavior. For example, a teenager may acquire a brand-name preference for Adidas from friends and teammates. Marketers can take advantage of this idea by employing product spokespeople who have strong credibility with their target consumers, as in the case of NBA star LeBron James for Nike. As noted above, *reinforcement* involves either a reward or a punishment mechanism used by the agent. When a colleague compliments a coworker on her outfit, it conveys a rewarding message about the type of clothing to wear to work. Marketers may use reinforcement by providing good product performance, excellent post-purchase services, or some similar rewarding experience. Social interaction may include a combination of modeling and reinforcement in a variety of social settings. These variables can influence learning by having an impact on the relationship between the consumer and other people.

### Social Class

Some manifestation of *social class* is present in virtually every society. It's determined by a combination of factors including family background, wealth, income, education, occupation, power, and prestige. Like culture, it affects consumer behavior by shaping individuals' perceptions of their needs and wants. People in the same social class tend to have similar attitudes, live in similar neighborhoods, attend the same schools, have similar tastes in fashion, and shop at the same types of stores.

In some nations, the social class system is quite rigid, and people are strongly encouraged to stay within their own class for friendships, marriage, career, and other life decisions. In other countries, such as the United States, social class is more permeable, and people can move between classes more easily based on their circumstances, behaviors, and life choices. Social class mobility is an important value in mainstream American culture and is part of our collective belief system about what makes the nation great.

In the U.S., the most common social classification system is illustrated in the figure below.

### Social Class in the United States

Upper Class makes up 1% of the population. Characteristics of the upper class include

- Heirs, celebrities, top corporate executives
- $500,000+ income

- Elite education is common

Upper Middle Class makes up 15% of the population. Characteristics of the upper middle class include

- Managers, professionals
- $100,000+ income
- Highly educated, college and graduate degrees are likely

Lower Middle Class makes up 32% of the population. Characteristics of the lower middle class include

- Skilled contractors, craftspeople, artisans, semi-professionals, autonomy in work environment is common
- $35,000 to $75,000 income
- Some college, training, secondary education is likely

Working class makes up 32% of the population. Characteristics of the working class include

- Clerical, blue- and pink-collar workers, job security is often a problem.
- $16,000 to $30,000 income
- High School Education

Lower Class makes up 20% of the population. Characteristics of the lower class include

- Poorly paid positions and/or reliance on government assistance
- Some high school education

*Source: Thompson, W. & Hickey, J. (2005). Society in Focus. Boston, MA: Pearson, Allyn & Bacon.*

For marketers, social class may be a useful factor to consider in segmentation and targeting. It provides helpful context about how consumers view themselves and their peer groups, their expectations, life experiences, income levels, and the kinds of challenges they face. For example, if a marketer wishes to target efforts toward the upper classes, they should realize that, first, this is a very small proportion of the population, and second, the market offering must be designed to meet their high expectations in terms of quality, service, and atmosphere. Having enough money is a persistent concern for people in the lower, working, and lower middle classes, so price sensitivity and value for the money are important for products targeting these groups.

### Family

One of the most important reference groups for an individual is the family. A consumer's family has a major impact on attitude and behavior, and families themselves are critically important in society as consumer units. Many consumer decisions are made by family members on behalf of the family, so understanding the family consumer decision-making dynamics around your product is essential.

Depending on the product or service under consideration, different family members may be in the role of primary decision maker or influencer. In some cases, the husband is dominant, in others the wife or children, and still other cases, families make joint decisions. Traditionally the wife has made the primary decisions around store choice and brands for food and household items, although this has evolved somewhat as more women participate in the workforce. A joint decision is typical for purchases involving a larger sum of money, such as a refrigerator or a vehicle. Teenagers may exercise a lot of influence over their own clothing purchases. Children may heavily influence food and entertainment choices. Of course, decision dynamics within any individual family can vary, but marketers need to understand the general tendencies around family decision making for the product or service in question.

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1. Holland, Stephanie. “Marketing to Women Quick Facts.” *She-Conomy*, 15 Sept. 2016, http://she-conomy.com/report/marketing-to-women-quick-facts. ↩
2. https://journalofinternationalmanagement.wordpress.com/2011/05/16/walmarts-downfall-in-germany-a-case-study/ ↩
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# 2.3: Psychographics

## Psychographics

### Lifestyle

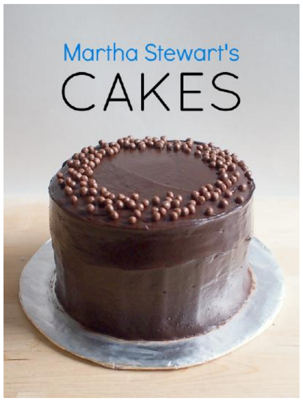
One of the newer and increasingly important set of factors that's being used to understand consumer behavior is lifestyle. In this context, "lifestyle" refers to the potential customer's pattern or being or living in the world combined with his or her psychographics (a set of attitudes, opinions, aspirations, and interests). The variables determining lifestyle are wide-ranging:

- Activities and interests (e.g., hunter; fitness enthusiast; fashionista; foodie; lawyer; musician; pet lover; farmer; traveler; reader; homebody; crafter, etc.)
- Opinions about oneself and the world (e.g., politically conservative; feminist; activist; entrepreneur; independent thinker; do-gooder; early adopter; technophobe; populist; explorer, etc.)

Lifestyle variables reveal what consumers care about, how they spend their time, what they're likely to spend money on, and how they view themselves. Inevitably these individual characteristics impact consumer decisions—and brand preference in particular. The criteria that determine lifestyle are often things consumers feel passionately about. When a consumer identifies your brand as consistent with his interests, attitudes and self-identity, it paves the way for building a long and loyal customer relationship. It is the multifaceted aspect of lifestyle research that makes it so useful in consumer analysis. A prominent lifestyle researcher, Joseph T. Plummer, summarizes the concept as follows:

. . . lifestyle patterns combines the virtues of demographics with the richness and dimensionality of psychological characteristics . . . Lifestyle is used to segment the marketplace because it provides the broad, everyday view of consumers lifestyle segmentation and can generate identifiable whole persons rather than isolated fragments.

Marketers are often attracted to lifestyle as a segmentation schema because it helps reveal a deeper, more vivid picture of consumers and what makes them tick. As marketers try to create strong emotional connections between the brands they promote and the consumers they serve, they are selling more than product features. They are selling a sensibility, an attitude, a set of values they hope will resonate strongly with the target segments they want to reach.




Oprah Winfrey and Martha Stewart are interesting comparative examples of extremely successful marketing that uses a lifestyle orientation to attract and keep devoted consumers. Both brand empires are built around strong, successful, self-made women, and they both target women consumers. Oprah Winfrey's brand is architected to appeal to women who are socially conscious seekers, readers, idealists, self-helpers, working women, striving for balance and self-fulfillment. Martha Stewart's brand, on the other hand, is carefully curated to appeal to women with a passion for fine food, design, beautiful surroundings, cultural experiences, arts and crafts, and the creative act of doing it yourself. The strong lifestyle-oriented identity of each brand makes it relatively easy for individual consumers to recognize which one is most consistent with their own identity and values.

### Personality

Personality is used to summarize all the traits of a person that make him or her unique. No two people have the same personalities, but several attempts have been made to classify people with similar traits. Perhaps the best-known personality types are those proposed by Carl Jung, which are variations on the work of Jung's teacher, Sigmund Freud. His personality categories are *introvert* and *extrovert*. The introvert is described as defensive, inner-directed, and withdrawn from others. The extrovert is outgoing, other-directed, and assertive. Over the years, several other more elaborate classifications have also been devised.

Personality traits may also include characteristics linked to they ways people view themselves and calibrate their behavior in the world: for example, sincerity, self-confidence, empathy, self-reliance, adaptability, and aggression.

Various personality types are likely to respond in different ways to different market offerings. For example, an extrovert may enjoy the shopping experience and rely more on personal observation to secure information. In this case, in-store promotion becomes an important communication tool. Knowing the basic personality traits of target customers can be useful information for the manager in designing the marketing mix. Marketers have found personality to be difficult to apply in many cases, primarily because it is not easy to measure personality traits. Personality tests are usually long and complex; many were developed to identify people with problems that needed medical attention. Translating these tools into useful marketing data is no small feat, and marketers have turned to lifestyle analysis instead.

Where personality does come into play more prominently is in the notion of *brand personality*. Brand managers strive to cultivate strong, distinctive, recognizable personalities for the brands they promote. The personality gives dimension to the brand, opening the door for consumers to connect with the brand emotionally and identify its personality as consistent with their own values and self-identity. In this case there is a blurry line between the use of lifestyle and personality to understand and appeal to target customers. If you run down a list of super-brands, though, it is easy to recognize the power of brand personality at work: Apple, Coca-Cola, Walt Disney, Star Wars, Google, and Nike, to name a few.

### Reference Groups

Consumer behavior can be influenced by the groups a person comes into contact with, through friendship, face-to-face interaction, and even indirect contact. Marketers often call these reference groups. A *reference group* may be either a formal or informal group. Examples include churches, clubs, schools, online social networks, play groups, professional groups, and even a group of friends and acquaintances. Individuals may be influenced by the groups of which they are members. They may also be influenced by *aspirational groups*–a reference group a person hopes to belong to one day, such as young boys hoping to grow up and become Major League Soccer (MLS) players.

Reference groups are characterized by having individuals who are opinion leaders for the group. *Opinion leaders* are people who influence others. They are not necessarily higher-income or better educated, but others may view them as having greater expertise, broader experience, or deeper knowledge of a topic. For example, a local high school teacher may be an opinion leader for parents in selecting colleges for their children. In a group of girlfriends, one or two may be the opinion leaders others look to for fashion guidance. These people set the trend and others conform to the expressed behavior. If a marketer can identify the opinion leaders for a group in the target market, then she can direct efforts towards attracting these people.

The reference group can influence an individual in several ways:

- **Role expectations:** Reference groups prescribe a role or way of behaving based on the situation and one's position in that situation. For example, as a student, you are expected to behave in a certain basic way under certain conditions when interacting with a reference group at school.

- **Conformity:** Conformity the way we modify out behavior in order to fit in with group norms. Norms are "normal" behavioral expectations that are considered appropriate within the group. To illustrate, in a school lecture setting, you might conform to the group norm of raising your hand to make a comment or question, rather than shouting out to the teacher.
- **Group communications through opinion leaders:** As consumers, we are constantly seeking out the advice of knowledgeable friends or acquaintances who can provide information, give advice, or even make the decision for us. In some product categories, there are professional opinion leaders who are easy to identify, such as auto mechanics, beauticians, stock brokers, or physicians. In a school setting, an opinion leader might be a favorite teacher who does a good job explaining the material, a popular administrator who communicates well with students and parents, or a well-liked fellow student who is willing to assist when peers ask for help–or all of these individuals.
- **Word-of-mouth influence:** Consumers are influenced by the things they hear other people say. This is "word-of-mouth" communication. It happens every time you ask someone for a recommendation or an opinion about a product or service, and every time someone volunteers an opinion. *Do you know a good dentist? Where should we go for lunch? Have you heard that new song from . . . ?* Not surprisingly, research consistently shows that word-of-mouth information from people they know is more credible than advertising and marketing messages. Word-of-mouth influence in the school reference group example might include students discussing which Spanish instructor is better, or where to shop for a dress to wear to the homecoming dance.

Reference groups and opinion leaders are essential concepts in digital marketing, where consumers tap into a variety of social networks and online communities. Marketers need to understand which reference groups influence their target segments and who the opinion leaders within these groups are. Those leaders may be bloggers, individuals with many followers who post frequently on various social media, and even people who write lots of online reviews. Then marketing activity can focus on winning over the opinion leaders. If you manage to get the opinion leaders in your segment to "like" your product, "follow" your brand, tweet about your news and publish favorable reviews or comments on their blogs, your work with online reference groups is going well. (You'll recall from the module on ethics that this was the strategy Microsoft adopted—and misgauged—when it attempted to influence opinion leaders with its gifts of free laptops loaded with its latest operating system.)

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1. Holland, Stephanie. "Marketing to Women Quick Facts." *She-Conomy*, 15 Sept. 2016, http://she-conomy.com/report/marketing-to-women-quick-facts. ↵
2. https://journalofinternationalmanagement.wordpress.com/2011/05/16/walmarts-downfall-in-germany-a-case-study/ ↵
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# 2.4: Psychology

## Psychological Factors

### Consumer Decisions and the Workings of the Psyche

When we talk about psychological factors that influence consumer decisions, we are referring to the workings of the mind or psyche: motivation, learning and socialization, attitudes and beliefs.

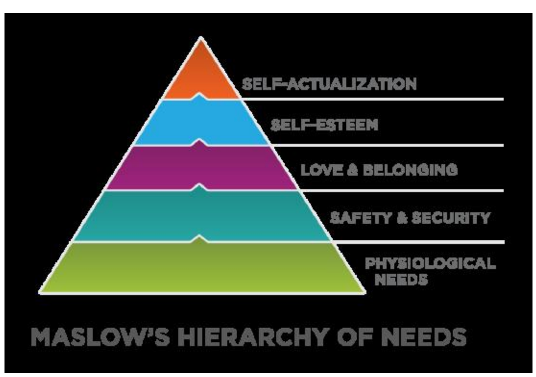
#### Motivation


A motive is the inner drive or pressure to take action to satisfy a need. A highly motivated person is a very goal-oriented individual. Whether goals are positive or negative, some individuals tend to have a high level of goal orientation, while others tend to have a lower level of goal orientation. People may display different levels of motivation in different aspects of their lives. For example, a high school junior may be flunking trigonometry (low motivation) while achieving champion performance levels at the video game Guitar Hero (high motivation).

In order for any consumer purchasing decision to happen, the need must be aroused to a high enough level that it serves as a motive. At any given time, a person has a variety of needs that are not of sufficient urgency to generate the motivation to act, while there are others for which he is highly motivated to act. The forces that create a sense of urgency and motivation may be internal (people get hungry), environmental (you see an ad for a Big Mac), or psychological (thinking about food makes you hungry).

For motivation to be useful in marketing practice, it is helpful for marketing managers to understand how motivation plays into a specific purchasing situation—what triggers consumers to set goals, take action, and solve their need-based problems.

Motivation starts with an unmet need, as does all consumer problem solving. One of the best-known theories about individual motivation is the work of A. H. Maslow, known as the hierarchy of needs. Maslow developed a model that lays out five different levels of human needs. These needs relate to one another other in a “need hierarchy,” with basic survival-oriented needs at the lower levels of the hierarchy, building up to higher emotional needs associated with love, self-esteem, and self-fulfillment. This hierarchy is shown in the figure below:




*Physiological needs* are at the first level of Maslow’s hierarchy: hunger, thirst, and other basic drives. All living beings, regardless of their level of maturity, possess physiological needs. Physiological needs are omnipresent and recur throughout nature.

*Safety and security* are second in Maslow's hierarchy. Safety and security needs imply a continued fulfillment of physiological needs, as well as the absence of the threat of physical harm. Safety and security encompass both physical and financial security, because financial security is linked to a person's ability to have her physiological needs met. Health and physical well-being and protection from accidents are also associated with this level of need. This is considered an extension of the more basic needs.

*Love and belonging* are third in Maslow's hierarchy of needs. Love encompasses the needs for belonging, friendship, human intimacy, and family. They involve a person's interaction with others and the need to feel accepted by social groups, large or small.

*Self-esteem* is the fourth level. Self-esteem includes the need to feel good about oneself, to be respected and valued by others, and to have a positive self-image.

*Self-actualization* is the fifth and highest level in Maslow's needs hierarchy. Also described as "self-fulfillment," this is the need humans feel to reach their full potential and to accomplish all that they can with their talents and abilities. Different people may express this need in very different ways: for one person, self-actualization might involve musical or artistic pursuits, for another, it's parenting, and for a third the focus might be athletics. At different points in their lives, individuals may express this need through different pursuits.

In his work, Maslow asserts that these five levels of needs operate on an unconscious level. In other words, people may not even be aware that they are concentrating on one particular level of need or an assortment of needs. Maslow's theory suggests that lower levels of need must be met before an individual can focus on higher-level needs. At the same time, a person may experience several different needs simultaneously. How an individual is motivated to act depends on the importance of each need.

When we think about Maslow's needs hierarchy in the context of marketing and segmentation, we might use the hierarchy to help identify a common level of needs for a given segment. Effective and powerful marketing may operate at any level of Maslow's hierarchy. Consider the following examples:

- In-N-Out Burger's freeway billboards featuring a giant, 3-D cheeseburger (physiological needs*)*
- Procter & Gamble's "Thank You Mom" ad campaign featuring dedicated parents of Olympic athletes and their loving relationships (love & belonging)
- The U.S. Army's famous "Be All You Can Be" slogan and advertising campaigns encouraging young adults to join the army (self-actualization), shown in the following video.

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# 2.5: Cultures and Subcultures

## Learning and Socialization

In the context of consumer behavior, learning is defined as changes in behavior that result from previous experiences. Learning is an ongoing process that is dynamic, adaptive, and subject to change. Learning does not include behavior associated with instinctive responses or temporary states of an individual, such as hunger, fatigue, or sleep.

Learning is an experience and practice that actually brings about changes in behavior. For example, in order to learn to play tennis, you might learn about the rules of the game and the skills tennis players need. You would practice the skills and participate in tennis games to gain experience. Learning can also take place without actually participating in the physical experience. You can learn about something conceptually, too. In other words, you could learn to play tennis by observing experts and reading about it without actually doing it. This is called *nonexperiential learning*.

Consumer decisions can be influenced by both experiential and nonexperiential learning. Take an example of buying wine. Suppose you are at a winery and you are considering buying a bottle of zinfandel, which you have never tried before. If you taste the wine and discover you don't care for the strong, spicy flavor, you have learned experientially that you don't like zinfandel. On the other hand, you could ask the tasting-room host about the flavor of zinfandel, and she might say that it resembles strong ginger ale, in which case you might decide not to buy the wine because you don't like ginger ale. In this second case, you have learned about the product nonexperientially.

Marketing relies heavily on nonexperiential learning, using tactics like customer testimonials, case studies, and blogger reviews to teach new customers through the experiences and opinions of others. Consumers themselves seek out resources for nonexperiential learning when they read book and product reviews on Amazon, film reviews on Rotten Tomatoes, and restaurant reviews on Yelp.

Another characteristic of learning is that the changes may be immediate or anticipated. In other words, learning may be taking place even if there is no evidence of it. We can store our learning until it's needed, and we do this often with purchasing decisions. For example, a person might read up on product reviews for the latest set of tablet computers even though she doesn't expect to buy one soon. Eventually she may be in the market, and at that point she can put her learning to use.

*Reinforcement* is the process of having your learning validated through rewards or punishments, which confirm that what you learned was correct. Over time, reinforcement can shape strong patterns of behavior. Suppose a consumer's first car purchase is a Subaru. He loves the car and finds it to be safe, reliable, energy efficient, and a great value for the money. Each positive experience with his car rewards him and reinforces what he has learned about Subarus: they are great cars. When he decides to replace the car, positive reinforcement will almost certainly lead him to consider a Subaru again. Reinforcement can work in positive or negative ways, with consumers experiencing rewards or punishments that influence their decisions.

*Socialization* is the process by which people develop knowledge and skills that make them more or less able members of their society. Socialized behaviors are learned and modified throughout a person's lifetime. This social learning approach stresses "socialization agents" (i.e., other people), who transmit cognitive and behavioral patterns to the learner. These people can be anyone: a parent, friend, celebrity spokesperson, teacher, role model, etc. In the case of socialization in consumer behavior, this takes place in the course of the person's interaction with other people in various social settings. Socialization agents may include any person, organization, or information source that comes into contact with the consumer.

Consumers acquire this information from other individuals through the processes of modeling, reinforcement, and social interaction. *Modeling* involves imitation of the agent's behavior. For example, a teenager may acquire a brand-name preference for Adidas from friends and teammates. Marketers can take advantage of this idea by employing product spokespeople who have strong credibility with their target consumers, as in the case of NBA star LeBron James for Nike. As noted above, *reinforcement* involves either a reward or a punishment mechanism used by the agent. When a colleague compliments a coworker on her outfit, it conveys a rewarding message about the type of clothing to wear to work. Marketers may use reinforcement by providing good product performance, excellent post-purchase services, or some similar rewarding experience. Social interaction may include a combination of modeling and reinforcement in a variety of social settings. These variables can influence learning by having an impact on the relationship between the consumer and other people.

#### Attitudes and Beliefs

Attitudes and beliefs represent another psychological factor that influences consumer behavior. A *belief* is a conviction a person holds about something, such as "dark chocolate is bitter," or "dark chocolate is delicious," or "dark chocolate is good for baking." An *attitude* is a consistent view of something that encompasses the belief as well as an emotional feeling and a related behavior. For example, an attitude toward dark chocolate may be expressed as a belief ("dark chocolate is delicious"), a feeling ("dark chocolate makes me happy"), and a behavior ("I eat dark chocolate every afternoon as a pick-me-up").

People have beliefs and attitudes about all sorts of things: food, family, politics, places, holidays, religion, brands, and so on. Beliefs and attitudes may be positive, negative, or neutral, and they may be based on opinion or fact. It is important for marketers to understand how beliefs and attitudes affect consumer behavior and decision making. If an incorrect or detrimental belief exists among the general population or a target audience, marketing efforts may be needed to change people's minds.

For example, in 1993, rumors erupted and spread widely about a syringe allegedly being found inside a can of Diet Pepsi. The entire incident turned out to be a hoax, but PepsiCo responded not only with strong immediate public statements but also with videos and a public relations campaign to quell the rumors and reassure consumers that Pepsi products are safe.

Beliefs and attitudes do not always translate into behaviors: in some situations customers may choose to do something despite their personal views. Suppose a consumer likes pizza but doesn't like Pizza Hut. In a social setting where everyone else wants to go to Pizza Hut for dinner, this person might go along with the group rather than dining alone or skipping dinner.

When consumer attitudes present a major stumbling block, marketers have two choices: either they can change consumers' attitudes to conform with their product, or they can change the product to match attitudes. Often it is easier to change the product than to change consumers' attitudes. Attitudes can be very difficult to change, chiefly because they are intertwined with a pattern of beliefs, emotions, and behaviors. Changing the attitude requires changing the whole pattern. As a rule, it is easier for marketing to align with existing attitudes rather than trying to alter them.

However, marketers may look for opportunities to reshape or create new attitudes in moments when consumers may be more open-minded, as with a product redesign or a new product introduction.

### Video: Consumer Attitudes and Heinz Baked Beans

#### Putting Consumer Attitudes and Beliefs to the Test

Just how powerful are consumer attitudes and beliefs? Are they so powerful that they can fool consumers during a taste test?

Watch the following video to see the power of consumer attitudes in action as a journalist conducts a taste test to see whether people's brand-loyal attitudes can overrule the reality of what they are tasting.

Read a transcript for the video “Heinz and Packaging.”

## Social Factors

### People Influencing People

Social factors represent another important set of influences on consumer behavior. Specifically, these are the effects of people and groups influencing one another through culture and subculture, social class, reference groups, and family.

#### Culture

A person’s *culture* is represented by a large group of people with a similar heritage. Culture exerts a strong influence on a person’s needs and wants because it is through culture that we learn how to live, what to value, and how to conduct ourselves in society. The American culture, which is a subset of the Western (European) culture, will be the primary focus of this discussion, although other societies in other parts of the world have their own cultures with accompanying traditions and values.

Traditional American culture values include freedom, hard work, achievement, security, self-reliance, community involvement, and the like. Marketing strategies targeted to people with a common cultural heritage might demonstrate how a product or service reinforces these traditional values. There are three components of culture that members of that culture share: beliefs, values, and customs. As discussed in the prior section, a *belief* is a proposition that reflects a person’s particular knowledge or opinion of something. *Values* are general statements that guide behavior and influence beliefs. The function of a value system is to help people choose between alternatives in everyday life and prioritize choices that are most important to them personally.


*Customs* are traditional, culturally approved ways of behaving in specific situations. For example, in the United States, Thanksgiving is a holiday celebrated on the fourth Thursday in November with the custom of feasting with family and offering thanks for the things we appreciate in life. Taking your mother to dinner and giving her gifts for Mother's Day is an American custom that Hallmark and other card companies support enthusiastically.

Understanding customs is hugely important for marketing to consumers, because many customs represent occasions for spending money, and culture dictates the appropriate things to buy in order to honor the custom. The power of culture is evident when you think about the tens of millions of Americans who buy Valentine's Day flowers in February, chocolate Easter eggs in April, Independence Day fireworks in July, Halloween candy in October, and all kinds of food and gifts throughout the holiday season.

It is worth noting that for marketers anywhere in the world, it is essential to develop a strong understanding of the local culture and its accompanying beliefs, values, and customs. Culture is how people make sense of their society, its institutions, and social order. Culture frames how and what people communicate, how they express what is proper and improper, what is desirable and detestable. Without an understanding of culture, marketers are not really even speaking the right language to the consumers they want to target. Even if the words, grammar, and pronunciation are correct, the meaning will be off.

An expensive example of a massive cultural blunder was Wal-Mart's short-lived foray into Germany. In 2006, the retailer pulled out of Germany after opening eighty-five stores in six years. The company expected success in Germany using the formula that works well in the U.S.: streamlined supply chain, low-priced products sold in big stores with wide selection and long operating hours. What Wal-Mart didn't account for was the strong cultural preference in Germany for several things that directly oppose the Wal-Mart model. Germans prefer small and medium-sized retailers grounded in local communities. They have a cultural suspicion of low prices, which create concern about quality. German law includes significant restrictions on retail establishments' operating hours and many labor protections, and these laws are viewed, in part, as important in protecting the German quality of life. Due in large part to these cultural disconnects, Wal-Mart was unable to sustain successful operations.[2]

### Subculture

Subcultures are cohesive groups that exist within a larger culture. Subcultures develop around communities that share common values, beliefs, and experiences. They may be based on a variety of different unifying factors. For example, subcultures exist around the following:

- Geography: Southerners, Texans, Californians, New Englanders, midwesterners, etc.
- Ethnicity: Latinos, Asian Americans, African Americans, etc.
- Religion: Catholics, Jews, Mormons, Baptists, Muslims, etc.
- Nationality: Italians, Koreans, Hungarians, Japanese, Ethiopians, etc.
- Occupation: military, technology worker, state department, clergy, educator, etc.

Subcultures can represent huge opportunities for marketers to make a significant impact within a population that may feel underserved by companies operating in the mainstream market. Individuals with strong subcultural identity are likely to welcome organizations that seem to understand them, speak their subcultural language, and satisfy their subculture-specific needs.

In the United States, many organizations and marketing activities focus on major ethnicity-based subcultures such as Latinos, Asian Americans, and African Americans. Each subculture has distinct experiences living and working within the broader U.S. culture, and it has shared customs and values that shape their consumer needs and preferences. As each of these subcultures grows in size and buying power, they become a distinct market for companies to woo.

A noted example of effective marketing to a subculture is Ford Motor Company's approach to serving the African American community. Ford invests in advertising campaigns that specifically target the black community and celebrate its diversity. Ford supports a number of scholarship and community-building programs at historically black colleges and universities (HBCUs). Through public relations activities, Ford maintains a presence at significant events, such as the Essence Festival and the BET Awards.[3]

The following video shows how a shopping mall managed to save itself by catering and marketing to the Latino subculture.

Read a transcript of the video “Demise of the Mall and Reinvention”.

### Social Class

Some manifestation of *social class* is present in virtually every society. It’s determined by a combination of factors including family background, wealth, income, education, occupation, power, and prestige. Like culture, it affects consumer behavior by shaping individuals’ perceptions of their needs and wants. People in the same social class tend to have similar attitudes, live in similar neighborhoods, attend the same schools, have similar tastes in fashion, and shop at the same types of stores.

In some nations, the social class system is quite rigid, and people are strongly encouraged to stay within their own class for friendships, marriage, career, and other life decisions. In other countries, such as the United States, social class is more permeable, and people can move between classes more easily based on their circumstances, behaviors, and life choices. Social class mobility is an important value in mainstream American culture and is part of our collective belief system about what makes the nation great.

In the U.S., the most common social classification system is illustrated in the figure below.

### Social Class in the United States

Upper Class makes up 1% of the population. Characteristics of the upper class include

- Heirs, celebrities, top corporate executives
- $500,000+ income
- Elite education is common

Upper Middle Class makes up 15% of the population. Characteristics of the upper middle class include

- Managers, professionals
- $100,000+ income
- Highly educated, college and graduate degrees are likely

Lower Middle Class makes up 32% of the population. Characteristics of the lower middle class include

- Skilled contractors, craftspeople, artisans, semi-professionals, autonomy in work environment is common
- $35,000 to $75,000 income
- Some college, training, secondary education is likely

Working class makes up 32% of the population. Characteristics of the working class include

- Clerical, blue- and pink-collar workers, job security is often a problem.
- $16,000 to $30,000 income
- High School Education

Lower Class makes up 20% of the population. Characteristics of the lower class include

- Poorly paid positions and/or reliance on government assistance
- Some high school education

*Source: Thompson, W. & Hickey, J. (2005). Society in Focus. Boston, MA: Pearson, Allyn & Bacon.*

For marketers, social class may be a useful factor to consider in segmentation and targeting. It provides helpful context about how consumers view themselves and their peer groups, their expectations, life experiences, income levels, and the kinds of challenges they face. For example, if a marketer wishes to target efforts toward the upper classes, they should realize that, first, this is a very small proportion of the population, and second, the market offering must be designed to meet their high expectations in terms of quality, service, and atmosphere. Having enough money is a persistent concern for people in the lower, working, and lower middle classes, so price sensitivity and value for the money are important for products targeting these groups.

### Reference Groups

Consumer behavior can be influenced by the groups a person comes into contact with, through friendship, face-to-face interaction, and even indirect contact. Marketers often call these reference groups. A *reference group* may be either a formal or informal group. Examples include churches, clubs, schools, online social networks, play groups, professional groups, and even a group of friends and acquaintances. Individuals may be influenced by the groups of which they are members. They may also be influenced by *aspirational groups*–a reference group a person hopes to belong to one day, such as young boys hoping to grow up and become Major League Soccer (MLS) players.

Reference groups are characterized by having individuals who are opinion leaders for the group. *Opinion leaders* are people who influence others. They are not necessarily higher-income or better educated, but others may view them as having greater expertise, broader experience, or deeper knowledge of a topic. For example, a local high school teacher may be an opinion leader for parents in selecting colleges for their children. In a group of girlfriends, one or two may be the opinion leaders others look to for fashion guidance. These people set the trend and others conform to the expressed behavior. If a marketer can identify the opinion leaders for a group in the target market, then she can direct efforts towards attracting these people.

The reference group can influence an individual in several ways:

- **Role expectations:** Reference groups prescribe a role or way of behaving based on the situation and one's position in that situation. For example, as a student, you are expected to behave in a certain basic way under certain conditions when interacting with a reference group at school.
- **Conformity:** Conformity the way we modify out behavior in order to fit in with group norms. Norms are "normal" behavioral expectations that are considered appropriate within the group. To illustrate, in a school lecture setting, you might conform to the group norm of raising your hand to make a comment or question, rather than shouting out to the teacher.
- **Group communications through opinion leaders:** As consumers, we are constantly seeking out the advice of knowledgeable friends or acquaintances who can provide information, give advice, or even make the decision for us. In some product categories, there are professional opinion leaders who are easy to identify, such as auto mechanics, beauticians, stock brokers, or physicians. In a school setting, an opinion leader might be a favorite teacher who does a good job explaining the material, a popular administrator who communicates well with students and parents, or a well-liked fellow student who is willing to assist when peers ask for help–or all of these individuals.
- **Word-of-mouth influence:** Consumers are influenced by the things they hear other people say. This is "word-of-mouth" communication. It happens every time you ask someone for a recommendation or an opinion about a product or service, and every time someone volunteers an opinion. *Do you know a good dentist? Where should we go for lunch? Have you heard that new song from . . . ?* Not surprisingly, research consistently shows that word-of-mouth information from people they know is

more credible than advertising and marketing messages. Word-of-mouth influence in the school reference group example might include students discussing which Spanish instructor is better, or where to shop for a dress to wear to the homecoming dance.

Reference groups and opinion leaders are essential concepts in digital marketing, where consumers tap into a variety of social networks and online communities. Marketers need to understand which reference groups influence their target segments and who the opinion leaders within these groups are. Those leaders may be bloggers, individuals with many followers who post frequently on various social media, and even people who write lots of online reviews. Then marketing activity can focus on winning over the opinion leaders. If you manage to get the opinion leaders in your segment to "like" your product, "follow" your brand, tweet about your news and publish favorable reviews or comments on their blogs, your work with online reference groups is going well. (You'll recall from the module on ethics that this was the strategy Microsoft adopted—and misgauged—when it attempted to influence opinion leaders with its gifts of free laptops loaded with its latest operating system.)

Family

One of the most important reference groups for an individual is the family. A consumer's family has a major impact on attitude and behavior, and families themselves are critically important in society as consumer units. Many consumer decisions are made by family members on behalf of the family, so understanding the family consumer decision-making dynamics around your product is essential.

Depending on the product or service under consideration, different family members may be in the role of primary decision maker or influencer. In some cases, the husband is dominant, in others the wife or children, and still other cases, families make joint decisions. Traditionally the wife has made the primary decisions around store choice and brands for food and household items, although this has evolved somewhat as more women participate in the workforce. A joint decision is typical for purchases involving a larger sum of money, such as a refrigerator or a vehicle. Teenagers may exercise a lot of influence over their own clothing purchases. Children may heavily influence food and entertainment choices. Of course, decision dynamics within any individual family can vary, but marketers need to understand the general tendencies around family decision making for the product or service in question.

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# CHAPTER OVERVIEW

## 3: Value Propositions

# 3.1: Communicating the Value Proposition

## What Is a Value Proposition?

We have discussed the complexity of understanding customer perceptions of value. As the company seeks to understand and optimize the value of its offering, it also must communicate the core elements of value to potential customers. Marketers do this through a value proposition, defined as follows:

A business or marketing statement that summarizes why a consumer should buy a product or use a service. This statement should convince a potential consumer that one particular product or service will add more value or better solve a problem than other similar offerings.[1]

It is difficult to create an effective value proposition because it requires the marketer to distill many different elements of value and differentiation into one simple statement that can be easily read and understood. Despite the challenge, it is very important to create an effective value proposition. The value proposition focuses marketing efforts on the unique benefit to customers. This helps focus the offering on the customer and, more specifically, on the unique value to the customer.

A value proposition needs to very simply answer the question: Why should someone buy what you are offering? If you look closely at this question it contains three components:

- **Who?** The value proposition does not name the target buyer, but it must show clear value to the target buyer.
- **What?** The offering needs to be defined in the context of that buyer.
- **Why?** It must show that the offering is uniquely valuable to the buyer.

## How Do You Create an Effective Value Proposition?

When creating or evaluating a value proposition, it is helpful to step away from the long lists of features and benefits and deep competitive analysis. Stick to the simple, and strive for focus and clarity.

**A value proposition should be clear, compelling, and differentiating:**

- Clear: short and direct; immediately identifies both the offering and the value or benefit
- Compelling: conveys the benefit in a way that motivates the buyer to act
- Differentiating: sets the offering apart or differentiates it from other offerings

Also, the value proposition is a message, and the audience is the target customer. You want your value proposition to communicate, very succinctly, the promise of unique value in your offering.

**? ? Try It**

Click on the link below to read a nice description of the value proposition from a marketing consultant's perspective:

- "How to Write a Great Value Proposition" on Quick Sprout.

1. Twin, Alexandra. "Value Proposition." Investopedia. Accessed September 10, 2019. http://www.investopedia.com/terms/v/valueproposition.asp↵

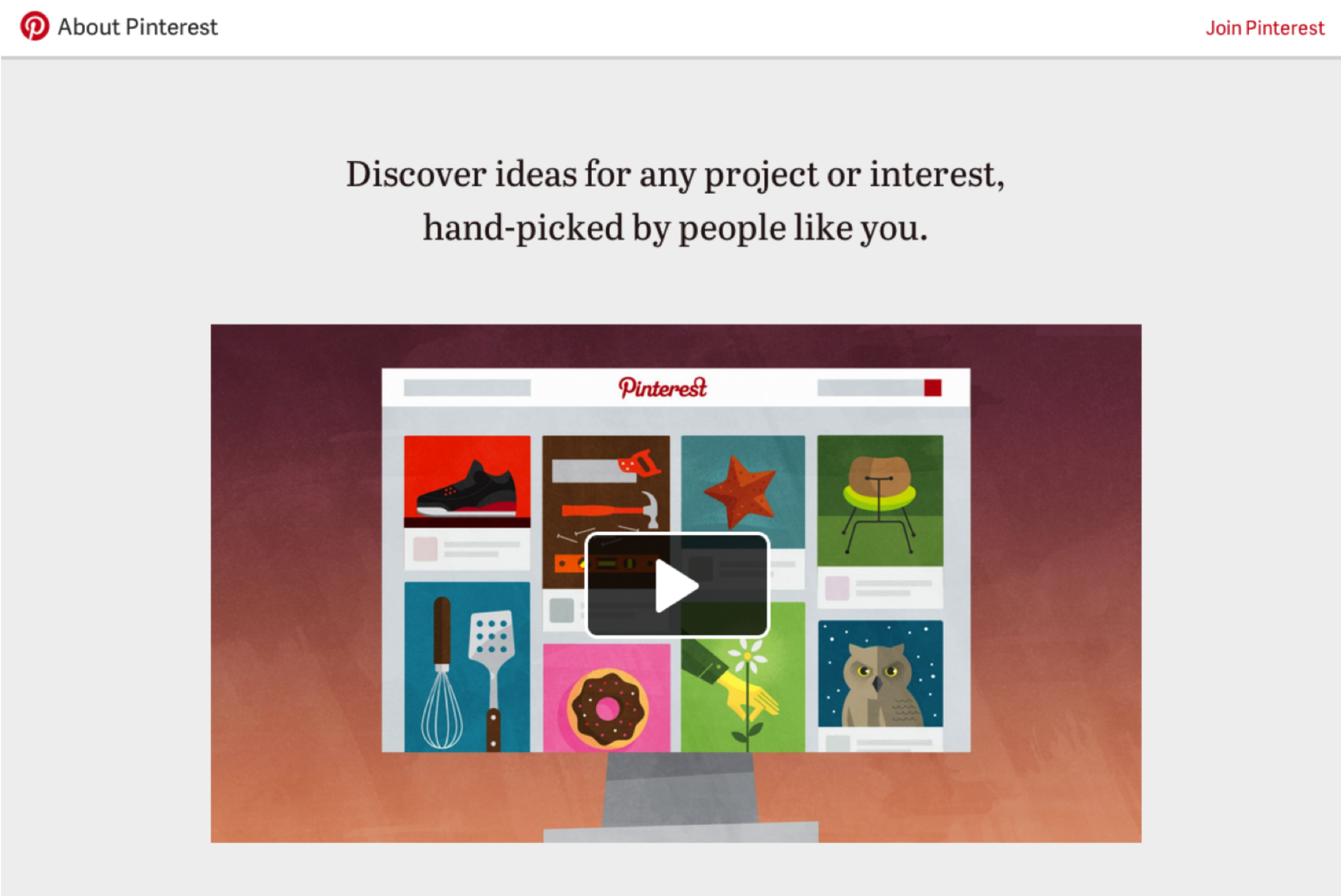
## Contributors and Attributions

# 3.2: Value Proposition Examples

## The Value Proposition in Action

Let’s take a look at some real examples and evaluate them. Are they clear, compelling, and differentiating? Keep in mind that you may not be the target market for all of these examples. Your role as a marketer is to evaluate them from the perspective of the target customer.

### Pinterest




Source:
https://www.pinterest.com/

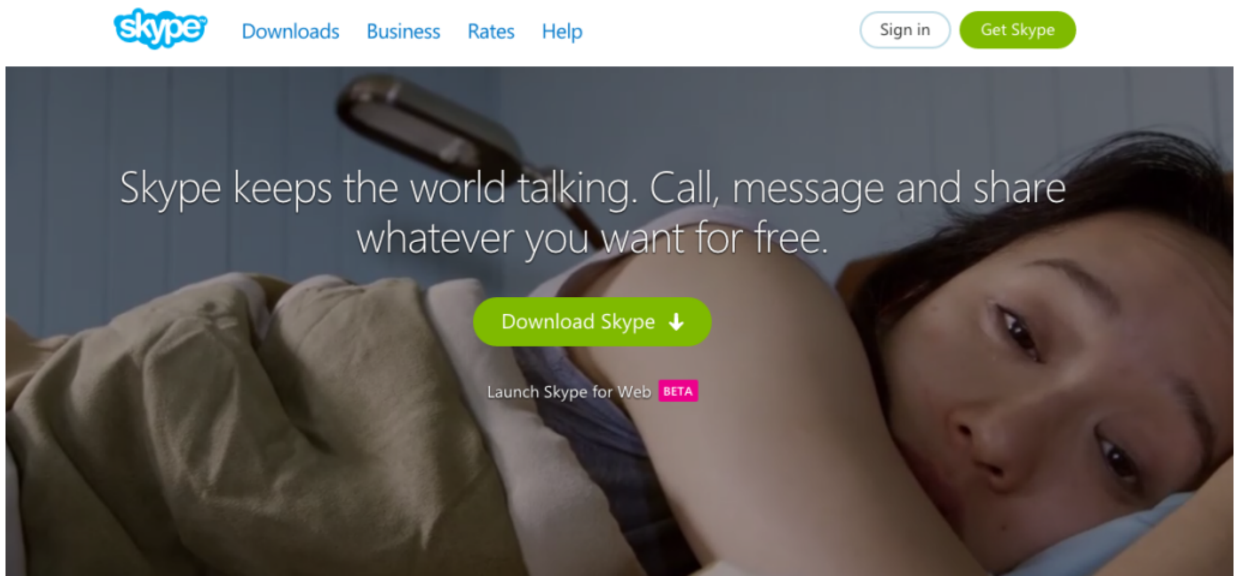
This value proposition doesn’t offer a lengthy description of what Pinterest is and how it works. It simply states the benefit Pinterest provides to its users.

Notice the use of the phrase “people like you.” The value proposition connects you to the site’s other users through your own interests. It implies that a friendly community of “people like you” awaits you and is interested in helping you.

Is the value proposition sufficiently clear to you? Does it give you enough information to know whether the offering is of interest to you?

The greatest challenge in creating an effective value proposition is striking a balance between being clear and communicating enough value.

### Skype



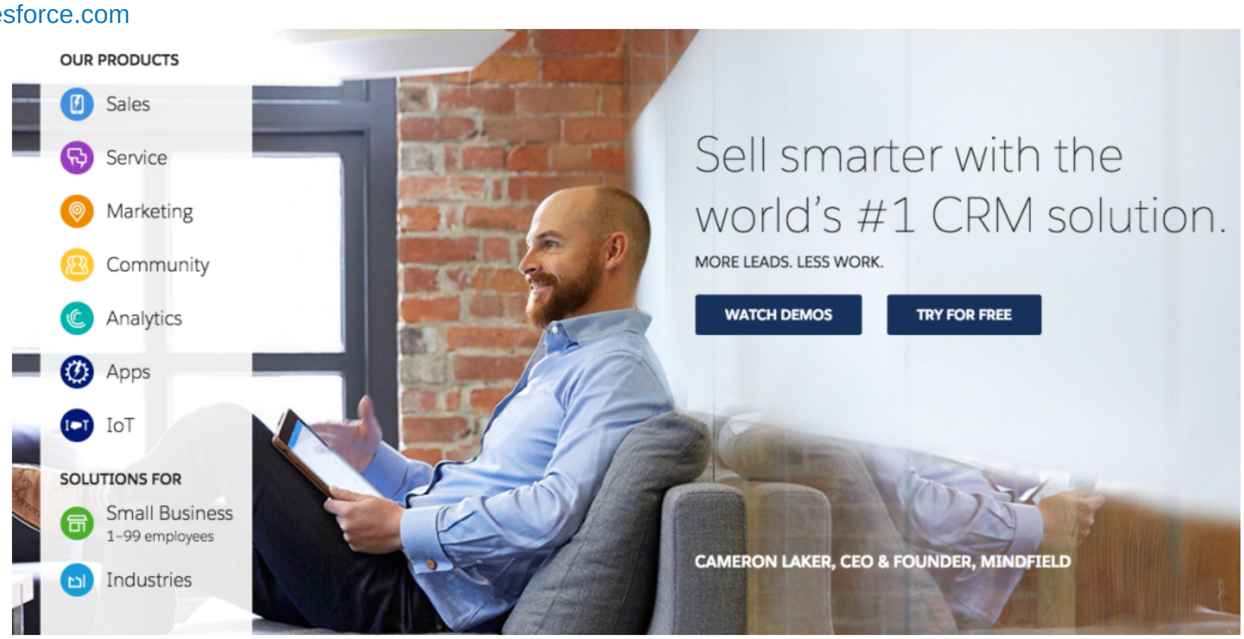

Source: Skype.com/

The value proposition first highlights Skype's broad use, which is an important feature for its network-based approach.

Next it describes the offering. Skype provides more information than Pinterest does about what its offering is—and it highlights the fact that it's free. Pinterest is also free, but doesn't disclose this in its value proposition. Is one approach better than the other? Why might a company want to emphasize that its product is free while another does not? In this case, it's probable that Pinterest conducted research and learned that users expect Pintarest to be free, since that's the case with many other social sharing sites. In contrast, since Skype is competing with traditional paid services like cell service providers, free access is an important differentiator.

Again, notice the use of the word "you" in the value proposition.

## Salesforce.com

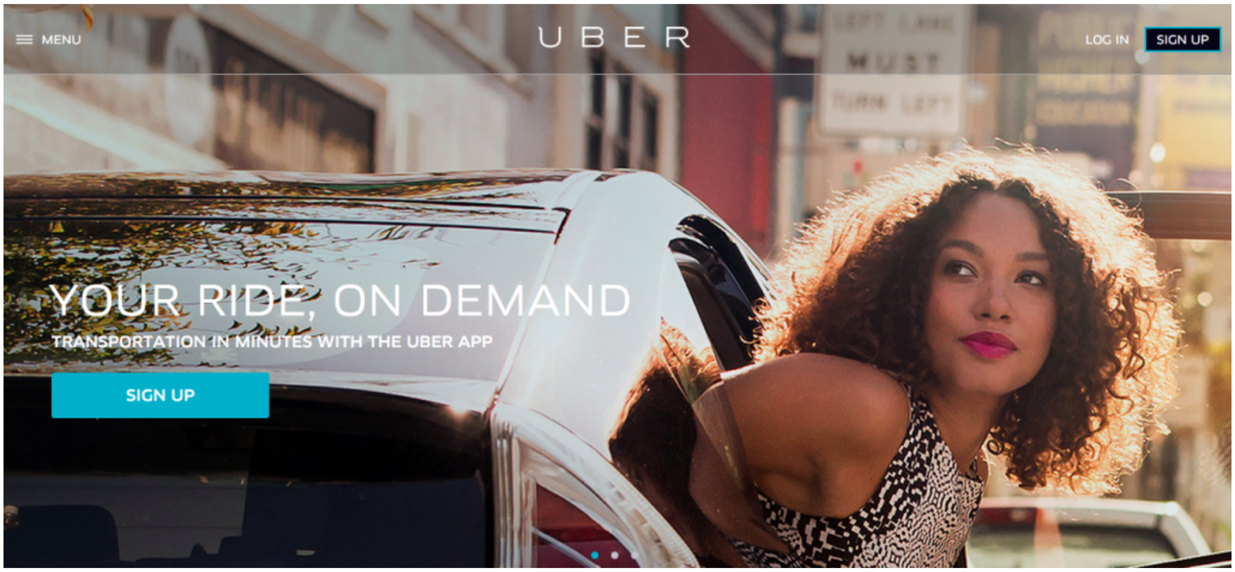



Source: http://salesforce.com/

The value proposition for Salesforce.com includes the acronym CRM, which stands for customer relationship management software. Not everyone knows this acronym, but Salesforce is confident that its target customers do, and it's betting that they are seeking such a system to improve sales management processes and results.

The value proposition cuts to the offering's core benefit—improved sales results—and highlights its strong ("world's #1") market position.

### Uber




Source: Uber.com/

This value proposition is very simple, but it says enough about the value that you may want to learn more about how it works.

In just a few words, the value proposition explains that you can get a ride when you need it using your phone. It emphasizes convenience in a number of ways by using the phrases "on demand" and "in minutes." There is also a subtle use of the word "your." Uber provides **your** ride. *You* are in charge.

## Contributors and Attributions

# 3.3: From Talking to Consumers to Talking with Consumers

## LEARNING OBJECTIVES

After studying this section, students should be able to do the following:

1. *Describe* the traditional linear communications model.
2. *Describe* the new interactive, nonlinear, multivocal communications model.

## The Traditional Linear Communications Model

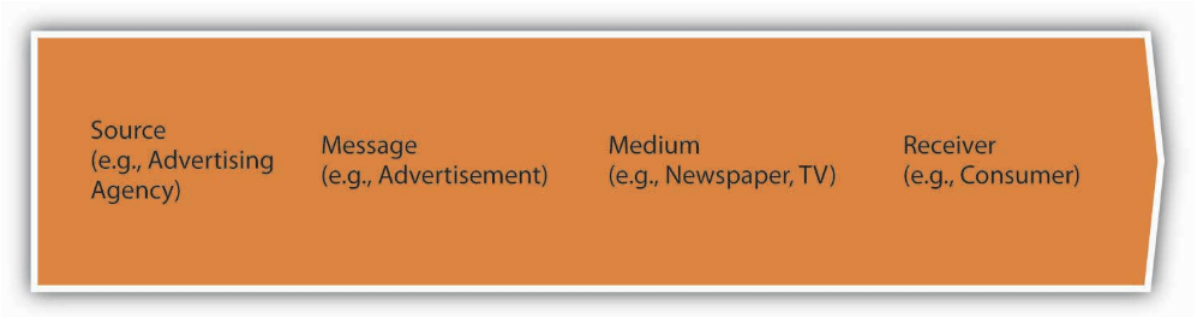



Figure 4.2 The Traditional Communications Model

For most of history, advertisers talked *to* consumers—the **traditional communications model** was a one-way street. It was pretty simple, really: The *source* (such as an advertising agency) created a *message* (the advertisement) and selected the *medium* (newspaper, TV, outdoor, etc.) that carried it to the *receiver* (the consumer). The consumer may have given feedback to the source about the message (typically only indirectly, namely by buying the advertised product or service or not)—and of course she may have ignored it, just as people often do today—but the line of communication was clearly drawn. The producer called the shots and the message was *univocal* (one voice).

## A New Interactive, Nonlinear, Multivocal Communications Model

Flash forward to a more dynamic—and chaotic—picture. Today, advertising messages come from many sources simultaneously through different media that target different receivers (consumers, business partners, stockholders, even government officials). At the same time, receivers talk with one another and they may initiate their own communication with the sender, whether that organization wants to hear it or not.

The **updated communications model** is interactive, nonlinear, and *multivocal* (many voices). In addition, consumers now may choose to opt out of listening to a particular message—they often get to decide which messages they see or hear, and when. In the old days, opting out meant getting up to make a sandwich when a TV commercial came on, but today many of us have a lot more control to determine what messages will appear for us to consider in the first place. For marketers, this **permission marketing** strategy makes sense (even though some may be indignant that they're losing control over the situation). The rationale is very simple: A message is more likely to persuade consumers who have agreed to listen to it in the first place.

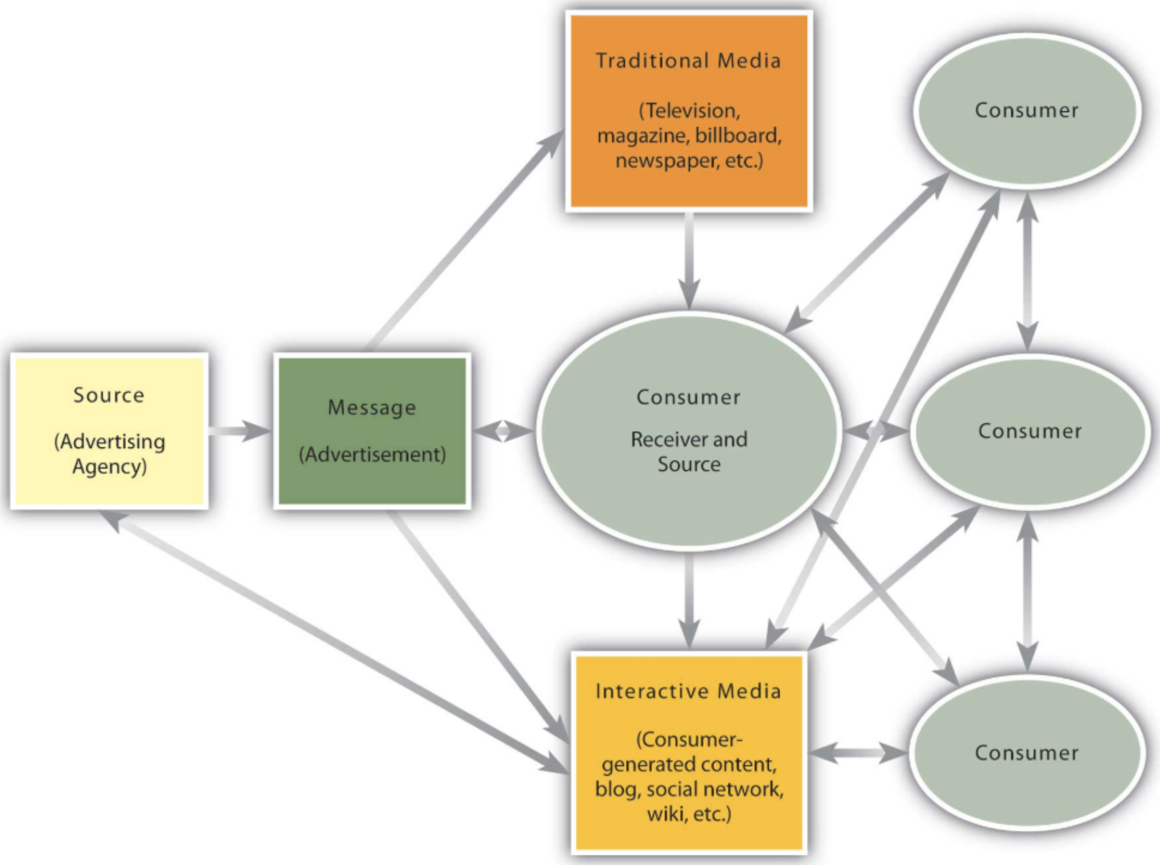



Figure 4.3 A New Interactive, Nonlinear, Multivocal Communications Model

Seth Godin, founder of direct interactive marketing agency Yoyodyne (which Yahoo! later acquired) explains the importance of permission marketing: "We're getting good at avoiding spam: e-mail spam, newspaper spam, TV spam, calling-me-at-home-over-dinner spam. The point of advertising shouldn't be to interrupt more people who don't want to talk to us." To be heard above the noise, advertisers should seek permission from people to tell their story and begin a private, personal conversation that revolves around mutual interest and respect.Quoted in "Expert Tells Marketers: To Be Memorable, Get Permission" *InformationWeek*, May 18, 2007, http://www.informationweek.com/news/internet/showArticle.jhtml?articleID=199602077 (accessed May 18, 2007).

## Understand Communication to Create Effective Advertising

If we understand the communications model, we appreciate how messages affect people, how people make purchase decisions, and what influences these choices. These issues can help advertisers understand why people accept some messages while they ignore others. After all, it's frustrating to be ignored—but in the world of advertising it's also expensive.

### Key Takaway

We are used to thinking about communication as a one-way process that moves from a source who chooses what to say, how to say it, and where to say it to a receiver who either absorbs the message or not. That basic assumption is no longer valid in many cases, as consumers today become more proactive in the communications process. This creates many more interesting advertising possibilities, but it's also harder to control the process once the inmates run the asylum.

### EXERCISES

1. Describe the traditional communications model. How does it differ from the updated communications model?
2. Explain why permission marketing is so important to today's marketer and advertiser.

# 3.4: Is the Medium the Message? Components of Communications

## LEARNING OBJECTIVES

After studying this section, students should be able to do the following:

1. *Identify* the components of communication that one must master to successfully communicate with consumers.
2. *Compare and contrast* one-sided versus two-sided messages.

Elements of who, how, and where an advertiser sends a message significantly affect how—or if—the audience receives it.

## Source Effects

*Who* communicates the message (the *source*) has a big impact on whether a receiver will accept the message. You're a lot more likely to download the latest Rihanna cut if your buddy recommends it than if you get the same advice from your kindly old uncle (unless he happens to be Jay-Z). The power of **source effects**, in fact, underlies the millions that celebrities make when they agree to endorse products. Obviously, advertisers feel it's worth the substantial expense to pay a movie star or athlete to associate themselves with a certain brand's message. Indeed, the pairing of a well-known person with a product is hardly new: Mark Twain's image appeared on packages of flour and cigars in the late 1800s, while Buffalo Bill Cody hawked Kickapoo Indian Oil and Elvis was the face of Southern Maid Doughnuts. What makes an effective source? The important characteristics are credibility and attractiveness.

## Source Credibility

**Source credibility** means that consumers perceive the source (the spokesperson) as an expert who is objective and trustworthy ("I'm not a doctor, but I play one on TV"). A credible source will provide information on competing products, not just one product, to help the consumer make a more informed choice. We also see the impact of credibility in Web sites like eBay or Wikipedia and numerous blogs, where readers rate the quality of others' submissions to enable the entire audience to judge whose posts are worth reading.

## Source Attractiveness

**Source attractiveness** refers to the source's perceived social value, not just his or her physical appearance. High social value comes partly from physical attractiveness but also from personality, social status, or similarity to the receiver. We like to listen to people who are like us, which is why "typical" consumers are effective when they endorse everyday products.

So, when we think about source attractiveness, it's important to keep in mind that "attractiveness" is not just physical beauty. The advertising that is most effective isn't necessarily the one that pairs a Hollywood hottie with a product. Indeed, one study found that many students were more convinced by an endorsement from a fictional fellow student than from a celebrity. As a researcher explained, "They [students] like to make sure their product is fashionable and trendy among people who resemble them, rather than approved by celebrities like David Beckham, Brad Pitt or Scarlett Johansson. So they are more influenced by an endorsement from an ordinary person like them."Quoted in "Celebrity Ads' Impact Questioned," *BBC News*, 27 February 2007, http://news.bbc.co.uk/1/hi/england/somerset/6400419.stm (accessed October 31, 2007).

Still, all things equal, there's a lot of evidence that physically attractive people are more persuasive. Our culture (like many others) has a bias toward good-looking people that teaches they are more likely to possess other desirable traits as well. Researchers call this the "what is beautiful is good" hypothesis.Karen Dion, Ellen Berscheid, and Elaine Walster, "What Is Beautiful Is Good," *Journal of Personality and Social Psychology* 24 (1972): 285–90. Unfortunately, in many cases, while beauty is only skin deep, "ugly is to da bone."Some of the material in this chapter was adapted from Michael R. Solomon, *Consumer Behavior: Buying, Having and Being*, 8th ed. (Upper Saddle River, NJ: Prentice Hall, 2008).

## Is It Better to Be an Expert or Hot?

Is source attractiveness more important than source credibility? The answer depends on the product or service you sell.

*When to use credibility*. If the product is utilitarian and complex (that is, consumers may not know much about how to use it), then a credible expert will be the most effective at persuading people to buy the product or service.

*When to use attractiveness*. If, on the other hand, the item is simple to understand (like clothing) but has a high social risk (that is, we're concerned about the impression we'll make on others if we're seen with this item) then an attractive source will be more persuasive.

Sometimes you're lucky enough to have a spokesperson who is both credible and attractive. This was the case for SS+K's *pro bono* campaign for the United Nations peacekeepers when ads featured hunky UN messenger for peace George Clooney.


Figure 4.4 SS+K used actor George Clooney in its work for the United Nations peacekeepers.

## Message Effects

*How* the message is said or presented is just as important as *who* communicates the message. **Emotional messages** appeal to, resonate with, or attempt to create an emotional response in the receiver. One common emotional message style is the **fear appeal**, which depicts the consequences of not using the product (e.g., social ostracism due to body odor). Another advertising strategy is to use humor. A study by Mediamark Research Inc. found that humor is the element in advertising that most appeals to kids.Mark Dolliver, "Critical Beer Drinkers, Confident Eaters, Etc." *Adweek*, January 8, 2007, 24.

**Rhetorical questions** engage the receiver, *don't they*? The question makes the receiver an active participant even if the medium of the message is passive or one-directional.

*Examples versus statistics*. Although examples and statistics can convey the same information, they do so in very different ways. Examples help put a human face on the product or its use, which creates an emotional connection and helps the receiver see how the product might influence his or her life. Statistics provide cold, hard numbers that may provide a rationale for purchase but not an emotional bond with the brand or product.

Interestingly, even among products whose purchase you might expect to be more rationally driven, such as pharmaceuticals, consumers are persuaded more by words and pictures from people who have had good results using the drug. Having Mrs. Jones's picture with the words "Acme Sleep gave me my first restful night in fifteen years!" turns out to be more persuasive. Indeed, a study that included television ads for seven of the top ten best-selling prescription drugs for 2004 found that 95 percent of them used a positive emotional appeal (such as a character who's happy after taking the product).Alicia Ault, "Drug Ads Play on Emotions," *Family Practice News*, February 15, 2007, 45; Steve Smith, "Mastering the Direct Appeal," *Sleep Review* 8, no. 4 (2007): 54.

**One-sided messages** present only the positive attributes of the product—they provide one or more objective reasons to buy the product. These often include **objective variables** such as price, performance, size, and power.

**Two-sided messages** present both positive and negative information about the product. Although most advertising messages are one-sided, research indicates that a two-sided message is very effective. Although it seems counterintuitive that an advertiser would want to publicize negative attributes of a product, doing so actually builds credibility by making the message more balanced. People who hear only one-sided arguments may be more skeptical of the message, wondering what hasn't been said. **Refutational arguments**, therefore, which raise a negative issue and then refute it can be quite effective if the audience is well educated and if the receivers are not already loyal to the product. (If they are already loyal to the product, then discussing possible drawbacks has little merit and may actually raise doubts.)

**Comparative messages** explicitly trumpet a brand's virtues vis-à-vis one or more named competitors. To promote its latest line of chicken sandwiches, the Arby's fast-food chain aired TV commercials that took direct aim at rivals McDonald's and Wendy's. In one spot, a young man stands in a (fictitious) McDonald's boardroom as he tries to convince McDonald's executives to serve a healthier type of chicken. Framed against a familiar golden arches logo, he proclaims, "I propose that McDonald's stops putting phosphates, salt and water into its chicken. Consider replacing your chicken, that is only about 70 percent chicken, with 100 percent all-natural chicken." Board members break out in laughter. At the end of the spot, a voice-over chimes in: "Unlike McDonald's, all of Arby's chicken sandwiches are made with 100 percent all-natural chicken."Suzanne Vranica, "Arby's TV Spots Play Game of Fast-Food Chicken," *Wall Street Journal*, July 5, 2006, A16. This messaging strategy is more common in the United States than in other cultures like Japan, where it is extremely rare because some people consider it a rather abrupt and even rude way to communicate.

### SS+K Spotlight

SS+K developed a comparative message in recent work for its client My Rich Uncle to draw attention to the different options that parents and students have to pay for college. See the ad below and listen to the radio spot, titled "Ahem." At the beginning of the spot you'll hear a man's voice stating an ISCI code, agency, and title of spot. This is called a *slate*, and it is used by radio stations to ensure they are playing the correct spot.

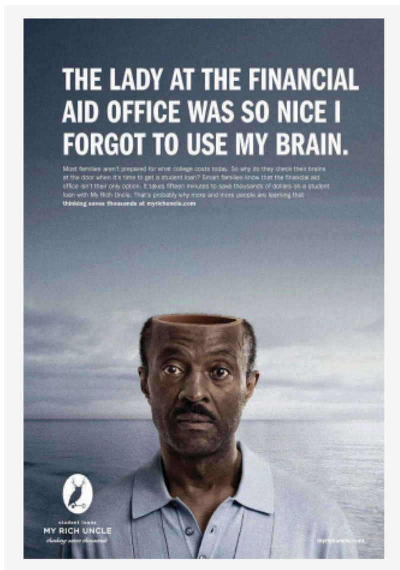



Figure 4.5 One of the Print Ads SS+K Created for Its Client My Rich Uncle

### Audio Clip

*"Ahem"*

http://app.wistia.com/embed/medias/0dd16a8843

*The radio spot "Ahem" features a humorous voice of a brain to continue the comparative approach of the campaign.*

## Situational Effects

*Where* a message is said—that is, our **physical and social environment**—affects how receptive we are to the advertising message. What's part of the physical environment? Surroundings and decor, for example. Our arousal levels rise when we're in the presence of others. This arousal can be positive or negative. Watching a funny movie is often more enjoyable in a full movie theater where everyone else is laughing, too. But if we feel uncomfortably crowded, we may put up our guard.

Intangibles like odors and even temperature affect our ability and desire to listen to messages. Indeed, a growing number of marketers are counting on scents to turn into dollars as they invest in costly new technologies to create scented ads (a magazine ad with a scent strip costs four to eight times as much as an odorless version). Sure, we're used to a bombardment of perfume smells when we open a fashion magazine, but today the boundaries have widened considerably. Kraft Foods promoted its new DiGiorno

Garlic Bread Pizza with a scratch-and-sniff card (good to carry with you if you plan to encounter vampires). On behalf of its client the pay-cable Showtime network, TV Show Initiative (a unit of Interpublic Group) promoted the popular show "Weeds" by adding the scent of marijuana to strips in magazine ads. (So far, no reports of anyone trying to roll up the page and smoke it.)Stephanie Kang and Ellen Byron, "Scent Noses Its Way into More Ad Efforts," *Wall Street Journal*, October 8, 2007, B7.

Finally, the message has to stand out from the **clutter** of competing messages and stimuli, which can be a challenge given the multiple stimuli vying for our attention at any one time. Consumers often are in a state of **sensory overload**, where they are exposed to far more information than they can process. The average adult is exposed to about 3,500 pieces of advertising information every single day—up from about 560 per day thirty years ago.

Getting the attention of younger people in particular is a challenge—as your professor probably knows! By one estimate, 80 percent of teens today engage in **multitasking**, where they process information from more than one medium at a time as they attend to their cell phones, TV, instant messages, and so on.Jennifer Pendleton, "Multi Taskers," *Advertising Age*, March 29, 2004, S8. One study observed four hundred people for a day and found that 96 percent of them were multitasking about a third of the time they used media.Sharon Waxman, "At an Industry Media Lab, Close Views of Multitasking," *New York Times*, May 15, 2006, www.nytimes.com/2006/05/15/technology/15research.htm (accessed May 15, 2006). Advertisers struggle to understand this new condition as they try to figure out how to talk to people who do many things at once.

## Key Takaway

*How* a message is said can often be as important as *what* is said. Key elements to consider include the nature of the message's source, how it's structured, and the environment in which people see or hear it.

## EXERCISES

1. Explain how advertisers use source credibility and source attractiveness to communicate more effectively.
2. List and describe the various types of messages that advertisers can use to communicate with their markets. Use specific terms in your description.

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# 3.5: Keys to Superior Advertising

## LEARNING OBJECTIVES

After studying this section, students should be able to do the following:

1. *Define* relevance and resonance.
2. *Explain* why having an emotional connection is the common denominator for most successful ads.
3. *List* and *describe* the five factors that constitute an ad's likeability.

The keys to superior advertising are *resonance* and *relevance*. A great ad makes a deep impression that reverberates inside you and stays with you, while it creates a bond between you and the product. "Just do it."

## Relevance and Resonance

**Relevance** is the extent to which the images, ideas, concepts, and advertised product attributes overlap with the target's needs, wants, values, context, or situation. **Resonance** is the extent to which these images, ideas, concepts, and advertised product attributes connect more deeply in the target's heart and mind. Let's look at a few examples of how the two factors work together and then dig into more detail about how exactly to make a message sell.

## Example: Household Challenge Meets Household Humor

Say your client is a bank that wants to promote its home mortgage product—an especially tough proposition in this era of foreclosures and banking scandals. The objective of the message is to show that your mortgage terms won't be as burdensome as the competition's. How can you get this message across? It's not the sexiest idea in the world, but then again, saving money does turn a lot of people on.

Ad agency Hall Moore CHI faced this challenge with its client NatWest, a British bank. Art director Richard Megson and copywriter Matthew Davis worked together to create an animated TV ad that showed a man struggling under the weight of a huge mortgage. He threw his burden into a washing machine and shrank it to manageable size. The message was simple and clear—the idea of shrinking a huge mortgage was appealing and relevant to the target audience of homeowners."Simplicity Originality Relevance," *Precision Marketing*, August 24, 2007, 17. This execution delivers both relevance with its image of a large mortgage (as many consumers struggle with these today) and resonance as it graphically depicts the tempting process of shrinking one's debt in the wash. If only it were that easy in real life!

## Example: The Resonance of Personal Stories

Now let's consider Adidas' "Impossible Is Nothing" campaign. The campaign originally launched in 2004 to coincide with the Olympics. Ads featured great athletes of the day in clever integration with great athletes of the past. The visuals made it seem as though the athletes were interacting across the ages. For example, in the ad "Laila," boxing great Muhammad Ali goes into the ring with his boxer daughter, Laila Ali. The two spar and Laila eventually lands a punch that sends her dad backwards into the ropes. The film of Muhammad was culled from two of his fights from the 1960s, while Laila was shot in front of a blue screen so the two images could appear together.Art Smith, "Achieving the Impossible: Adidas Seamlessly Marries Past Olympians with Their Contemporaries," *SHOOT*, August 20, 2004, 18. Although the athletes and the special effects were fun to watch, they were not driving home the message because, ironically, the events depicted in the "Impossible Is Nothing" ads *were* impossible. The impossible was made possible only via an optical illusion, and that didn't resonate with the audience.

Fast-forward to 2007. This time, Adidas found a better way to express the idea of doing the impossible. Its new ads featured personal stories from athletes, both famous (David Beckham) and not so famous (Boston Marathon runner Kathryn Smolen). In the spots its agency 180 Amsterdam/TBWA created, the athletes told true stories of challenges that they had overcome—their own "impossible." For Olympic swimming superstar Ian Thorpe, the challenge was an allergy to chlorine—an allergy that sidelined him until he gradually overcame it.

The athletes hand-draw a picture as they talk. The simple drawings are primitive; they remind us of childhood and thus echo the storyline. For example, twenty-two-year-old American sprinter Allyson Felix draws herself as a stick figure with legs that look like ski poles as she explains that kids taunted her with the name "chicken legs" when she started out as a little kid playing basketball. Later, she says, "I came out for the track team and kind of wanted to prove everybody wrong." Next we see her as she wins an Olympic medal. "People putting you down can drive you to do things you didn't even think you could do yourself," she proclaims.Barbara Lippert, "The Impossible Dream: Super Athletes, Simple Drawings Make Adidas Ads Hypnotic," *Adweek*, April 16, 2007, 44; www.adidas.com/campaigns/usiin/content. Although the drawings are animated by artists at Passion Pictures, the feeling is personal and human. As Jason Oke of ad agency Leo Burnett Toronto commented, "After watching these I get inspired and I actually get what it means to attempt something that everyone else thinks you can't do."

Just as an ad can resonate with a person, elements of an ad ideally work together to reinforce each other as the childhood stories and drawings of the Adidas campaign did. Another example is an ad for a diet strawberry cheesecake that pairs the luscious image of the cake with the words "berried treasure," to evoke the connotation of hidden delights and richness that lies inside. The play on words requires some thought, which rewards viewers with satisfaction when they "get it" and strengthens the connection among all the elements—words, images, product, brand, and meaning.

## Emotion, the Common Denominator

The common denominator among the most successful ads is that they create an *emotional connection* with the brand. They appeal to the heart, not just the mind.

### Video Highlight

*Zales: Greatest Marriage Proposal Ever*

(click to see video)

*This Zales commercial uses an emotional appeal to sell its celebration diamond.*

A large-scale study that analyzed award-winning campaigns found that the most effective ones focus on emotional, rather than rational, appeals."Marketing Theory: Everything You Know is Wrong." *Marketing*, June 13, 2007, 28. What's more, the Gallup organization reports that customers who are "passionate" about a brand deliver two times the profitability of average customers.

We simply can't take the emotional contact a company has with customers and the emotional impact of its brand for granted. For example, Procter & Gamble traditionally advertised its Pampers diapers on the basis of their performance in keeping baby dry. But, as Jim Stengel (recently retired), chief marketing officer at Procter & Gamble, said, "Our baby-care business didn't start growing aggressively [in the early 2000s] until we changed Pampers from being about dryness to being about helping Mom with her baby's development. That was a sea change."Quoted in Geoff Colvin, "Selling P&G," *Fortune*, September 18, 2007, http://money.cnn.com (accessed October 12, 2007). The lesson: wrap your practical products with an offer that appeals to emotions. People are more loyal to brands they "feel," not just those they think about.

Of course, not all brands necessarily bring a tear to the eye—the point is to figure out just how the brand resonates with its audience and to develop messages that reinforce this relationship. One well-known branding consultant argues that there are three ways a brand can resonate: it can hit you in the head, the heart, or the gut:Marc Gobé, *Emotional Branding: The New Paradigm for Connecting Brands to People* (New York: Allworth Press, 2001).

- Aveda hits the consumer in the head. The brand is smart, intriguing, and stimulating.
- Godiva hits the consumer in the heart. The brand is sensual, beloved, and trusted.
- Prada hits the consumer in the gut. The brand is sexy and cool, and you "have to have it."

## What Makes an Ad Work: It's Like, Likeability

A large-scale study of prime-time commercials found that the **likeability** of a commercial was the best single predictor of its sales effectiveness.Alex Biel, "Love the Ad. Buy the Product? Why Liking the Advertising and Preferring the Brand Aren't Such Strange Bedfellows After All," *Admap*, September 1990; Wendy Gordon, "What Do Consumers Do Emotionally with Advertising," *Journal of Advertising Research* 46, no. 1 (March 2006): 2–10. The author noted that "consumers first form an overall impression of an advertisement on a visceral or 'gut' level. To the extent that this impression is positive they are likely to continue to process the advertising more fully."

He found five factors that constitute an ad's likeability:

1. Ingenuity—clever, imaginative, original, silly, and not dull
2. Meaningfulness—worth remembering, effective, not pointless, not easy to forget, true to life, convincing, informative, and believable
3. Energy—lively, fast moving, appealing, and well done
4. Warmth—gentle, warm, and sensitive

5. Does not rub the wrong way—not worn out, not phony, and not irritating

So, at the end of the day, no matter how you do it, you want people to like your ads. That sounds like a “no-brainer,” though many advertising messages don’t achieve this simple objective. Why is it so important that people like your ad?

- Likeable commercials are less likely to be avoided (zapped).
- Likeability is the “gatekeeper” to further processing: once a likeable ad gets our attention, we’re more likely to think about the message it’s conveying.
- The positive feelings the ad evokes transfer from the advertisement to the brand.

### SS+K Spotlight

Refer back to Chapter 11 "Execute on All Platforms: SS+K Goes into Production Overdrive" and the three campaign options SS+K presented to msnbc.com. Which of these do you think has the most emotional resonance for the News Explorer?

### Key Takaway

An advertisement can grab you in a lot of different ways—but it needs to grab you in *some* way. One way is to be relevant to your situation and needs; another is to be resonant with your desires. If nothing else, be sure people like your ad—it’s all downhill from there.

### EXERCISES

1. Explain why resonance and relevance are the keys to superior advertising.
2. Discuss the “common denominator” that most successful advertisements have in common.
3. List and characterize each of the five factors that constitute an ad’s likeability.

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# 3.6: Types of Appeals - How Ads Generate Resonance

## LEARNING OBJECTIVES

After studying this section, students should be able to do the following:

1. *List* and *discuss* five advertising appeals that a creative team can use to structure advertising.
2. *Recall* and *explain* the six categories of values that are universal in advertising.
3. *Understand* how media and social networking sites can be used to advocate brands and brand messages.

All ads need some type of **appeal**—a psychological basis that motivates the viewer toward the advertiser's goals. The creative team can choose from a variety of appeals to help structure the advertising. Let's have a look at the most common ones.

## Sex Appeal

Does sex sell? A **sex appeal** can be vaguely suggestive and subtle, or it can hit you over the head—like the Carl's Jr. ad that shows a soapy Paris Hilton washing a car (as if she would ever wash her own car!). It's important to consider cultural differences in gauging sex appeal, as some countries allow more exposure of skin or sexual situations than others. In the United States, a passionate kiss between man and woman is perfectly fine, whereas in India such a display in public could be punishable by a fine, three months of jail time, or both.

There's no doubt that sex gets our attention—and companies often deliberately push the envelope. Yves Saint Laurent promoted its men's fragrance M7 with a full frontal nude photo of former martial arts champion Samuel de Cubber in fashion magazines like the French edition of *Vogue*. "Perfume is worn on the skin, so why hide the body?" said the ad's designer, Tom Ford. Some mainstream publishers, however, featured a cropped version of the ad."YSL Goes Full-Frontal with Men's Fragrance Ad," October 18, 2002, [http://news1.iwon.com/odd/article/id/275228%7Coddlyenough %7C10-18-2002::10:43%7Creuters.html](http://news1.iwon.com/odd/article/id/275228%7Coddlyenough%7C10-18-2002::10:43%7Creuters.html) (accessed August 7, 2008). Similarly, Abercrombie & Fitch used nude models in its quarterly *magalog* but ended up dropping the campaign after loud and sustained protests from feminist groups and groups like the National Coalition for the Protection of Children and Families.David Carr and Tracie Rozhon, "Abercrombie & Fitch to End its Racy Magazine," *New York Times Online*, December 10, 2003, [http://query.nytimes.com/gst/fullpage. html?res=950CE2D71F3DF933A25751C1A9659C8B63](http://query.nytimes.com/gst/fullpage.html?res=950CE2D71F3DF933A25751C1A9659C8B63) (accessed August 7, 2008).

Given the potentially negative reaction, do sexual appeals work? Products for which sex appeals work best are those aimed at teen or college-age buyers or for products like wine, perfume, beauty products, and lingerie. Advertisers need to tread lightly and avoid the temptation to go all-out: although erotic content does appear to draw attention to an ad, a sex appeal runs the risk of alienating the audience. And ironically, titillating the viewer may actually hinder recall of the advertised product. In one survey, an overwhelming 61 percent of the respondents said that sexual imagery in a product's ad makes them less likely to buy it.Rebecca Gardyn, "Where's the Lovin'?" *American Demographics* (February 2001): 10.

In 2007, Dial rebranded its Soft & Dri deodorant with a focus on the sexy rather than on the functional attributes of the deodorant. "We're trying to take the brand to a more emotional and less functional area," said Vanessa Kamerer, Dial's brand manager for Soft & Dri. To revive the brand, Dial conducted research and learned that consumers associated Soft & Dri with soft and sexy. Kamerer thought this was an important advantage and distinction for the brand because most other brands in the sector focused on technology. Kamerer pointed out, however, that the brand had to be careful with the "sexy" positioning. "Sexy is a tricky one with women," she said. "For a lot of women sexy can be trampy or slutty and that's not what we wanted."Constantine Von Hoffman, "Dial Corp. Tries Bringing 'Sexy' Soft & Dri Back: Rebranding Makes an Emotional Appeal to Women," *Brandweek*, January 29, 2007, 9. She's right: research shows that female nudity in print ads generates negative feelings and tension among female consumers, whereas men's reactions are more positive.Michael S. LaTour, "Female Nudity in Print Advertising: An Analysis of Gender Differences in Arousal and Ad Response," *Psychology & Marketing* 7, no. 1 (1990): 65–81. In a case of turnabout being fair play, another study found that males dislike nude males in ads, whereas females responded well to undressed males—but not totally nude ones.Penny M. Simpson, Steve Horton, and Gene Brown, "Male Nudity in Advertisements: A Modified Replication and Extension of Gender and Product Effects," *Journal of the Academy of Marketing Science* 24, no. 3 (1996): 257–62.

In some cases, the purpose of the nudity is simply to create buzz. In autumn 2007, actress Alicia Silverstone posed nude (though strategically covered) in a print and a thirty-second TV ad for activist group PETA (People for the Ethical Treatment of Animals), saying that she attributes her slim figure to not eating meat. Comcast Cable pulled the ad, however, saying that it was too racy.

A campaign by Scotch-maker Johnnie Walker was *a bit* more subtle; billboards in California featured a seductive "Julie" and the message, "My number is 213-259-0373. And I drink Johnnie Walker." Drinkers who called the number heard a prerecorded female voice deliver a sales pitch and then an invitation to order Scotch by phone. During the eight months that the billboards were up in nineteen cities, 526,000 people called Julie (perhaps hoping for more than a sales pitch). This response sounds impressive. But did the campaign motivate callers to buy the brand? Unfortunately not. In fact, sales of Johnnie Walker declined 5 percent during the year of the campaign.Randall Rothenberg, "Age Hasn't Mellowed This Agency," *New York Times*, April 13, 1990, D1.

## Fear Appeals

Students who don't read *Launch!* will never land a job when they graduate.

A **fear appeal** dwells upon the negative consequences that can result unless a consumer takes the recommended action. A recent advertising campaign for the Volkswagen Jetta took this approach; spots depict graphic car crashes from the perspective of the passengers who chatter away as they drive down the street. Without warning, another vehicle comes out of nowhere and brutally smashes into their car. In one spot, viewers can see a passenger's head hitting an airbag. The spots end with shots of stunned passengers, the damaged Jetta, and the slogan "Safe happens." The ads look so realistic that consumers have called the company asking if any of the actors were hurt.Brian Steinberg, "VW Uses Shock Treatment to Sell Jetta's Safety, Ads Test a Risky Approach with Graphic Car Crashes; 'Any of the Actors Hurt?'" *Wall Street Journal*, April 19, 2006, B4.

### Video Highlight

*Brinks Home Security*

(click to see video)

*This Brinks commercial uses a fear appeal.*

Advertisers often resort to fear appeals when they want to bring about a radical behavior change, such as driving responsibly, eating healthily, or quitting smoking. Other fear appeals use ostracism by others—due to body odor or bad breath or limp hair or yellowed teeth or using outdated products—to create feelings of insecurity that the consumer can overcome by doing—guess what? A British print ad for a deodorant depicts a geeky young guy with the caption: "Yo, Sewer Boy!" Subtle.

How well fear appeals work depends on how easy it is to comply with the ad's message. A switch to a stronger, longer-lasting deodorant to avoid embarrassing stains is quite doable, and it is easy to see a benefit (if indeed the deodorant works). In contrast, fear appeals that discuss the negative consequences of smoking have to climb a higher hill because the behavior is extremely hard to change (despite good intentions) and it's harder to detect the (long-term) health benefits. Sometimes the fear appeal is too strong and makes consumers tune it out, especially if the ad does not present a solution. Scare tactics may also backfire as people cope with the negative feelings or guilt the ad inspires by deciding the threat does not apply to them.

One famous TV commercial that relied on a heavy dose of fear was an ad for presidential candidate Lyndon Baines Johnson in 1964. The campaign showed a little girl counting daisy petals in a field, "1, 2, 3.…" Then, a voice-over started a countdown, "10, 9, 8…" leading to the image of a telltale mushroom cloud as an atomic bomb exploded. "These are the stakes," the voice-over said, concluding with "the stakes are too high for you to stay home" while the screen displayed the words "Vote for President Johnson on November 3." This classic spot stirred up voters' fears about the heavy trigger finger of Johnson's opponent, the conservative politician Barry Goldwater, and (analysts say) contributed to his huge defeat in the election.

## Humor Appeals

"A guy walks into a bar.…" A **humor appeal** makes us laugh and feel good. But it's often difficult to execute well, because people have to understand the humor and they have to get the link to the brand. Like sex appeals, sometimes the very humor that gets our attention distracts us from remembering the ad or from influencing our behavior.

### Video Highlight

*Funny Commercial*

(click to see video)

*This E*Trade commercial uses humor to tell the story.*

It also helps when viewers don't get offended; this can be an iffy proposition especially when ethnic or national stereotypes are involved. An outdoor ad in Belgium to promote the speedy new Eurostar train service from Brussels to London via the English Channel backfired when a group of British journalists discovered it. For some reason they didn't appreciate a poster that showed a shaven-headed English soccer hooligan urinating into a teacup. For Belgians this imagery made sense because the fan's pose mimicked a very famous Brussels landmark, the Manneken Pis statue.Eric Pfanner, "Ad for New Train Service Strains European Taste," *New York Times Online*, December 3, 2007, http://www.nytimes.com/2007/12/03/business/world business/03eurostar.html (accessed February 10, 2009). The Brits didn't appreciate the architectural reference.

One advantage of humor is that it reduces **counterarguing**; this occurs when a consumer thinks of reasons not to agree with the message. Because the comedy distracts us from our tendency to come up with reasons why we shouldn't change our opinions, we are more likely to accept the message a humorous ad presents, as long as it does not insult or make fun of us (somehow laughing at the *other guy* is OK).

Humorous appeals are seldom used by banks, which tend to project a more staid image. That's why Community Bank System decided to use a lighthearted campaign with the message "Bank Happy." "We really wanted to find something different, something that was unbank-like and, if you look at those headlines and the disclosures, there's humor built in," said Hal Wentworth, the bank's director of sales and marketing. The campaign was designed by Mark Russell and Associates and took five months to produce. How does the bank use humor? To establish the tie to happy experiences, one ad says, "The feeling you get when you eat chocolate. Now available in a bank." It even brings amusement to the fine-print copy at the bottom of the page. Although most people skip this, the fine print in the "Chocolate" ad says, "If you're reading this, you're probably thinking there's some kind of catch. Something that requires us to write more about it in the fine print. But there isn't. Oh sure, we could go on and on about ourselves. Like how we're committed to serving rural areas. And how most of our people have been working with us for years. And how all of our loan decisions are made locally by folks you've probably cheered with at soccer or baseball games. But we won't. Instead, we'll just tell you that when we say 'Bank Happy,' we mean it. We don't want you to 'Bank Reasonably Contentedly' or 'Bank Kinda Sorta Pleased.' We want you to Bank Happy. And we'll do whatever it takes to make that happen."Quoted in Karen Krebsbach, "Community Bank's 'Bank Happy' Sets Cheerful, Playful Tone," *US Banker* 117, no. 7 (July 2007), 28. These days, more people in the banking industry could probably use a good laugh.

### Dig Deeper

Hillary Clinton and several other presidential candidates introduced humor into their political ad campaigns in late 2007. Surveys showed that the public thought humor was a good idea and a welcome change from negative ads. By the fall of 2008, candidates were practically becoming regulars on *The Ellen DeGeneres Show*, *Late Night with David Letterman*, *The Tonight Show*, and *Saturday Night Live*. People enjoy laughing, and it makes them more comfortable with the candidates. "Of course, the humor had better be funny," added Rob Earl, of Watson, Earl & Partners. Nancy Newnan of Catapult Communications also welcomes jokes—within limits. "A dose of humor is always welcome, as long as they keep it in its place and not forget the importance of projecting the image of a world leader." But not everyone wants punch lines from politicians. Humor is too subjective, said Alienware's Juan Carlos Hernandez. "Humor…leaves a lot to the public's interpretation, which at the end is negative because what I may think is not actually what the candidate was aiming for."Quoted in Ken Wheaton, "Political Ads that Provide a Laugh?" *Advertising Age*, August 6, 2007, 4. What's your take on this issue—does humor have a place in political campaigns, where the issues are serious and the stakes high? Should Comedy Central's Jon Stewart and Stephen Colbert do campaign ads—or run for President themselves?

## Logical Appeals

The **logical appeal** is a rational one; it describes the product's features, advantages, and price. Although most of the appeals we've talked about so far have emphasized emotion, that doesn't mean that logic has no place in ads. Indeed, advertising that provokes a strong emotional response without providing sufficient product information is unlikely to change behavior and increase market share. It breaks through the clutter but doesn't necessarily induce people to buy. This is what the Center for Emotional Marketing discovered when it performed a *meta-analysis* that combined the results of eight separate research studies. The results held true across a range of consumer product categories from food and health and beauty to automotive and technology.Leslie Picot-Zane, "Is Advertising Too Emotional?" *Brandweek*, January 9, 2006, 18.

Purely emotional advertising is memorable but doesn't build business. The advertising connects with consumers, but it fails to make use of that connection with the credible information needed to change people's minds. This is particularly true of humor appeals. A study conducted by McCollum/Spielman shows that 75 percent of funny ads have an attention response rating equal to or higher than average, but only 31 percent are actually more persuasive.

The solution? Advertisers need to strike a balance with campaigns that integrate product information and emotion. Logic and emotion work in concert to help consumers make decisions.Sang-Pil Han and Sharon Shavitt, "Persuasion and Culture: Advertising

Appeals in Individualistic and Collectivistic Societies," *Journal of Experimental Social Psychology* 30 (1994): 326–50. Effective advertising needs to convey both seamlessly.

## Values Appeals

Finally, advertising can be relevant to consumers when it uses a **values appeal**; this type of message relates to people's strong underlying beliefs about priorities in their lives and morality. A research team conducted a comprehensive study of values across thirty countries to identify universal values that people hold regardless of where they live. The researchers found six categories of values that are universal:

1. *Striver*: Ambitious people who seek power, status, and wealth
2. *Fun-Seeker*: Individualists who seek excitement, leisure, variety, and adventure
3. *Creative*: Open-minded people who want freedom, fulfilling work, and self-reliance
4. *Devout*: Spiritual people who are traditional, respectful, modest, and obedient
5. *Intimate*: Supportive people who create strong, deep bonds with friends and family
6. *Altruist*: People who want equality and justice for everyone in society and care about the environment

Certain countries exhibit a predominance of some of these values over others. For example, more than one-half of all Swedes are Intimates, which means that they emphasize social relationships as guiding principles in their lives. In contrast, 46 percent of Saudi Arabians identify Devout values as their guiding principles, while 52 percent of South Koreans are Strivers. Another study found that North Americans have more favorable attitudes toward advertising messages that focus on self-reliance, self-improvement, and the achievement of personal goals, as opposed to themes stressing family integrity, collective goals, and the feeling of harmony with others. Korean consumers exhibited the reverse pattern.

Creating advertising messages that resonate with your target audience means identifying and appealing to the values that motivate their behavior. For example, Taco Bell's advertising campaign "Think Outside the Bun" appeals to Creatives who seek novelty and learning new things. In contrast, the "Night Belongs to Michelob" campaign appeals to Intimates who value romance and friendship. Finally, British Petroleum's "Beyond Petroleum" campaign appeals to Altruists who value social responsibilities and preservation of the environment.Simeon Chow and Sarit Amir, "The Universality of Values: Implications for Global Advertising Strategy," *Journal of Advertising Research* 46, no. 3 (2006): 301.

### Dig Deeper

Occasionally ad executions invoke a values appeal when they show how a product goes *against* a group's values. This approach appeals to target consumers who are rebellious or nonconforming. To appeal to teenage viewers, the CW network launched a campaign to promote the TV show *Gossip Girl* that includes quotes from the Parents Television Council, an advocacy group that has criticized the show for its graphic inclusion of sex and drugs. One ad shows two of the underage characters together in bed, below a caption that reads "Mind-blowingly inappropriate!"Brian Steinberg, "Need a Slogan? Ask Your Harshest Critic; CW Proudly Declares 'Gossip Girl' Is 'Mind-Blowingly Inappropriate,'" *Advertising Age*, July 23, 2008, adage.com/mediaworks/article?article_id=129837 (accessed July 24, 2008).

It's interesting to note that **individuality** is a value most closely associated with the Fun-Seeker segment. Countries that have a high percentage of Fun-Seekers in their population include the United Kingdom, Canada, Australia, and Germany. Creating a winning brand position in these countries might entail targeting the Fun-Seeker buyers with a brand that can offer an avenue to self-expression. In contrast, countries where individuality ranks lowest are the Devout-dominant countries of Indonesia, Egypt, and Saudi Arabia, where duty and faith outweigh personal expression. Self-expression appeals would not work well in those countries.

### Key Takaway

An advertising appeal is the psychological basis the agency uses to create relevance and resonance with the target audience. Common appeals include sex, humor, fear, logic, and values. There is no one perfect appeal; the advertiser needs to calibrate the characteristics of the consumers with the message to ensure that consumers aren't turned off or don't tune out the message because they don't care for the appeal.

## EXERCISES

1. List and briefly describe each of the five appeals that an advertiser can use to connect with the target audience.
2. List and describe the six categories of universal values.

# 3.7: Ghemawat’s “AAA” Global Strategy Framework

Ghemawat so-called AAA framework offers three generic approaches to global value creation. Adaptation strategies seek to increase revenues and market share by tailoring one or more components of a company’s business model to suit local requirements or preferences. *Aggregation* strategies focus on achieving economies of scale or scope by creating regional or global efficiencies; they typically involve standardizing a significant portion of the value proposition and grouping together development and production processes. *Arbitrage* is about exploiting economic or other differences between national or regional markets, usually by locating separate parts of the supply chain in different places.

## Adaptation

Adaptation—creating global value by changing one or more elements of a company’s offer to meet local requirements or preferences—is probably the most widely used global strategy. The reason for this will be readily apparent: some degree of adaptation is essential or unavoidable for virtually all products in all parts of the world. The taste of Coca-Cola in Europe is different from that in the United States, reflecting differences in water quality and the kind and amount of sugar added. The packaging of construction adhesive in the United States informs customers how many square feet it will cover; the same package in Europe must do so in square meters. Even commodities such as cement are not immune: its pricing in different geographies reflects local energy and transportation costs and what percentage is bought in bulk.

Ghemawat subdivides adaptation strategies into five categories: *variation*, *focus*, *externalization*, *design*, and *innovation* (Figure 3.7.1 "AAA Strategies and Their Variants").

Variation strategies not only involve making changes in *products and services* but also making adjustments to *policies*, *business positioning*, and even *expectations for success*. The *product* dimension will be obvious: Whirlpool, for example, offers smaller washers and dryers in Europe than in the United States, reflecting the space constraints prevalent in many European homes. The need to consider adapting *policies* is less obvious. An example is Google’s dilemma in China to conform to local censorship rules. Changing a company’s overall *positioning* in a country goes well beyond changing products or even policies. Initially, Coke did little more than “skim the cream” off big emerging markets such as India and China. To boost volume and market share, it had to reposition itself to a “lower margin–higher volume” strategy that involved lowering price points, reducing costs, and expanding distribution. Changing *expectations* for, say, the rate of return on investment in a country, while a company is trying to create a presence is also a prevalent form of variation.

| Adaptation | Aggregation | Arbitrage |
| --- | --- | --- |
| *Variation* | | *Performance Enhancement* |
| *Focus:* Reduce Need for Adaptation | *Economies of Scale* | |
| *Externalization:* Reduce Burden of Adaptation | | *Cost Reduction* |
| *Design:* Reduce Cost of Adaptation | *Economies of Scope* | |
| *Innovation:* Improve on Exixting Adaptation | | *Risk Reduction* |

Figure 3.7.1: AAA Strategies and Their Variants

A second type of adaptation strategies uses a focus on particular *products*, *geographies*, *vertical stages* of the value chain, or *market segments* as a way of reducing the impact of differences across regions. A *product* focus takes advantage of the fact that wide differences can exist *within* broad product categories in the degree of variation required to compete effectively in local markets. Ghemawat cites the example of television programs: action films need far less adaptation than local newscasts. Restriction of *geographic* scope can permit a focus on countries where relatively little adaptation of the domestic value proposition is required. A *vertical* focus strategy involves limiting a company’s direct involvement to specific steps in the supply chain while outsourcing others. Finally, a *segment* focus involves targeting a more limited customer base. Rather than adapting a product or service, a company using this strategy chooses to accept the reality that without modification, their products will appeal to a smaller market segment or different distributor network from those in the domestic market. Many luxury good manufacturers use this approach.

Whereas focus strategies overcome regional differences by narrowing scope, externalization strategies transfer—through *strategic alliances, franchising, user adaptation*, or *networking*—responsibility for specific parts of a company's business model to partner companies to accommodate local requirements, lower cost, or reduce risk. For example, Eli Lilly extensively uses *strategic alliances* abroad for drug development and testing. McDonald's growth strategy abroad uses *franchising* as well as company-owned stores. And software companies heavily depend on both *user adaptation and networking* for the development of applications for their basic software platforms.

A fourth type of adaptation focuses on design to reduce the cost of, rather than the need for, variation. Manufacturing costs can often be achieved by introducing design *flexibility* so as to overcome supply differences. Introducing standard production *platforms* and *modularity* in components also helps to reduce cost. A good example of a company focused on design is Tata Motors, which has successfully introduced a car in India that is affordable to a significant number of citizens.

A fifth approach to adaptation is innovation, which, given its crosscutting effects, can be characterized as improving the effectiveness of adaptation efforts. For instance, IKEA's flat-pack design, which has reduced the impact of geographic distance by cutting transportation costs, has helped that retailer expand into 3 dozen countries.

**Minicase: McDonald's McAloo Tikki (Mucha and Scheffler (2007, April 30))**

When Ray Kroc opened his first McDonald's in Des Plaines, Illinois, he could hardly have envisioned the golden arches rising 5 decades later in one of the oldest commercial streets in the world. But McDonald's began dreaming of India in 1991, a year after opening its first restaurant in China. The attraction was obvious: 1.1 billion people, with 300 million destined for middle-class status.

But how do you sell hamburgers in a land where cows are sacred and 1 in 5 people are vegetarian? And how do you serve a largely poor consumer market that stretches from the Himalayas to the shores of the Indian Ocean? McDonald's executives in Oak Brook struggled for years with these questions before finding the road to success.

McDonald's has made big gains since the debut of its first two restaurants in India, in Delhi and Mumbai, in October 1996. Since then, the fast-food chain has grown to more than 160 outlets. The Indian market represents a small fraction of McDonald's $24 billion in annual revenues. But it is not insignificant because the company is increasingly focused on high-growth markets. "The decision to go in wasn't complicated," James Skinner, McDonald's chief executive officer, once said. "The complicated part was deciding what to sell."

At first, McDonald's path into India was fraught with missteps. First, there was the nonbeef burger made with mutton. But the science was off: mutton is 5% fat (beef is 25% fat), making it rubbery and dry. Then there was the french fry debacle. McDonald's started off using potatoes grown in India, but the local variety had too much water content, making the fries soggy. Chicken kabob burgers? Sounds like a winner except that they were skewered by consumers. Salad sandwiches were another flop: Indians prefer cooked foods.

If that was not enough, in May 2001, the company was picketed by protesters after reports surfaced in the United States that the chain's fries were injected with beef extracts to boost flavor—a serious infraction for vegetarians. McDonald's executives in India denied the charges, claiming their fries were different from those sold in America.

But the company persevered, learned, and succeeded. It figured out what Indians wanted to eat and what they would pay for it. It built, from scratch, a mammoth supply chain—from farms to factories—in a country where elephants, goats, and trucks share the same roads. To deal with India's massive geography, the company divided the country into two regions: the north and east, and the south and west. Then it formed 50-50 joint ventures with two well-connected Indian entrepreneurs: Vikram Bakshi, who made his fortune in real estate, runs the northern region; and Amit Jatia, an entrepreneur who comes from a family of successful industrialists, manages the south.

Even though neither had any restaurant experience, this joint-venture management structure gave the company what it needed: local faces at the top. The two entrepreneurs also brought money: before the first restaurant opened, the partners invested $10 million into building a workable supply chain, establishing distribution centers, procuring refrigerated trucks, and finding production facilities with adequate hygiene. They also invested $15 million in Vista Processed Foods, a food processing plant outside Mumbai. In addition, Mr. Jatia, Mr. Bakshi, and 38 staff members spent an entire year in the Indonesian capital of Jakarta studying how McDonald's operated in another Asian country.

Next, the Indian executives embarked on basic-menu research and development (R&D). After awhile, they hit on a veggie burger with a name Indians could understand: the McAloo Tikki (an "aloo tikki" is a cheap potato cake locals buy from roadside vendors).

The lesson in the McDonald's India case: local input matters. Today, 70% of the menu is designed to suit Indians: the Paneer Salsa Wrap, the Chicken Maharaja Mac, the Veg McCurry Pan. The McAloo, by far the best-selling product, also is being shipped to McDonald's in the Middle East, where potato dishes are popular. And in India, it does double duty: it not only appeals to the masses; it is also a hit with the country's 200 million vegetarians.

Another lesson learned from the McDonald's case: vegetarian items should not come into contact with nonvegetarian products or ingredients. Walk into any Indian McDonald's and you will find half of the employees wearing green aprons and the other half in red. Those in green handle vegetarian orders. The red-clad ones serve nonvegetarians. It is a separation that extends throughout the restaurant and its supply chain. Each restaurant's grills, refrigerators, and storage areas are designated as "veg" or "non-veg." At the Vista Processed Foods plant, at every turn, managers stressed the "non-veg" side was in one part of the facility, and the "vegetarian only" section was in another.

Today, after many missteps, one can truly imagine the ghost of Ray Kroc asking Indians one of the greatest questions of all time—the one that translates into so many cultures: "You want fries with that?" Yes, Ray, they do.

## Aggregation

Aggregation is about creating *economies of scale* or *scope* as a way of dealing with differences (see Figure 3.7.1 "AAA Strategies and Their Variants"). The objective is to exploit similarities among geographies rather than adapting to differences but stopping short of complete standardization, which would destroy concurrent adaptation approaches. The key is to identify ways of introducing economies of scale and scope into the global business model without compromising local responsiveness.

Adopting a *regional* approach to globalizing the business model—as Toyota has so effectively done—is probably the most widely used aggregation strategy. As discussed in the previous chapter, *regionalization* or *semiglobalization* applies to many aspects of globalization, from investment and communication patterns to trade. And even when companies do have a significant presence in more than one region, competitive interactions are often regionally focused.

Examples of different *geographic* aggregation approaches are not hard to find. Xerox centralized its purchasing, first regionally, later globally, to create a substantial cost advantage. Dutch electronics giant Philips created a global competitive advantage for its Norelco shaver product line by centralizing global production in a few strategically located plants. And the increased use of global (corporate) branding over product branding is a powerful example of creating economies of scale and scope. As these examples show, geographic aggregation strategies have potential application to every major business model component.

Geographic aggregation is not the only avenue for generating economies of scale or scope. The other, nongeographic dimensions of the CAGE framework introduced in Chapter 1—*cultural, administrative, geographic,* and *economic*—also lend themselves to aggregation strategies. Major book publishers, for example, publish their best sellers in but a few languages, counting on the fact that readers are willing to accept a book in their second language (*cultural* aggregation). Pharmaceutical companies seeking to market new drugs in Europe must satisfy the regulatory requirements of a few selected countries to qualify for a license to distribute throughout the EU (*administrative* aggregation). As for *economic* aggregation, the most obvious examples are provided by companies that distinguish between developed and emerging markets and, at the extreme, focus on just one or the other.

### Minicase: Globalization at Whirlpool Corporation

The history of globalization at the Whirlpool Corporation—a leading company in the $100-billion global home-appliance industry—illustrates the multitude of challenges associated with globalizing a business model. Whirlpool manufactures appliances across all major categories—including fabric care, cooking, refrigeration, dishwashing, countertop appliances, garage organization, and water filtration—and has a market presence in every major country in the world. It markets some of the world's most recognized appliance brands, including Whirlpool, Maytag, KitchenAid, Jenn-Air, Amana, Bauknecht, Brastemp, and Consul. Of these, the Whirlpool brand is the world's top-rated global appliance brand and ranks among the world's most valuable brands. In 2008, Whirlpool realized annual sales of approximately $19 billion, had 70,000 employees, and maintained 67 manufacturing and technology research centers around the world. (www.whirlpoolcorp.com/about/history.aspx)

In the late 1980s, Whirlpool Corporation set out on a course of growth that would eventually transform the company into the leading global manufacturer of major home appliances, with operations based in every region of the world. At the time, Dave Whitwam, Whirlpool's chairman and CEO, had recognized the need to look for growth beyond the mature and highly competitive U.S. market. Under Mr. Whitwam's leadership, Whirlpool began a series of acquisitions that would give the company the scale and resources to participate in global markets. In the process, Whirlpool would establish new relationships with millions of customers in countries and cultures far removed from the U.S. market and the company's roots in rural Benton Harbor, Michigan.

Whirlpool's global initiative focused on establishing or expanding its presence in North America, Latin America, Europe, and Asia. In 1989, Whirlpool acquired the appliance business of Philips Electronics N.V., which immediately gave the company a solid European operations base. In the western hemisphere, Whirlpool expanded its longtime involvement in the Latin America market and established a presence in Mexico as an appliance joint-venture partner. By the mid-1990s, Whirlpool had strengthened its position in Latin America and Europe and was building a solid manufacturing and marketing base in Asia.

In 2006, Whirlpool acquired Maytag Corporation, resulting in an aligned organization able to offer more to consumers in the increasingly competitive global marketplace. The transaction created additional economies of scale. At the same time, it expanded Whirlpool's portfolio of innovative, high-quality branded products and services to consumers.

Executives knew that the company's new scale, or global platform, that emerged from the acquisitions offered a significant competitive advantage, but only if the individual operations and resources were working in concert with each other. In other words, the challenge is not in buying the individual businesses—the real challenge is to effectively integrate all the businesses together in a meaningful way that creates the leverage and competitive advantage.

Some of the advantages were easily identified. By linking the regional organizations through Whirlpool's common systems and global processes, the company could speed product development, make purchasing increasingly more efficient and cost-effective, and improve manufacturing utilization through the use of common platforms and cross-regional exports.

Whirlpool successfully refocused a number of its key functions to its global approach. Procurement was the first function to go global, followed by technology and product development. The two functions shared much in common and have already led to significant savings from efficiencies. More important, the global focus has helped reduce the number of regional manufacturing platforms worldwide. The work of these two functions, combined with the company's manufacturing footprints in each region, has led to the development of truly global platforms—products that share common parts and technologies but offer unique and innovative features and designs that appeal to regional consumer preferences.

Global branding was next. Today, Whirlpool's portfolio ranges from global brands to regional and country-specific brands of appliances. In North America, key brands include Whirlpool, KitchenAid, Roper by Whirlpool Corporation, and Estate. Acquired with the company's 2002 purchase of Vitromatic S.A., brands Acros and Supermatic are leading names in Mexico's domestic market. In addition, Whirlpool is a major supplier for the Sears, Roebuck and Co. Kenmore brand. In Europe, the company's key brands are Whirlpool and Bauknecht. Polar, the latest addition to Europe's portfolio, is the leading brand in Poland. In Latin America, the brands include Brastemp and Consul. Whirlpool's Latin American operations include Embraco, the world's leading compressor manufacturer. In Asia, Whirlpool is the company's primary brand and the top-rated refrigerator and washer manufacturer in India.

## Arbitrage

A third generic strategy for creating a global advantage is arbitrage (see Figure 3.1). Arbitrage is a way of exploiting differences, rather than adapting to them or bridging them, and defines the original global strategy: buy low in one market and sell high in another. Outsourcing and offshoring are modern day equivalents. Wal-Mart saves billions of dollars a year by buying goods from China. Less visible but equally important absolute economies are created by greater differentiation with customers and partners, improved corporate bargaining power with suppliers or local authorities, reduced supply chain and other market and nonmarket risks, and through the local creation and sharing of knowledge.

Since arbitrage focuses on exploiting differences between regions, the CAGE framework described in Chapter 1 is of particular relevance and helps define a set of substrategies for this generic approach to global value creation.

Favorable effects related to country or place of origin have long supplied a basis for cultural arbitrage. For example, an association with French culture has long been an international success factor for fashion items, perfumes, wines, and foods. Similarly, fast-food products and drive-through restaurants are mainly associated with U.S. culture. Another example of cultural arbitrage—real or perceived—is provided by Benihana of Tokyo, the "Japanese steakhouse." Although heavily American—the company has only one outlet in Japan out of more than 100 worldwide—it serves up a theatrical version of teppanyaki cooking that the company describes as "Japanese" and "eatertainment."

Legal, institutional, and political differences between countries or regions create opportunities for administrative arbitrage. Ghemawat cites the actions taken by Rupert Murdoch's News Corporation in the 1990s. By placing its U.S. acquisitions into holding companies in the Cayman Islands, the company could deduct interest payments on the debt used to finance the deals against the profits generated by its newspaper operations in Britain. Through this and other similar actions, it successfully lowered its tax liabilities to an average rate of less than 10%, rather than the statutory 30% to 36% of the three main countries in which it operated: Britain, the United States, and Australia. By comparison, major competitors such as Disney were paying close to the official rates. (Ghemawat (2007a), chap. 6).

With steep drops in transportation and communication costs in the last 25 years, the scope for geographic arbitrage—the leveraging of geographic differences—has been diminished but not fully eliminated. Consider what is happening in medicine, for example. It is quite common today for doctors in the United States to take X-rays during the day, send them electronically to radiologists in India for interpretation overnight, and for the report to be available the next morning in the United States. In fact, reduced transportation costs sometimes create new opportunities for geographic arbitrage. Every day, for instance, at the international flower market in Aalsmeer, the Netherlands, more than 20 million flowers and 2 million plants are auctioned off and flown to customers in the United States.

As Ghemawat notes, in a sense, all arbitrage strategies that add value are "economic." Here, the term economic arbitrage is used to describe strategies that do not directly exploit *cultural, administrative*, or *geographic differences*. Rather, they are focused on leveraging differences in the costs of labor and capital, as well as variations in more industry-specific inputs (such as knowledge) or in the availability of complementary products. (Ghemawat (2007a), chap. 6).

Exploiting differences in labor costs—through outsourcing and offshoring—is probably the most common form of economic arbitrage. This strategy is widely used in labor-intensive (garments) as well as high-technology (flat-screen TV) industries. Economic arbitrage is not limited to leveraging differences in labor costs alone, however. Capital cost differentials can be an equally rich source of opportunity.

**Minicase: Indian Companies Investing in Latin America? To Serve U.S. Customers? (Dickerson (2007, June 9))**

Indian investment in Latin America is relatively small but growing quickly. Indian firms have invested about $7 billion in the region over the last decade, according to figures released by the Latin American division of India's Ministry of External Affairs in New Delhi. The report projects that this amount will easily double in the next few years.

As India has become a magnet for foreign investment, Indian companies themselves are looking abroad for opportunities, motivated by declining global trade barriers and fierce competition at home. Their current focus is on Latin America, where hyperinflation and currency devaluation no longer dominate headlines.

Like China, India is trying to lock up supplies of energy and minerals to feed its rapidly growing economy. Indian firms have stakes in oil and natural gas ventures in Colombia, Venezuela, and Cuba. In 2006, Bolivia signed a deal with New Delhi-based Jindal Steel and Power, Ltd., which plans to invest $2.3 billion to extract iron ore and to build a steel mill in that South American nation.

At the same time, Indian information technology companies are setting up outsourcing facilities to be closer to their customers in the West. Tata Consultancy Services is the leader, employing 5,000 tech workers in more than a dozen Latin American countries.

Indian manufacturing firms, accustomed to catering to low-income consumers at home, are finding Latin America a natural market. Mumbai-based Tata Motors, Ltd., has formed a joint venture with Italy's Fiat to produce small pickup trucks in Argentina. Generic drug makers, such as Dr. Reddy's, are offering low-cost alternatives in a region where U.S. and European multinationals have long dominated.

The Indian government has carefully positioned India as a partner, rather than a rival out to steal the region's resources and jobs, a common worry about China. Mexico has been particularly hard-hit by China's rise. The Asian nation's export of textiles, shoes, electronics, and other consumer goods has cost Mexico tens of thousands of manufacturing jobs, displaced it as the second-largest trading partner with the United States, and flooded its domestic market with imported merchandise. In 2006, Mexico's trade deficit with China was a record $22.7 billion, but China has invested less than $100 million in the country since 1994, according to the Bank of Mexico.

Mexico's trading relationship with India, albeit small, is much more balanced. Mexico's trade deficit with India was just under half a billion dollars in 2006, and Indian companies have invested $1.6 billion here since 1994—or about 17 times more than China—according to Mexico's central bank.

Some of that investment is in basic industries and traditional *maquiladora* factories making goods for export. For example, Mexico's biggest steel plant is owned by ArcelorMittal. Indian pharmaceutical companies, too, are finding Latin America to be attractive for expansion. Firms including Ranbaxy Laboratories, Ltd., Aurobindo Pharma, Ltd., and Cadila Pharmaceuticals, Ltd., have sales or manufacturing operations in the region.

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# 3.8: Which “A” Strategy Should a Company Use?

A company’s financial statements can be a useful guide for signaling which of the “A” strategies will have the greatest potential to create global value. Firms that heavily rely on branding and that do a lot of advertising, such as food companies, often need to engage in considerable adaptation to local markets. Those that do a lot of R&D—think pharmaceutical firms—may want to aggregate to improve economies of scale, since many R&D outlays are fixed costs. For firms whose operations are labor intensive, such as apparel manufacturers, arbitrage will be of particular concern because labor costs vary greatly from country to country.

Which “A” strategy a company emphasizes also depends on its globalization history. Companies that start on the path of globalization on the supply side of their business model, that is, that seek to lower cost or to access new knowledge, first typically focus on aggregation and arbitrage approaches to creating global value, whereas companies that start their globalization history by taking their value propositions to foreign markets are immediately faced with adaptation challenges. Regardless of their starting point, most companies will need to consider all “A” strategies at different points in their global evolution, sequentially or, sometimes, simultaneously.

Nestlé’s globalization path, for example, started with the company making small, related acquisitions outside its domestic market, and the company therefore had early exposure to adaptation challenges. For most of their history, IBM also pursued an adaptation strategy, serving overseas markets by setting up a mini-IBM in each target country. Every one of these companies operated a largely local business model that allowed it to adapt to local differences as necessary. Inevitably, in the 1980s and 1990s, dissatisfaction with the extent to which country-by-country adaptation curtailed opportunities to gain international scale economies led to the overlay of a regional structure on the mini-IBMs. IBM aggregated the countries into regions in order to improve coordination and thus generate more scale economies at the regional and global levels. More recently, however, IBM has also begun to exploit differences across countries (arbitrage). For example, it has increased its work force in India while reducing its headcount in the United States.

Procter & Gamble’s (P&G) early history parallels that of IBM, with the establishment of mini-P&Gs in local markets, but it has evolved differently. Today, the company’s global business units now sell through market development organizations that are aggregated up to the regional level. P&G has successfully evolved into a company that uses all three “A” strategies in a coordinated manner. It adapts its value proposition to important markets but ultimately competes—through global branding, R&D, and sourcing—on the basis of aggregation. Arbitrage, while important—mostly through outsourcing activities that are invisible to the final consumer—is less important to P&G’s global competitive advantage because of its relentless customer focus.

# 3.9: Points to Remember

1. There are three generic strategies for creating value in a global context: *adaptation*, *aggregation*, and *arbitrage*.
2. *Adaptation* strategies seek to increase revenues and market share by tailoring one or more components of a company's business model to suit local requirements or preferences. *Aggregation* strategies focus on achieving economies of scale or scope by creating regional or global efficiencies. These strategies typically involve standardizing a significant portion of the value proposition and grouping together development and production processes. *Arbitrage* is about exploiting economic or other differences between national or regional markets, usually by locating separate parts of the supply chain in different places.
3. Adaptation strategies can be subdivided into five categories: *variation*, *focus*, *externalization*, *design*, and *innovation*.
4. Aggregation strategies revolve around generating *economies of scale or scope*. The other nongeographic dimensions of the CAGE framework introduced in Chapter 1—*cultural*, *administrative*, *geographic*, and *economic*—also lend themselves to aggregation strategies.
5. Since arbitrage focuses on exploiting differences between regions, the CAGE framework also defines a set of substrategies for this generic approach to global value creation.
6. A company's financial statements can be a useful guide for signaling which of the "A" strategies will have the greatest potential to create global value.
7. Although most companies will focus on just one "A" at any given time, leading-edge companies such as GE, P&G, IBM, and Nestlé, to name a few, have embarked on implementing two, or even all three, of the "A"s.
8. There are serious constraints on the ability of any one company to simultaneously use all three "A"s with great effectiveness. Such attempts stretch a firm's managerial bandwidth, force a company to operate with multiple corporate cultures, and can present competitors with opportunities to undercut a company's overall competitiveness.
9. Most companies would be wise to (a) focus on one or two of the "A"s, (b) make sure the new elements of a strategy are a good fit organizationally, (c) employ multiple integration mechanisms, (d) think about externalizing integration, and (e) know when not to integrate.

# 3.10: Value Proposition Adaptation Decisions

Value proposition adaptation deals with a whole range of issues, ranging from the quality and appearance of products to materials, processing, production equipment, packaging, and style. A product may have to be adapted to meet the physical, social, or mandatory requirements of a new market. It may have to be modified to conform to government regulations or to operate effectively in country-specific geographic and climatic conditions. Or it may be redesigned or repackaged to meet the diverse buyer preferences or standard-of-living conditions. A product's size and packaging may also have to be modified to facilitate shipment or to conform to possible differences in engineering or design standards in a country or in regional markets. Other dimensions of value proposition adaptation include changes in brand name, color, size, taste, design, style, features, materials, warranties, after-sale service, technological sophistication, and performance.

The need for some changes, such as accommodating different electricity requirements, will be obvious. Others may require in-depth analysis of societal customs and cultures, the local economy, technological sophistication of people living in the country, customers' purchasing power, and purchasing behavior. Legal, economic, political, technological, and climatic requirements of a country market may all dictate some level of localization or adaptation.

As tariff barriers (tariffs, duties, and quotas) are gradually reduced around the world in accordance with World Trade Organization (WTO) rules, other *nontariff barriers*, such as *product standards*, are proliferating. For example, consider regulations for food additives. Many of the United States' "generally recognized as safe" (GRAS) additives are banned today in foreign countries. In marketing abroad, documentation is important not only for the amount of additive but also for its source, and often additives must be listed on the label of ingredients. As a result, product labeling and packaging must often be adapted to comply with another country's legal and environmental requirements.

Many kinds of equipment must be engineered in the metric system for integration with other pieces of equipment or for compliance with the standards of a given country. The United States is virtually alone in its adherence to a nonmetric system, and U.S. firms that compete successfully in the global market have found metric measurement to be an important detail in selling to overseas customers. Even instruction or maintenance manuals, for example, should be made available in centimeters, weights in grams or kilos, and temperatures in degrees Celsius.

Many products must be adapted to local *geographic and climatic* conditions. Factors such as topography, humidity, and energy costs can affect the performance of a product or even define its use in a foreign market. The cost of petroleum products, along with a country's infrastructure, for example, may mandate the need to develop products with a greater level of energy efficiency. Hot, dusty climates of countries in the Middle East and other emerging markets may force automakers to adapt automobiles with different types of filters and clutch systems than those used in North America, Japan, and European countries. Even shampoo and cosmetic product makers have to chemically reformulate their products to make them more suited for people living in hot, humid climates.

The availability, performance, and level of sophistication of a *commercial infrastructure* will also warrant a need for adaptation or localization of products. For example, a company may decide not to market its line of frozen food items in countries where retailers do not have adequate freezer space. Instead, it may choose to develop dehydrated products for such markets. Size of packaging, material used in packaging, before- and after-sale service, and warranties may have to be adapted in view of the scope and level of service provided by the distribution structure in the country markets targeted. In the event that postsale servicing facilities are conspicuous by their absence, companies may need to offer simpler, more robust products in overseas markets to reduce the need for maintenance and repairs.

Differences in *buyer preferences* are also major drivers behind value proposition adaptation. Local customs, such as religion or the use of leisure time, may affect market acceptance. The sensory impact of a product, such as taste or its visual impression, may also be a critical factor. The Japanese consumer's desire for beautiful packaging, for example, has led many U.S. companies to redesign cartons and packages specifically for this market. At the same time, to make purchasing mass-marketed consumer products more affordable in lesser developed countries, makers of products such as razor blades, cigarettes, chewing gum, ball-point pens, and candy bars repackage them in small, single units rather than multiple units prevalent in the developed and more advanced economies.

Expectations about *product guarantees* may also vary from country to country depending on the level of development, competitive practices, and degree of activism by consumer groups; local standards of production quality; and prevalent product usage patterns.

Strong warranties may be required to break into a new market, especially if the company is an unknown supplier. In other cases, warranties similar to those in the home country market may not be expected.

As a general rule, *packaging design* should be based on customer needs. For industrial products, packaging is primarily functional and should reflect needs for storage, transportation, protection, preservation, reuse, and so on. For consumer products, packaging has additional functionality and should be protective, informative, appealing, conform to legal requirements, and reflect buying habits (e.g., Americans tend to shop less frequently than Europeans, so larger sizes are more popular in the United States).

In analyzing adaptation requirements, careful attention to *cultural differences* between the target customers in the home country (country of origin) and those in the host country is extremely important. The greater the cultural differences between the two target markets, the greater the need for adaptation. Cultural considerations and customs may influence branding, labeling, and package considerations. Certain colors used on labels and packages may be found unattractive or offensive. Red, for example, stands for good luck and fortune in China and parts of Africa; aggression, danger, or warning in Europe, America, Australia, and New Zealand; masculinity in parts of Europe; mourning (dark red) in the Ivory Coast; and death in Turkey. Blue denotes immortality in Iran, while purple denotes mourning in Brazil and is a symbol of expense in some Asian cultures. Green is associated with high tech in Japan, luck in the Middle East, connotes death in South America and countries with dense jungle areas, and is a forbidden color in Indonesia. Yellow is associated with femininity in the United States and many other countries but denotes mourning in Mexico and strength and reliability in Saudi Arabia. Finally, black is used to signal mourning, as well as style and elegance, in most Western nations, but it stands for trust and quality in China, while white—the symbol for cleanliness and purity in the West—denotes mourning in Japan and some other Far Eastern nations.

A country's *standard of living* and the *target market's purchasing power* can also determine whether a company needs to modify its value proposition. The level of income, the level of education, and the availability of energy are all factors that help predict the acceptance of a product in a foreign market. In countries with a lower level of purchasing power, a manufacturer may find a market for less-sophisticated product models or products that are obsolete in developed nations. Certain high-technology products are inappropriate in some countries, not only because of their cost but also because of their function. For example, a computerized, industrial washing machine might replace workers in a country where employment is a high priority. In addition, these products may need a level of servicing that is unavailable in some countries.

When potential customers have limited purchasing power, companies may need to develop an entirely new product designed to address the market opportunity at a price point that is within the reach of a potential target market. Conversely, companies in lesser-developed countries that have achieved local success may find it necessary to adopt an "up-market strategy" whereby the product may have to be designed to meet world-class standards.

**Minicase: Kraft Reformulates Oreo Cookies in China (Jargon (Jargon (2008, May 1)).**

Kraft's Oreo has long been the top-selling cookie in the U.S. market, but the company had to reinvent it to make it sell in China. Unlike their American counterparts, Oreo cookies sold in China are long, thin, four-layered, and coated in chocolate.

Oreos were first introduced in 1912 in the United States, but it was not until 1996 that Kraft introduced Oreos to Chinese consumers. After more than 5 years of flat sales, the company embarked on a complete makeover. Research had shown, among other findings, that traditional Oreos were too sweet for Chinese tastes and that packages of 14 Oreos priced at 72 cents were too expensive. In response, Kraft developed and tested 20 prototypes of reduced-sugar Oreos with Chinese consumers before settling on a new formula; it also introduced packages containing fewer Oreos for just 29 cents.

But Kraft did not stop there. The research team had also picked up on China's growing thirst for milk, which Kraft had not considered before. It noted that increased milk demand in China and other developing markets was a contributing factor to higher milk prices around the world. This put pressure on food manufacturers like Kraft, whose biggest business is cheese, but it also spelled opportunity.

Kraft began a grassroots marketing campaign to educate Chinese consumers about the American tradition of pairing milk with cookies. The company created an Oreo apprentice program at 30 Chinese universities that drew 6,000 student applications. Three hundred were accepted and trained as Oreo-brand ambassadors. Some of them rode around Beijing on bicycles, outfitted with wheel covers resembling Oreos, and handed out cookies to more than 300,000 consumers. Others organized Oreo-themed basketball games to reinforce the idea of dunking cookies in milk. Television commercials showed kids twisting apart Oreo cookies, licking the cream center, and dipping the chocolate cookie halves into glasses of milk.

Still, Kraft realized it needed to do more than just tweak its recipe to capture a bigger share of the Chinese biscuit market. China's cookie-wafer segment was growing faster than the traditional biscuit-like cookie segment, and Kraft needed to catch up to rival Nestlé SA, the world's largest food company, which had introduced chocolate-covered wafers there in 1998.

So Kraft decided this market opportunity was big enough to justify a complete remake of the Oreo itself and, departing from longstanding corporate policy for the first time, created an Oreo that looked almost nothing like the original. The new Chinese Oreo consisted of four layers of crispy wafer filled with vanilla and chocolate cream, coated in chocolate. To ensure that the chocolate product could be shipped across the country, could withstand the cold climate in the north and the hot, humid weather in the south, and would still melt in the mouth, the company had to develop a new proprietary handling process.

Kraft's adaptation efforts paid off. In 2006, Oreo wafer sticks became the best-selling biscuit in China, outpacing HaoChiDian, a biscuit brand made by the Chinese company Dali. The new Oreos also outsell traditional (round) Oreos in China. They also have created opportunities for further aggregation and product innovation. Kraft now sells the wafers elsewhere in Asia, as well as in Australia and Canada, and the company has introduced another new product in China: wafer rolls, a tube-shaped wafer lined with cream. The hollow cookie can be used as a straw through which to drink milk.

This success encouraged Kraft to empower managers in other businesses around the globe. For example, to take advantage of the European preference for dark chocolate, Kraft introduced dark chocolate in Germany under its Milka brand. Research showed that Russian consumers like premium instant coffee, so Kraft positioned its Carte Noire freeze-dried coffee as an upscale brand. And in the Philippines, where iced tea is popular, Kraft launched iced-tea-flavored Tang.

As Kraft's experience shows, successful global marketing and branding is rooted in a careful blend of aggregation, adaptation, and arbitrage strategies that is tailored to the specific needs and preferences of a particular region or country.

# 3.11: Adaptation or Aggregation - The Value Proposition Globalization Matrix

A useful construct for analyzing the need to adapt the offer and message (positioning) dimensions is the value proposition globalization matrix shown in Figure 6.1.1 "The Value Proposition Globalization Matrix", which illustrates four generic global strategies:

1. A pure aggregation approach (also sometimes referred to as a “global marketing mix” strategy) under which both the offer and the message are the same
2. An approach characterized by an identical offer (product/service aggregation) but different positioning (message adaptation) around the world (also called a “global offer” strategy)
3. An approach under which the offer might be different in various parts of the world (product adaptation) but where the message is the same (message aggregation; also referred to as a “global message” strategy)
4. A “global change” strategy under which both the offer and the message are adapted to local market circumstances

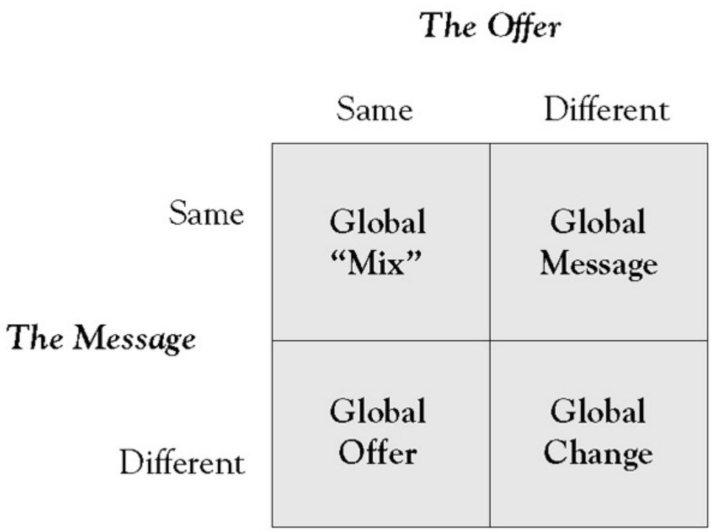


Figure 3.11.1: The Value Proposition Globalization Matrix

Global mix or pure aggregation strategies are relatively rare because only a few industries are truly global in all respects. They apply (a) when a product’s usage patterns and brand potential are homogeneous on a global scale, (b) when scale and scope cost advantages substantially outweigh the benefits of partial or full adaptation, and (c) when competitive circumstances are such that a long-term, sustainable advantage can be secured using a standardized approach. The best examples are found in industrial product categories such as basic electronic components or certain commodity markets.

Global offer strategies are feasible when the same offer can be advantageously positioned differently in different parts of the world. There are several reasons for considering differential positioning. When fixed costs associated with the offer are high, when key core benefits offered are identical, and when there are natural market boundaries, adapting the message for stronger local advantage is tempting. Although such strategies increase local promotional budgets, they give country managers a degree of flexibility in positioning the product or service for maximum local advantage. The primary disadvantage associated with this type of strategy is that it could be difficult to sustain or even dangerous in the long term as customers become increasingly global in their outlook and confused by the different messages in different parts of the world.

**Minicase: Starwood's Branding in China (Palmeri and Balfour (2009, Septermber 7)).**

Check into a Four Points Hotel by Sheraton in Shanghai and you will get all the perks of a quality international hotel: a free Internet connection, several in-house restaurants, a mah-jongg parlor, and an assortment of moon cakes, a Chinese delicacy. All this for $80 a night, about 20% less than the average cost of a room in Shanghai.

For travelers who associate the Sheraton brand with plastic ice buckets and polyester bedspreads in the United States, this may come as a surprise. Like Buick, Kentucky Fried Chicken (KFC), and Pizza Hut, Sheraton is one of those American names that, to some, seems past its prime at home, but it is still popular and growing abroad. The hotel brand has particular cachet in China, going back to 1985, when it opened the Great Wall Sheraton Hotel Beijing. Local developers still compete to partner with Sheraton's parent company—Starwood Hotels & Resorts Worldwide—to develop new properties. In the near future, the company will have more rooms in Shanghai than it does in New York.

Like many other U.S. companies experiencing pressure at home, Starwood sees China as one of its best hopes for growth. The company, which also owns the upscale St. Regis, Westin, W, and Le Meridien brands, expects much of this growth will come from outlying regions. Big cities such as Beijing now have plenty of rooms, thanks in part to the Olympics, but there is growing demand for business-class accommodation in second- and third-tier cities such as Jiangyin and Dalian. Lower construction costs and inexpensive labor mean the company's Chinese hotel owners can offer guests a lot more than comparably priced U.S. properties.

In recent years, the focus in China has shifted from international travelers to Chinese consumers. Starwood now asks its hotel staff to greet guests in Mandarin instead of English, which was long used to convey a sense of prestige. Many of its hotels do not label their fourth floors as such because four is considered an unlucky number.

Starwood is not alone in recognizing the potential of the Chinese market. Marriott International hopes to increase its China presence by 50%, to 61 hotels by 2014. And InterContinental Hotels Group, parent of Holiday Inn, plans to double the 118 hotels it has in China over the next 3 years.

One major perk Starwood can offer over local competitors is its extensive global network and loyalty perks. More than 40% of its Chinese business comes through its preferred-guest program, and Chinese membership in the program is increasing rapidly. But local customers are not particularly focused on accruing points to earn a free stay. They are more interested in "status," using points to get room upgrades, a free breakfast, or anything that accords them conspicuous VIP treatment. Among other things, the preferred guest system allows staffers to see people's titles immediately. That makes it easier to give better rooms to managers than the subordinates they are traveling with and to greet them first when a party arrives.

After a long period in which Starwood paid more attention to its hipper W and Westin brands, the company has recently been remodeling its U.S. Sheratons. Among mainland Chinese travelers, the Sheraton name has continued to exude an aura of international class. While that is helpful for Sheraton's domestic Chinese business, the real potential will only be realized when they start to travel. The company's goal is to lock in the loyalty of mainland customers so they will stay at a Sheraton when they travel abroad. Indeed, if the experience with Japanese tourists in the mid-1980s is any guide, Starwood could be looking at 100 million or more outbound trips from China.

Global message strategies use the same message worldwide but allow for local adaptation of the offer. McDonald's, for example, is positioned virtually identical worldwide, but it serves vegetarian food in India and wine in France. The primary motivation behind this type of strategy is the enormous power behind a global brand. In industries in which customers increasingly develop similar expectations, aspirations, and values; in which customers are highly mobile; and in which the cost of product or service adaptation is fairly low, leveraging the global brand potential represented by one message worldwide often outweighs the possible disadvantages associated with factors such as higher local research and development (R&D) costs. As with global-offer strategies, however, global message strategies can be risky in the long run—global customers might not find elsewhere what they expect and regularly experience at home. This could lead to confusion or even alienation.

### Minicase: KFC Abroad (www.kfcbd.com/aboutus_kfcbang.htm)

KFC is synonymous with chicken. It has to be because chicken is its flagship product. One of the more recent offers the company created—all around the world—is the marinated hot and crispy chicken that is "crrrrisp and crunchy on the outside, and soft and juicy on the inside." In India, KFC offers a regular Pepsi with this at just 39 rupees. But KFC also made sure not to alienate the vegetarian community—in Bangalore, you can be vegetarian and yet eat at KFC. Why? Thirty-five percent of the Indian population is vegetarian, and in metros such as Delhi and Mumbai, the number is almost 50%. Therefore, KFC offers a wide range of vegetarian products, such as the tangy, lip-smacking Paneer Tikka Wrap 'n Roll, Veg De-Lite Burger, Veg Crispy Burger. There are munchies such as the crisp golden veg fingers and crunchy golden fries served with tangy sauces. You can combine the veg fingers with steaming, peppery rice and a spice curry. The mayonnaise and sauces do not have egg in them.

While the vegetarian menu is unique to India because of the country's distinct tastes, KFC's "standard" chicken products are also adapted to suit local tastes. For example, chicken strips are served with a local sauce, or the sauce of the wrap is changed to local tastes. Thus, KFC tries to balance aggregation with adaptation: standardization of those parts of the value offering that travel easily (KFC's core products and positioning), tailoring of standard chicken products with a different topping or sauce, and offering a vegetarian menu.

This adaptation strategy is used in every country that KFC serves: the U.S. and European markets have a traditional KFC menu based on chicken burgers and wraps, while Asian offerings like those in India are more experimental and adventurous and include rice meals, wraps, and culture-appropriate sides.

Global change strategies define a "best fit" approach and are by far the most common. As we have seen, for most products, some form of adaptation of both the offer and the message is necessary. Differences in a product's usage patterns, benefits sought, brand image, competitive structures, distribution channels, and governmental and other regulations all dictate some form of local adaptation. Corporate factors also play a role. Companies that have achieved a global reach through acquisition, for example, often prefer to leverage local brand names, distribution systems, and suppliers rather than embark on a risky global one-size-fits-all approach. As the markets they serve and the company become more global, selective standardization of the message and the offer itself can become more attractive.

Minicase: Targeting Muslim Customers (Power (2009, June 1)).

Muslims often experience culture shock while staying in Western hotels. Minibars, travelers in bikinis, and loud music, among other things, embarrass Muslim travelers.

That is no longer necessary. A growing number of hotels has started to cater to Muslim travelers. In one, the lobby—decorated in white leather, brick, and glass, with a small waterfall—is quiet. Men in *dishdashas* and veiled women mingle with Westerners who are sometimes discreetly reminded to respect local customs. Minibars are stocked not with alcohol but with Red Bull, Pepsi, and the malt drink Barbican.

"Buying Muslim" used to mean avoiding pork and alcohol and getting your meat from a halal butcher, who slaughtered in accordance with Islamic principles. But the halal food market has exploded in the past decade and is now worth an estimated $632 billion annually, according to the *Halal Journal*, a Kuala Lumpur–based magazine. That amounts to about 16% of the entire global food industry. Throw in the fast-growing Islam-friendly finance sector and the myriad of other products and services—cosmetics, real estate, hotels, fashion, insurance, for example—that comply with Islamic law and the teachings of the Koran, and the sector is worth well over $1 trillion a year.

Seeking to tap that huge market, multinationals like Tesco, McDonald's, and Nestlé have expanded their Muslim-friendly offerings and now control an estimated 90% of the global halal market. Governments in Asia and the Middle East are pouring millions into efforts to become regional "halal hubs," providing tailor-made manufacturing centers and "halal logistics"—systems to maintain product purity during shipping and storage. The intense competition has created some interesting partnerships in unusual places. Most of Saudi Arabia's chicken is raised in Brazil, which means Brazilian suppliers had to build elaborate halal slaughtering facilities. Abattoirs in New Zealand, the world's biggest exporter of halal lamb, have hosted delegations from Iran and Malaysia. And the Netherlands, keen to exploit Rotterdam's role as Europe's biggest port, has built halal warehouses so that imported halal goods are not stored next to pork or alcohol.

It is not just about food. Major drug companies now sell halal vitamins free of the gelatins and other animal derivatives that some Islamic scholars say make mainstream products *haram*, or unlawful. The Malaysia-based company Granulab produces synthetic bone-graft material to avoid using animal bone, while Malaysian and Cuban scientists are collaborating on a halal meningitis vaccine. For Muslim women concerned about skin-care products containing alcohol or lipsticks that use animal fats, a few cosmetics firms are creating halal makeup lines.

The growing Islamic finance industry is trying to win non-Muslim customers. Investors are attracted by Islamic banking's more conservative approach: Islamic law forbids banks from charging interest (though customers pay fees), and many scholars discourage investment in excessively leveraged companies. Though it currently accounts for just 1% of the global market, the Islamic finance industry's value is growing at around 15% a year, and it could reach $4 trillion in 5 years, according to a 2008 report from Moody's Investors Service.

- **6.2: Adaptation or Aggregation - The Value Proposition Globalization Matrix** by Anonymous is licensed CC BY-NC-SA 3.0. Original source: https://2012books.lardbucket.org/books/global-strategy.

# 3.12: Points to Remember

1. Managers sometimes assume that what works in their home country will work just as well in another part of the world. The result in most cases is failure. Why? Because the assumption that one approach works everywhere fails to consider the complex mosaic of differences that exists between countries and cultures.
2. With a few exceptions, the idea of an identical, fully standardized global value proposition is a myth, and few industries are truly global. How to adapt a value proposition in the most effective manner is therefore a key strategic issue.
3. Value proposition adaptation deals with a whole range of issues, ranging from the quality and appearance of products to materials, processing, production equipment, packaging, and style.
4. A useful construct for analyzing the need to adapt the product or service and message (positioning) dimensions is the *value proposition globalization matrix*.
5. One way around the trade-off between creating global efficiencies and adapting to local requirements and preferences is to design a global product or communication platform that can be adapted efficiently to different markets.
6. Globalization pressures have changed the practice of product development in many industries in recent years. Today, a majority of global corporations have engineering and development operations outside of their home region.
7. Many companies now have global supply chains and product development processes but few have developed effective global innovation capabilities. Increasingly, however, technology access and innovation are becoming key global strategic drivers.
8. A core competency in global innovation—the ability to leverage new ideas all around the world—has become a major source of global competitive advantage.

# CHAPTER OVERVIEW

## 4: Collecting Consumer Data

# 4.1: Importance of Marketing Information

## Fresh Customer Insights

Effective marketing starts with a strong knowledge of your customers: the kind of knowledge that gives you unique insights into what they want and how to satisfy them better than the competition. The most reliable source of fresh customer insights is good **marketing information**. Useful marketing information may come from a variety of sources both inside and outside your organization. Marketing information is generated by a variety of different activities, including marketing research.

**Marketing research** is a systematic process for identifying marketing opportunities and solving marketing problems, using customer insights that come out of collecting and analyzing marketing information. The mechanics of marketing research must be controlled so that marketers uncover the relevant facts to answer the problem at hand. Control over this fact-finding process is the responsibility of the marketing research director, who must correctly design the research and carefully supervise its execution, to ensure it yields the customer insights the organization needs.

**A marketing information system** is a combination of people, technologies, and processes for managing marketing information, overseeing market research activities, and using customer insights to guide marketing decisions and broader management and strategy decisions.

## Knowledge Is Power Against the Competition

The business environment is increasingly competitive. With something as simple as a Google search, customers have unprecedented opportunities to explore alternatives to what any single company offers. Likewise, companies have ample opportunity to identify, track, and lure customers away from their less-vigilant competitors. A regular infusion of fresh customer insights can make all the difference between keeping customers and losing them. Marketing information and research are essential tools for marketers and the management team as they align strategy with customer wants and needs.

Consider the following examples:

- Before introducing OnStar, the first-ever embedded wireless service in cars, GM used marketing research to understand what types of applications would make consumers most interested in subscribing to the service and how much they would pay for it. Of all the benefits OnStar could offer, the research helped GM prioritize how the initial service would provide value, focusing on driver assistance and security. Research also helped determine OnStar pricing to help the company build a large subscriber base quickly.[1]
- Enterprise systems provider PeopleSoft recruited a diverse set of universities as early-adopter “Beta” partners to provide input as it designed a new student information system for higher education. This marketing research helped PeopleSoft create a versatile system that could support the needs of a variety of colleges and universities, ultimately leading to strong receptivity and market share when the new system became widely available.[2]

## What Should Marketers Investigate Using Marketing Information?

An easy—and truthful—answer to this question is “everything.” There is no aspect of marketing to which information and research do not apply. Every marketing concept and every element involved in the marketing management process can be subjected to a great deal of careful marketing research and inquiry. Some important questions include:

- Who is the customer?
- What problems is the customer trying to solve with a given purchase?
- What does s/he desire in the way of satisfaction?
- How does the customer get information about available choices?
- Where does s/he choose to purchase?
- Why does s/he buy, or not buy?
- When does s/he purchase?
- How does s/he go about seeking satisfaction in the market?

Seeking answers to these questions yields insights into the customer’s needs, perceptions, and behaviors. Another area in which research is critical is profitability. Organizations need to forecast sales and related costs in order to understand how their operations will be profitable. They also need to plan competitive marketing programs that will produce the desired level of sales at an appropriate cost. The analysis of past sales and interpretation of cost information are important in evaluating performance and providing useful facts for future planning. All these activities rely on marketing information and a rigorous marketing research process to produce insights managers can trust and act on.

## When to Use Marketing Information and Research

Many marketing decisions are made without consulting marketing information or the use of formal marketing research. For example, a decision maker may feel she already knows enough to make a good decision. The time required to investigate a question or conduct formal marketing research may not be available. In other cases, the cost of obtaining the data is prohibitive, or the desired data cannot be obtained in reliable form. In a few instances, there may be no choice among alternatives and therefore no decision to make because there is little value in spending time and money to study a problem if there is only one possible solution. But in most business situations, marketers and managers must choose among two or more courses of action. This is where fact-finding, marketing information, and research enter to help make the choice.

Marketing information and research address the need for quicker, yet more accurate, decision making by the marketer. These tools put marketers close to their customers to help them understand who they customers are, what they want, and what competitors are doing. When different stakeholders have very different views about a particular marketing-related decision, objective information and research can inform everyone about the issues in question and help the organization come to agreement about the path forward. Good research should help align marketing with the other areas of the business.

Marketers should always be tapping into regular sources of marketing information about their organization and industry in order to monitor what's happening generally. For example, at any given time marketers should understand how they are doing relative to sales goals and monitor developments in their industry or competitive set.

Beyond this general level of "tuning in," additional market research projects may also be justified. As a rule, if the research results can save the company more time, money, and/or risk than it costs to conduct the research, it is wise to proceed. If the cost of conducting the research is more than it will contribute to improving a decision, the research should not be carried out. In practice, applying this cost-test principle can be somewhat complex, but it provides useful guidance about when marketing research is worthwhile. Ultimately, successful marketing executives make decisions on the basis of a blend of facts and intuition.

## Fact: Top Performers Research Customer Preferences

In 2010, the management consultancy McKinsey published research about the difference between organizations that produced top-performing products and those that produced under-performing products. The use of marketing research was a striking differentiator:

> More than 80 percent of the top performers said they periodically tested and validated customer preferences during the development process, compared with just 43 percent of bottom performers. They were also twice as likely as the laggards to research what, exactly, customers wanted. [3]

The study also identified other differences between top and bottom performers, but an underlying theme was the emphasis successful projects and companies placed on understanding their customers and adjusting course when necessary to better address customers' needs. This research provides more than anecdotal evidence that marketing research and well-applied marketing information can make a substantial contribution to an organization's success.

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1. Vincent P. Barabba, *Surviving Transformation: Lessons from GM's Surprising Turnaround*, pp 46–50, https://books.google.com/books?id=VvbDYad7cLoC&pg↵
2. Proquest, "First We Built, Now We Buy: A Sociological Case Study for Enterprise Systems in Higher Education," pp 292–203, books.google.com/books?id=rgIAaigKQBIC&pg↵
3. http://www.mckinsey.com/insights/operations/the_path_to_successful_new_products ↵

## Contributors and Attributions

# 4.2: Marketing Research Techniques

# 4.3: Marketing Data Sources

## Marketing Information: Where the Data Are

Earlier sections of this module alluded to excellent sources of marketing data, many of which are freely available or carry minimal cost. Others are well-respected commercial sources of marketing data and customer insights. This reading provides an overview of useful go-to data sources that marketers should know about, should the occasion arise to use them. The data sources recommended below are a representative sampling, rather than a complete list.

It is also worth noting that the marketing information landscape is continually changing. Marketers would be well served to continually scan for new developments and information sources that may be beneficial to improve their understanding of customers and ways of serving them.

### Publicly Available Data Sources

Government agencies, non-profit organizations, and non-governmental organizations often publish freely available data that may inform marketers' understanding of consumers, customers, the geographies, and industry sectors where they operate. Great information sources include the following:

Publicly Available Data Sources

| Source | Description |
|---|---|
| Data.gov | A centralized portal for open data available from the U.S. government on a wide variety of topics. Helpful for finding government data that you know exist somewhere, but you aren't sure which agency maintains it. |
| FedStats | A U.S. government-maintained Web site that provides access to a wide variety of statistical data published by the federal government. Also helpful for finding data that you know exist somewhere, but you aren't sure which agency maintains it. |
| Google Public Data Directory | A directory of publicly-available data sources from around the world. |
| Google Trends | A search tool for exploring search volume for any term used in a Google search. |
| Pew Research Center | Public opinion and research reports from a non-partisan, American think tank. Freely available research covers social issues, public opinion, and demographic trends shaping the United States and the world |
| U.S. Bureau of Economic Analysis | Data published by the federal government about economic indicators for the economy as a whole, as well as specific industries and economic sectors. |
| U.S. Census Bureau Data | Demographic and geographic information about the population of the United States. |
| U.S. Small Business Administration (SBA) General Business Data and Statistics | A collection of data about the U.S. economy, industries, businesses and the general population, developed with business users in mind. |
| United Nations UNdata | A data service of the United Nations that provides centralized access to a wide variety of U.N.-maintained data sets such as demographics, socioeconomic status and development indicators for nations around the world. |

| | |
|---|---|
| World Bank Data | Economic data and economic development indicators for 100+ countries around the world. |
| World Trade Organization (WTO) Data | Information about international trade and tariffs and the regulatory environment for 100+ WTO member countries. |

## Syndicated Marketing Research Data

A number of commercial companies provide syndicated marketing research that is well respected and often well used by organizations that subscribe to their services. A sampling of these services is provided below:

Syndicated Marketing Research Data

| Source | Description |
|---|---|
| Acxiom | Extensive consumer datasets containing demographic, purchasing, credit, and other information companies can map to their own customer and prospect data for research, marketing analytics, and marketing campaign execution. |
| Experian | Extensive consumer datasets containing demographic, purchasing, credit, and other information that companies can map to their own consumer and prospect data for research, marketing analytics, and marketing campaign execution. |
| Ipsos | The Affluent Survey USA is an annual survey tracking media and consumer spending habits of U.S. households in the top 20% income level. |
| IRI | Point-of-sale data linked to household panel purchasing data, providing detail around sales, pricing, promotion and market share for a variety of consumer products. |
| Media Audit | Audience demographics and media consumption profiles for 100+ media markets in the U.S. |
| MRI Simmons (formerly GfK MRI and MediaMark) | Extensive datasets around multimedia audience research and measurement. |
| Nielsen | Point-of-sale data linked to household panel purchasing data, providing detail around sales, pricing, promotion and market share for a variety of consumer products. Datasets to support popular lifestyle and behavioral segmentation systems such as PRIZM. |
| Roper Center for Public Opinion Research | Database of public opinion and polling questions exploring many aspects of American life, including contemporary data as well as polling data dating back to the 1930s. |
| Yankelovich | MONITOR provides long-running syndicated research about consumer values, attitudes, and trends. |

## Other Useful Sources for Marketing Data

These additional sources for other types of marketing information are also warrant attention. Whether or not marketers use them, they should be aware of these tools and how they can be useful for a variety of marketing purposes.

Other Useful Sources for Marketing Data

| Source | Description |
|---|---|
| Google Analytics | Detailed analytics, statistics and insights about Web site traffic, usability and sales effectiveness. Free and premium services available. |
| LexisNexis | Searchable source for full-text articles from regional, national and international newspapers, government documents, and many legal, medical and business publications. |
| Statista | A subscription-based statistics portal, providing searchable access to many original sources of market, industry, and business data. |

## Contributors and Attributions

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# 4.4: Key terms and concepts

Table 3.2.1

| Term | Definition |
|---|---|
| Business intelligence/ insights | Data that can help businesses understand the factors influencing their success and how these can be used to benefit them. |
| Connected customer | Consumers are increasingly connected, using ever-growing numbers of Internet-enabled devices. These offer opportunities for data collection. |
| Current indicators | Information from the present time that can help businesses to understand their customer and themselves. |
| Customer intelligence | The process of gathering and analysing information about customers to improve customer relationships and allow for more strategic business decisions. |
| Data intelligence | The process of gathering and analysing data from all available sources to improve customer relationships and make more strategic business decisions. |
| Disruption | When a disruptive innovation changes the market and displaces established players. |
| Dynamic data | Data that is constantly updated and evaluated to provide a dynamic, changing view of the customer |
| Future/leading indicators | Information that can help a brand to make decisions about the future. |
| Goals | Specific actions taken by a user, or specific user behaviour |
| Internet of things | The interconnection of everyday objects to the Internet via embedded computing devices, giving them the ability to send and receive data. |
| Key performance indicators (KPI) | The metrics that are examined to determine the success of a campaign.<br>Lagging indicators<br>Older data that gives information on how a brand performed in the past. |
| Metric | A quantifiable measure used to track the performance of a campaign. The most important metrics are called KPIs. Net promoter score (NPS) The KPI used to measure customer loyalty. |
| Segmentation | The process of breaking an overall audience or target market into smaller groups based on specific commonalities for more accurate targeting.<br>Single view of customer<br>Single view of customer is achieved when all customer information is available in a single central location. |
| SMART objectives | A marketing objective that is specific, measurable, attainable, relevant, and time bound. |
| Target | The specific value that a marketer wants a metric to achieve. |

# 4.5: Understanding data

## Consumers, technology and data

To understand data and its role in a business, you need to understand consumers and their relationship to technology. Many people believe that technology changes and consumers adapt in response. Really, consumers are leading the change themselves through the technological choices they make. They decide which technology to embrace, usually favouring whatever facilitates speed and ownership of their own experience. This is particularly true on mobile.

Brands need to meet consumers in the technological spaces they have chosen. The consumer relationship with technology is about accessibility, theirs to brands and products, and brands' to theirs. This has shifted a large deal of power to the consumer.

This connection to technology offers many opportunities for marketers. Every new technology embraced by a consumer offers brands new ways to collect information about them. This leads to more granular segmentation and more targeted marketing messages.

### The Internet of me

Consider the Internet of Things, which is the idea that more and more everyday objects are technologically enabled to send and receive data via the Internet. The information these objects transmit is, for the most part, related to the consumer using the objects rather than about the objects themselves. Consumers use this connected technology to communicate, create content such as social media posts, and consume and share products.

More than an Internet of Things, you can think of this as an Internet of 'Me'. 'Me' is the consumer, and the technology-enabled connection between objects and the consumer allows brands to access reams of data about consumers that they could never have considered a few years ago.

## What is data?

Put simply, data is all the available information about your business. It includes information about your consumers, your products and their performance, your owned digital properties, and any other information that exists that might affect your business. The mountains of data that your business has access to is good for one thing: it helps you create a strong, data-driven business strategy that lets you connect with consumers and, ultimately, sell more products.

> Remember the difference between owned, earned, and paid coverage in the digital sphere? Your owned properties cover your websites, social media profiles, and anything else your brand controls. Read more about this in the Social media and strategy chapter.

The intention behind the collection and careful use of data is to create more value for your customers. Value can be defined as any means through which the brand delivers on its purpose. Whatever that value is, it needs to be something that customers actually want and that is relevant to them. Data can help you identify what is relevant and useful and what really works.

### Forms of data

There are four main forms of data relevant to brands:

1. **Algorithmic intelligence –** the algorithmic methods used by companies such as Google and Netflix to help drive revenue. In the case of Google, to assess what people want to read, and in the case of Netflix, to assess what they want to watch.
2. **BI: Business intelligence –** the technology-driven process for analysing an organisation's raw data, about profits and performance, and presenting that information to help brands make better informed business decisions.
3. **CI: Customer intelligence –** information derived from customer data, that comes from internal and external sources, to build better customer relationships and make stronger strategic decisions.
4. **SI: Software intelligence –** software tools and techniques used to mine data for useful and meaningful information, the result of which is similar to BI.

By combining all four forms of data, you could say that you are using data intelligence (DI), and this can easily make you the most powerful brand in your field.

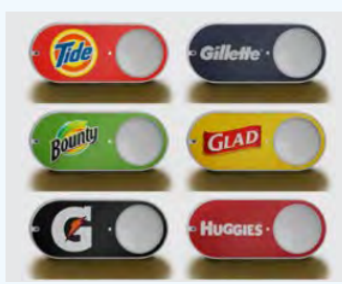
## Sources of data

Data can come from any number of sources, particularly thanks to the Internet of Things. You don't need to restrict yourself to website-based analytics. To get a full picture of audience insights, try to gather as wide a variety of information as you can. Some places to look:

> **Note**
>
> Take a look at this video on the Internet of Things , how it works, and what we can do with the data: https://www.youtube.com/ watch?v=QSIPNhOiMoE.

- **Online data –** everywhere your audience interacts with you online, such as social media, email, forums and more. Most of these will have their own datagathering tools. For example, look at Facebook Insights or your email service provider's send logs.
- **Databases –** look at any databases that store relevant customer information, like your contact database, CRM information or loyalty programs. These can often supplement anonymous data with some tangible demographic insights.
- **Software data –** data might also be gathered by certain kinds of software, for example, some web browsers gather information on user habits, crashes and problems. If you produce software, consider adding a data-gathering feature (with the user's permission, of course) that captures usage information that you can use for future updates.
- **App store data –** app store analytics allows companies to monitor and analyse the way customers download, pay for and use their apps. Marketplaces like the Google Play and Apple App stores should provide some useful data here.
- **Offline data –** in-store experience data, customer service logs, in-person surveys, in-store foot traffic, and much more.

You should consider looking for data in unusual places or consuming data in an unconventional way.

> **Example 4.5.1**
>
> Amazon Dash is an excellent example. Amazon Dash is a Wi-Fi-connected service that reorders products with the press of a button. It consists of three components.
>
> 1. A scanning device used to inventory consumer goods in a house.
> 2. The Amazon Dash Button, which can be placed anywhere in a house and programmed to order products of the consumer's choosing.
> 3. The Amazon Dash Replenishment Service, which allows manufacturers to add a button or auto-detection capability to their devices.
>
> 
> 
>
> Figure 4.5.1: Amazon Dash *Adapted From Wnep, 2015.*
>
> Consumers see this as a brilliant innovation that gets them the product they want, when they want it. They see it as being about convenience, and it is! As an example of incremental innovation, it stands out, and convenience will drive the use of the product. It is also an excellent data collection tool that helps to gather data for granular segmentation. This is good for both the customer and the brand.

## Lagging, current, and leading indicators

Your data-driven, customer-first strategy should be built around three data indicators.

1. **Lagging indicators** are past data such as financial results, sales history and past campaign results. Profits can be seen as a result of your marketing efforts and how you responded to the competition. These indicators are important because they show your past performance, but they are only one part of the whole.

2. **Current indicators** are pieces of information from right now. For example, you can use website analytics to see what customers are doing on your site and which pages they visit. You can use this data to segment around that. The immediate environment is also a current indicator, for example, the #deleteuber hashtag was a huge current indicator for the Uber group about how their customers were reacting to their political actions. Current indicators can encourage you to think about what you can do to be agile in response to them.
3. **Leading** or **future indicators** help you think about where the company might be headed. Your brand can make a strategic decision about where you're going to be in the future. Look at other brands that are already established in that area, and examine what people search for in that space. What words do they use in their searches? What ideas are they looking for? What kind of innovations are coming out now that may affect the way your brand does business in the future? Is there any economic or environmental data that could affect how your brand performs? Future indicators help you define your strategy for moving the business forward.

---

# 4.6: Approaching data

## Enabling dynamic data

Consumers today expect increasingly personalised communication from brands. Personalisation is all about relevance. You can only successfully communicate with and add value to a customer if you understand who they really are. The only way you can do this is through dynamic data.

Many businesses make the mistake of not collecting and storing their data in a single place that can be accessed by everyone. For example, the sales department might have a list of qualified leads, the marketing department might have customer reactions to marketing material, and the CRM department might have access to customer complaints. Multiple data sets within a business pose a risk to customer communication, especially where they lead to irrelevant or outdated information being shared with customers.

Businesses should aim for a single view of customer (SVOC). This is when businesses have one view of customer data, which is all collected in one place and can be accessed by different departments. However, SVOC on its own is insufficient in today's data-rich environment. A SVOC is important as a starting point for storing clean data, but because it is collected at a single point in time, it doesn't account for customer change.

> **Note**
>
> Read more about the importance of database hygiene (keeping data fresh) in the Customer relationship management and Direct marketing: Email and mobile chapters.

Because customers are evolving in the way that they use technology and how they consume products, businesses need to evolve their approach to data to keep up. What is relevant to a customer today might be completely different to what was relevant yesterday. For example, customers listed on the database as married may now be divorced, and customers listed with certain political or product preferences may well change these preferences over time. Businesses need to move away from master data focused on a SVOC and toward dynamic data that keeps this evolution in mind.


Figure 4.6.1: Customer experience and data work hand in hand *Adapted From Unknown, n.d.*

As an example, consider a student living away from home, who is provided with a credit card by her father. A SVOC would result in sending marketing material to the father who signed up for the card, when a more dynamic view would take into account who is actually doing the shopping and send the material to her instead.

## Data and customer strategy

A data-driven view of the customer allows a business to move from organisationcentric to customer-centric thinking.

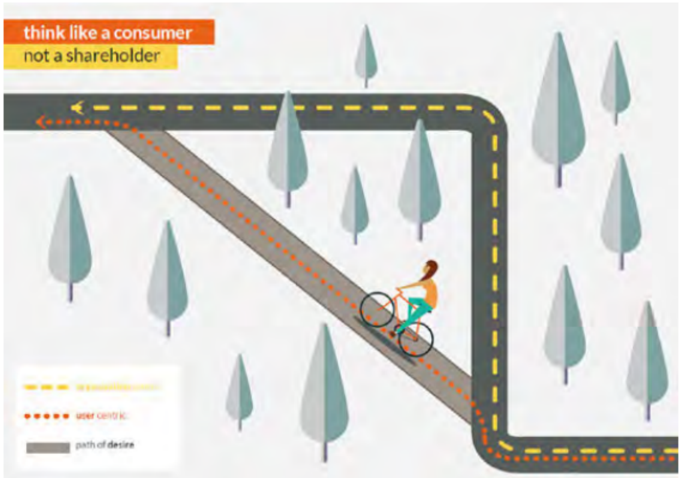



Figure 4.6.2: The difference between thinking like a shareholder and thinking like a consumer

A customer-centric brand will use these five principles in their customer strategy:

1. **You are not the customer.** No members of staff should presume to know what customers will like or want. No one person's hunches or intuition will be as accurate as a large data set. Use research and data to understand what your customers will like and how they will act accordingly.
2. **Your brand does not know the customers as well as they know themselves.** The brand should understand their customers, realise that the customers are changing, and be willing and able to use data to track and respond to that change.
3. **Customers are all different:** broad segmentation is the same as generalisation. With the amount of data available, brands are capable of very granular segmentation so instead of talking about "All women between 18 and 30 who use makeup", they can narrow it down to "Women between 18 and 30 who use makeup, are interested in X and Y, who like to consume Z, and who are friends with A and B."
4. **Customers are constantly changing.** Dynamic data is essential to ensuring your view of your customer is accurate and relevant.
5. **Data drives the customer-centric view.** You cannot give your customers what they want unless you know what that is and who they are.

> When thinking about different customers using the same type of product, consider makeup brands like MAC and Rimmel. Both brands would target women aged 18–30 years old who wear makeup. However, these brands differ in what their respective customers want from their makeup, what they are willing to pay, what skincare benefits they expect, where they socialise, and what jobs they may have. The more detail you have about your customers, the more you are able to set your brand apart and create marketing messages that speak to individuals.

In a customer-first strategy, dynamic data means creating that never-ending feedback loop we've looked at, of experience out and data in. Everything you do should push out an experience for the customer, and your customer expects that experience to be relevant, personalised, and built for them but in a way that's not too obvious. Larger, established companies may find it difficult to carry out this major shift in thinking to a customer-first approach, which puts new businesses at an advantage.

## Data and trust

Consumers are increasingly concerned about privacy. To comfortably share with you the data you need, consumers must believe you will treat that data responsibly and respectfully. Any brand collecting data about its consumers, which should be every brand, needs to work on establishing and maintaining this trust. Trust has three components:

1. **Security:** You need to make sure that you can protect customer data from being hacked or stolen.
2. **Privacy:** You need to ensure that your brand is compliant with legal requirements regarding what data it is and is not allowed to be collected and what it is allowed to do with that data. You should have a privacy policy outline that is easily accessible to the consumer.
3. **Transparency:** Give consumers insight into how their data is being used. Demonstrate how providing access to their data is contributing towards improving their experience.

Once you establish trust with a consumer, that trust can become a bond that leads to a relationship. The more trust you have, the better the relationship will be. However, if you break the trust by overstepping your bounds in personalisation, spamming the customer, or not keeping their data safe, they will go elsewhere

> Different countries will have different legislation around what brands need to do to protect consumer information, such as the European Union Data Protection Directives of 1995, South Africa's POPI (Protection of Personal Information Act) of 2013, or Canada's Personal Information Protection and Electronic Documents Act (PIPEDA). Make sure you are compliant with the laws of the country in which you operate.

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# 4.7: Working with data

## Reporting

The process of becoming a customer-centric organisation does not end with gathering data. You need to report on that data to the people who will act on it, in a format that will actually be consumed. For example, if you give everyone a 27-page financial report filled with spreadsheets and nothing else, very few people will read or try to interpret it.

You need to consider your audience: who is going to receive your data, and what format works best for them? The marketing team would receive different data to the managerial team, who would receive different data to the sales team, and so on. Make the data available, but communicate only what is relevant to that audience to facilitate their path to taking action.

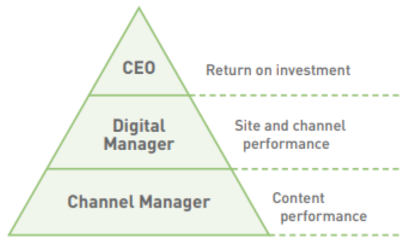


Figure 4.7.1: The reporting pyramid. Examples of who needs to see what aspect of website analytics data

Ideally, and while acting within the bounds of legal requirements, your organisation should place no restrictions on who can or cannot see existing data. Everyone in the company should have access in order to facilitate improvements. Make the data available to customer-facing staff as well as product designers, for example.

Why is this so important? Why does every part of the organisation need access to the data you are giving them? Data takes the emotion out of decisions, moving the organisation toward a customer-centric viewpoint. Managers can no longer say, “I’m experienced in this field, so I know what to expect” because opinion no longer matters. Instead, look at what the data is saying to drive your personalisation strategy and deliver relevant customer experiences.

## Analysing data

The data feedback loop should never stop after a report. If you want to be agile, you need to consume, interpret, and understand data and turn it into an effect that will result in an immediate reaction.

You can read more about analysing data in the Data analytics chapter. For now, remember that the goal of analysing your data is to look for patterns such as similarities, trends, deviations, and any other relationship, and thinking about what those mean. This process can help you solve problems both on a small scale, at the level of websites and campaigns, and on a larger business-wide scale that you may not have realised you had.

# 4.8: Customer Relationship Management (CRM) Systems

## Marketing Information and Customer Relationship Management (CRM)


Earlier in this course, we cited the American Marketing Association's definition of customer relationship management: "a discipline in marketing combining database and computer technology with customer service and marketing communications." The AMA's definition goes on to describe the ultimate goal of customer relationship management as the ability to provide "meaningful one-on-one communications with the customer by applying customer data (demographic, industry, buying history, etc.) to every communications vehicle."[1] Because customer relationship management (CRM) relies on customer data—and specifically the effective use of internal data—it's important to discuss CRM systems in the context of marketing information and research.

CRM systems are powerful software systems that serve several essential functions for marketing, sales, and account management. Organizations use them to:

- Capture internal data about customers and customer interactions and house these data in a central location
- Provide business users with access to customer data in order to inform a variety of customer touch points and interactions
- Conduct data analysis and generate insights about how to better meet the needs of target segments and individual customers
- Deliver a marketing mix tailored to the needs and interests of these target segments and individual customers

Leading providers of CRM systems include Salesforce.com, Oracle (Siebel), and Microsoft, among others. These large, many-faceted systems include several components. Databases and data warehouses provide information infrastructure for storing and accessing customer information. Contact management capabilities allow organizations to track a variety of customer interactions, including how each customer or prospective customer relationship is progressing over time. CRM packages also include sophisticated analytical tools to help marketing and sales analysts examine the data and find patterns and correlations that help them better anticipate and address customer needs (with the goal of strengthening each customer relationship).

Does this analytical process sound familiar? It should. Marketing analysts working with CRM data follow the same basic process outlined previously for general marketing research activities: Identify a problem; develop a plan for the information and analysis needed to solve the problem; conduct research; analyze and report findings; and take action based on the results. The primary difference from traditional marketing research projects is that the CRM inquiries may be more self-contained because of the breadth of marketing information and tools these systems provide.

The CRM system is especially effective at helping to surface a marketing problem, and it can provide the internal data needed for an analysis, which, in turn, is used to solve the problem. CRM systems are designed to capture data across the customer life cycle, starting with the initial contact point and progressing through each conversation and interaction that moves a prospective customer toward a purchasing decision. CRM systems also capture sales and spending data, and they enable analysts to project future spending patterns and lifetime value based on broader patterns in the customer data. These systems may also incorporate data about customer satisfaction and support, with accompanying insights into what is driving satisfaction ratings and customers' perceptions of the company. In addition to bringing together disparate customer data, CRM systems can recommend an analytical approach and provide research tools to complete the analysis. Many CRM systems have mechanisms for reporting results, orchestrating plans for taking action on the results, and even evaluating the effectiveness of those actions.

## Adidas and Salesforce

Consider the following example of how sports company adidas is using Salesforce.com (a CRM provider) to improve its ability to engage customers and design better products. Notice the company's emphasis on *connecting* the customers—with products, services, and other people—and why that's such a key part of what the CRM system provides.

A link to an interactive elements can be found at the bottom of this page.

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1. www.ama.org/resources/Pages/Dictionary.aspx?dLetter=C ↵

## Contributors and Attributions

# 4.9: Attracting and retaining visitors


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## Introduction

The Web changes the nature of communication between firms and customers. The traditional advertiser decides the message content, and on the Web, the customer selects the message. Traditional advertising primarily centers on the firm broadcasting a message. The flow of information is predominantly from the seller to the buyer. However, the Web puts this flow in reverse thrust. Customers have considerable control over which messages they receive because it is primarily by visiting Web sites that they are exposed to marketing communications. The customer intentionally seeks the message.[1]

The Web increases the richness of communication because it enables greater interactivity between the firm and its customers and among customers. The airline can e-mail frequent flyers special deals on underbooked flights. The prospective book buyer can search electronically by author, title, or genre. Customers can join discussion groups to exchange information on product bugs, innovative uses, gripes about service, and ask each other questions. Firms and customers can get much closer to each other because of the relative ease and low cost of electronic interaction.

Although there is some traditional advertising on the Web, especially that associated with search engines, in the main the communication relationship is distinctly different. This shift in communication patterns is so profound that major communication conglomerates are undergoing a strategic realignment. Increasingly, customers use search and directory facilities to seek information about a firm's products and services. Consequently, persuading and motivating customers to seek out interactive marketing communication and interact with advertisers is the biggest challenge facing advertisers in the interactive age.

In the new world of Web advertising, the rules are different. The Web, compared to other media, provides a relatively level playing field for all participants in that:

- access opportunities are essentially equal for all players, regardless of size;
- share of voice is essentially uniform–no player can drown out others;
- initial set-up costs present minimal or nonexistent barriers to entry.

A small company with a well-designed home page can look every bit as professional and credible as a large, multinational company. People can't tell if you do business from a 90-story office building or a two-room rented suite. Web home pages level the playing field for small companies.

Differentiation–success in appealing to desirable market segments so as to maintain visibility, create defensible market positions, and forge institutional identity–is considered to be a central key to survival and growth for businesses in the new electronic marketplace. In other words:

*How do you create a mountain in a flat world?*

An attractor is a Web site with the potential to attract and interact with a relatively large number of visitors in a target stakeholder group (for example, an auto company will want to attract and interact with more prospective buyers to its Web site than its competitors). While the Web site must be a good attractor, it must also have the facility for interaction if its powers of attraction are to have a long life span. Merely having attraction power is not enough–the site might attract visitors briefly or only once. The strength of the medium lies in its abilities to interact with buyers, on the first visit and thereafter. Good sites offer interaction above all else; less effective sites may often look more visually appealing, but offer little incentive to interact. Many organizations have simply used the Web as an electronic dumping ground for their corporate brochures–this in no way exploits the major attribute of the medium–its ability to interact with the visitor. Purely making the corporate Web site a mirror of the brochure is akin to a television program that merely presents visual material in the form of stills, with little or no sound. Television's major attribute is its ability to provide motion pictures and sounds to a mass audience, and merely using it as a platform for showing still graphics and pictures does not exploit the medium. Thus, very little television content is of this kind today. Similarly, if Web sites are not interactive, they fail to exploit the potential of the new medium. The best Web sites both attract and interact–for example, the BMW site shows pictures of its cars and accompanies these with textual information. More importantly, BMW allows the visitor to see and listen to the new BMW Z3 coupe, redesign the car by seeing different color schemes and specifications, and drive the car using virtual reality. This is interaction with the medium rather than mere reaction to the medium.

We propose that the strategic use of hard-to-imitate attractors, building blocks for gaining visibility with targeted stakeholders, will be a key factor in on-line marketing. Creating an attractor will, we believe, become a key component of the strategy of some firms. This insight helps define the issues we want to focus on in this chapter:

- identification and classification of attractors;
- use of attractors to support a marketing strategy.

## Types of attractors

Given the recency of the Web, there is limited prior research on electronic commerce, and theories are just emerging. In new research domains, observation and classification are common features of initial endeavors. Thus, in line with the pattern coding approach of qualitative research, we sought overriding concepts to classify attractors.

To understand how firms distinguish themselves in a flat world, we reviewed marketing research literature, surfed many Web sites (including specific checks on innovations indicated in What's New pages or sections), monitored Web sites that publish reviews of other companies' Web efforts, and examined prize lists for innovative Web solutions.

After visiting many Web sites and identifying those that seem to have the potential to attract a large number of visitors, we used metaphors to label and group sites into categories (see Exhibit 1). The categories are not mutually exclusive, just as the underlying metaphors are not distinct categories. For example, we use both the archive and entertainment park as metaphors. In real life, archives have added elements of entertainment (e.g., games that demonstrate scientific principles) and entertainment parks recreate historical periods (e.g., Frontierland at Disney).

Exhibit 1.: Types of attractors

| |
|---|
| The entertainment park |
| The archive |
| Exclusive sponsorship |
| The Town Hall |
| The club |
| The gift shop |
| The freeway intersection or portal |
| The customer service center |

### The entertainment park

Web sites in this category engage visitors in activities that demand a high degree of participation while offering entertainment. Many use games to market products and enhance corporate image. These sites have the potential to generate experiential flow, because they provide various degrees of challenge to visitors. They are interactive and often involve elements and environments that promote telepresence experiences. The activities in the entertainment park often have the character of a contest, where awards can be distributed through the network (e.g., the Disney site). These attractors are interactive, recreational, and challenging. The potential competitive advantages gained through these attractors are high traffic potential (with repeat visits) and creation or enforcement of an image of a dynamic, exciting, and friendly corporation.

Examples in this category include:

- GTE Laboratories' Fun Stuff part of its Web site, which includes Web versions of the popular games MineSweeper, Rubik's cube, and a 3D maze for Web surfers to navigate;
- The Kellogg Company's site lets young visitors pick a drawing and color it by selecting from a palette and clicking on segments of the picture;
- Visitors to Karakas VanSickle Ouellette Advertising and Public Relations can engage in the comical Where's Pierre game and win a T-shirt by discovering the whereabouts of Pierre Ouellette, KVO's creative big cheese ;
- Joe Boxer uses unusual effects and contests for gaining attention. For solving an advanced puzzle, winners gain supplies of virtual underwear. Instructions such as "Press the eyeball and you will return to the baby," are a blend of insanity and advertising genius.

### The archive

Archive sites provide their visitors with opportunities to discover the historical aspects of the company's activities. Their appeal lies in the instant and universal access to interesting information and the visitor's ability to explore the past, much like museums or maybe even more like the more recently created exploratoria (entertainment with educational elements). The credibility of a well-established image is usually the foundation of a successful archive, and building and reinforcing this corporate image is the main marketing role of the archive.

The strength of these attractors is that they are difficult to imitate, and often impossible to replicate. They draw on an already established highly credible feature of the company, and they bring an educational potential, thus reinforcing public relations aspects of serving the community with valuable information. The major weakness is that they often lack interactivity and are static and less likely to attract repeat visits. The potential competitive advantage gained through these attractors is the building and maintenance of the image of a trusted, reputable, and well-established corporation.

Examples in this category include:

- Ford's historical library of rare photos and a comprehensive story of the Ford Motor Company;
- Boeing's appeal to aircraft enthusiasts by giving visitors a chance to find out more about its aircraft through pictures, short articles on new features, and technical explanations;
- Hewlett-Packard's site where everyone can check out the Palo Alto garage in which Bill Hewlett and Dave Packa rd started the firm.

## Exclusive sponsorship

An organization may be the exclusive sponsor of an event of public interest, and use its Web site to extend its audience reach. Thus, we find on the Internet details of sponsored sporting competitions and broadcasts of special events such as concerts, speeches, and the opening of art exhibitions.

Sponsorship attractors have broad traffic potential and can attract many visitors in short periods (e.g., the World Cup). They can enhance the image of the corporation through the provision of timely, exclusive, and valuable information. However, the benefits of the Web site are lost unless the potential audience learns of its existence. This is a particular problem for short-term events when there is limited time to create customer awareness. Furthermore, the information on the Web site must be current. Failure to provide up-to-the-minute results for many sporting events could have an adverse effect on the perception of an organization.

Examples of sponsorship include:

- Texaco publishes the radio schedule for the Metropolitan Opera, which it sponsors on National Public Radio;
- Coca-Cola gives details of Coke-sponsored concerts and sporting events;
- Planet Reebok includes interviews with the athletes it sp onsors. The Web site permits visitors to post questions to coaches and players.

A Web site can provide a venue for advertisers excluded from other media. For instance, cigarette manufacturer Rothmans, the sponsor of the Cape Town to Rio de Janeiro yacht race, has a Web site devoted to this sporting event.

## The town hall

The traditional town hall has long been a venue for assembly where people can hear a famous person speak, attend a conference, or participate in a seminar. The town hall has gone virtual, and these public forums are found on the Web. These attractors can have broad traffic potential when the figure is of national importance or is a renowned specialist in a particular domain. Town halls have a potentially higher level of interactivity and participation and can be more engaging than sponsorship. However, there is the continuing problem of advising the potential audience of who is appearing. There is a need for a parallel bulletin board to notify interested attendees about the details of town hall events. Another problem is to find a continual string of drawing card guests.

Examples in this category are:

- Tripod, a resource center for college studen ts, has daily interviews with people from a wide variety of areas. Past interviews are archived under categories of Living, Travel, Work, Health, Community, and Money.
- CMP Publications Inc., a publisher of IT magazines (e.g., InformationWeek ), hosts a Cyberforum, where an IT guru posts statements on a topic (e.g., Windows 2000) and responds to issues raised by readers.

### The club

People have a need to be part of a group and have satisfactory relationships with others. For some people, a Web club can satisfy this need. These are places to hang out with your friends or those with similar interests. On the Internet, the club is an electronic community, which has been a central feature of the Internet since its foundation. Typically, visitors have to register or become members to participate, and they often adopt electronic personas when they enter the club. Web clubs engage people because they are interactive and recreational. Potentially, these attractors can increase company loyalty, enhance customer feedback, and improve customer service through members helping members .

#### Examples include:

- Snapple Beverage Company gives visitors the opportunity to meet each other with personal ads (free) that match people using attributes such as favorite Snapple flavor;
- Zima's loyalty club, Tribe Z, where members can access exclusive areas of the site;
- Apple's EvangeList, a bulletin board for maintaining the faith of Macintosh devotees.

An interesting extension of this attractor is the electronic trade show, with attached on-line chat facilities in the form of a MUD (multiuser dungeon) or MOO (multiuser dungeon object oriented). Here visitors can take on roles and exchange opinions about products offered at the show.

### The gift shop

Gifts and free samples nearly always get attention. Web gifts typically include digitized material such as software (e.g., screensavers and utilities), photographs, digital paintings, research reports, and non-digital offerings (e.g., a T-shirt). Often, gifts are provided as an explicit bargain for dialogue participation (e.g., the collection of demographic data).

Examples include:

- Ameritech's Claude Monet exhibition where yo u can download digital paintings;
- Kodak's library of colorful, high-quality digital images that are downloadable;
- Ragu Foods offers recipes, Italian-language lessons, merchandise, and stories written by Internet users. You can e-mail a request for product coupons. There is culture, too, in the form of an architectural tour of a typical Pompeiian house;
- MCA/Universal Cyberwalk offers audio and video clips from upcoming Universal Pictures' releases, and a virtual tour of Uni versal Studios, Hollywood's new ride based on Back to the Future. There is even a downloadable coupon hidden in the area that will let you bypass the line for the ride at the theme park.

One noteworthy subspecies of the gift is the software utility or update. Many software companies distribute upgrades and complimentary freeware or shareware via their Web site. In some situations (e.g., a free operating system upgrade), this can generate overwhelming traffic for one or two weeks. Because some software vendors automatically notify registered customers by e-mail whenever they add an update or utility, such sites can have bursts of excessively high attractiveness.

### The freeway intersections or portals

Web sites that provide advanced information processing services (e.g., search engines) can become n-dimensional Web freeway intersections with surfers coming and going in all directions, and present significant advertising opportunities because the traffic flow is intense–rather like traditional billboard advertising in Times Square or Picadilly Circus. Search engines, directories, news centers, and electronic malls can attract hundreds of thousands of visitors in a day.

Some of these sites are entry points to the Web for many people, and are known as portals. These portals are massive on-ramps to the Internet. A highly successful portal, such as America Online, attracts a lot of traffic.

Within this category, we also find sites that focus upon specific customer segments and try to become their entry points to the Web. Demography (e.g., an interest in fishing) and geography (such as Finland Online's provision of an extensive directory for Finland) are possible approaches to segmentation. The goal is to create a one-stop resource center. First movers who do the job well are likely to gain a long-term competitive advantage because they have secured prime real estate, or what conventional retailers might call a virtual location.

Examples include:

- Yahoo!, a hierarchical directo ry of Web sites;
- ISWorld, an entry point to serve the needs of information systems academics and students;

- AltaVista, a Web search engine originally operated by Digital (since acquired by Compaq Computers) as a means of promoting its Alpha servers.

#### The customer service center

By directly meeting their information needs, a Web site can be highly attractive to existing customers. Many organizations now use their Web site to support the ownership phase of the customer service life cycle. For instance, Sprint permits customers to check account balances, UPS has a parcel tracking service, many software companies support downloading of software updates and utilities (e.g., Adobe), and many provide answers to FAQs or frequently asked questions (e.g., Fuji Film). The Web site is a customer service center. When providing service to existing customers, the organization also has the opportunity to sell other products and services. A visitor to the Apple Web site, for example, may see the special of the week displayed prominently.

### Summary

Organizations are taking a variety of approaches to making their Web sites attractive to a range of stakeholders. Web sites can attract a broad audience, some of whom are never likely to purchase the company's wares, but could influence perceptions of the company, and certainly increase word-of-mouth communication, which could filter through to significant real customers. Other Web sites focus on serving one particular stakeholder–the customer. They can aim to increase market share by stimulating traffic to their site (e.g., Kellogg's) or to increase the share of the customer by providing superior service (e.g., the UPS parcel tracking service).

Of course, an organization is not restricted to using one form of attractor. It makes good sense to take a variety of approaches so as to maximize the attractiveness of a site and to meet the diverse needs of Web surfers. For example, Tripod uses a variety of attractors to draw traffic to its site. By making the site a drawing card for college students, Tripod can charge advertisers higher rates. As Exhibit 2 illustrates, there are some gaps. Tripod is not an archive or the exclusive sponsor of an event.

Exhibit 2.: Tripod's use of attractors

| Type of attractor | Tripod's approach |
|---|---|
| Entertainment park | Limited development, except for a novel concentration game, members can test their memory by matching different types of contraceptives. |
| Town Hall | Daily interviews on topics of likely interest to college students. Past interviews can be recalled. |
| Club | Only members can use HereMOO , a graphical, interactive environment in which members can interact. Visitors can join Tripod by providing some basic demographic data. Also, members can build a home page. |
| Gift shop | Every 25th new member wins a T-shirt and every 10th new member wins a bottle opener key chain. There are also weekly competitions. |
| Freeway intersection or portal | An entry point for a number of news services (e.g., USA Today ) and stock prices provided by other Web sites. |
| Customer service center | A travel planner and daily reminder are examples of services that members can use. |

## Attractiveness factors

The previous examples illustrate the variety of tactics used by organizations to make their sites attractors. There is, however, no way of ensuring that we have identified a unique set of categories. There may be other types of attractors that we simply did not recognize or uncover in our search. To gain a deeper understanding of attractiveness, we examine possible dimensions for describing the relationship between a visitor and a Web site. The service design literature, and in particular the service process matrix, provide the stimulus for defining the elements of attractiveness.

The service process matrix (see Exhibit 3), with dimensions of degree of labor intensity and interaction and customization, identifies four types of service businesses. Labor-intensive businesses have a high ratio of cost of labor relative to the value of plant and equipment (e.g., law firms). A trucking firm, with a high investment in trucks, trailers, and terminals, has low labor intensity. Interaction and customization are, respectively, the extent to which the consumer interacts with the service process and the service is customized for the consumer.

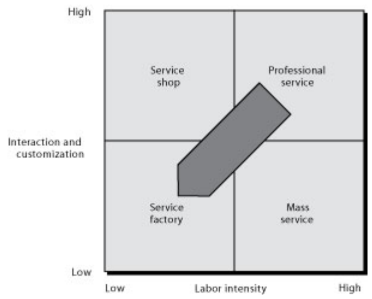


Exhibit 3.: The service process matrix (Adapted from Schmener)

Because services are frequently simultaneously produced and consumed, they are generally easier to customize than products. A soft drink manufacturer would find it almost impossible to mix a drink for each individual customer, while dentists tend to customize most of the time, by treating each patient as an individual. The question facing most firms, of course, is to what extent they wish to customize offerings.

For many services, customization and interaction are associated. High customization often means high interaction (e.g., an advertising agency) and low customization is frequently found with low interaction (e.g., fast food), though this is not always the case (e.g., business travel agents have considerable interaction with their customers but little customization because airline schedules are set). The push for lower costs and control is tending to drive services towards the diagonal. The traditional carrier, for example, becomes a no-frills airline by moving towards the lower-left.

If we now turn to the Web, labor intensity disappears as a key element because the Web is an automated service delivery system. Hence, we focus our attention on interaction and customization and split these out as two separate elements to create the attractors grid (see See Attractors grid). Attractors require varying degrees of visitor interaction. A search engine simply requires the visitor to enter search terms. While the customers may make many searches, on any one visit there is little interaction. Just like a real entertainment park, a Web park is entertaining only if the visitor is willing to participate (e.g., play an interactive game). The degree of customization varies across attractors from low (e.g., the digital archive) to high (e.g., a customer service center).

Each of the four quadrants in the attractors grid has a label. A utility (e.g., search engine) requires little interaction and there is no customization, each customer receives the same output for identical keywords. A service center provides information tailored to the customer's current concern (e.g., what is the balance of my account?). In mass entertainment (e.g., an entertainment park), the visitor participates in an enjoyable interaction, but there is no attempt to customize according to the needs or characteristics of the visitor. The atmosphere of a club is customized interaction. The club member feels at home because of the personalized nature of the interaction.

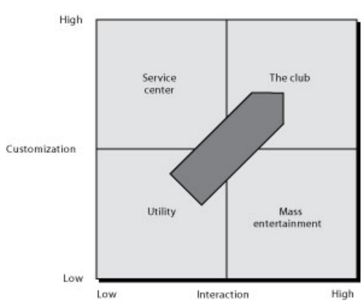


Exhibit 4.: Attractors grid

In contrast to the service process matrix's push down the diagonal, the impetus with attractors should be towards customized service–up the diagonal (see Exhibit 4). The search engine, which falls in the utility quadrant, needs to discover more about its visitors so that it can become a customer service center. Similarly, mass entertainment should be converted to the personalized performance and interaction of a club. The service center can also consider becoming a club so that frequent visitors receive a special welcome and additional service, like hotel guests who are recognized by the concierge. Indeed, commercial Internet success may be dependent on creating clubs or electronic communities.

Where possible, organizations should be using the Web to reverse the trend away from customized service by creating highly customized attractors. Simultaneously, we could see the synergistic effects of both trends. A Web application reduces labor intensity and increases customization. This can come about because the model in See The service process matrix (Adapted from Schmenner) assumes that people deliver services, but when services are delivered electronically, the dynamics change. In this respect, the introduction of the Web is a discontinuity for some service organizations, and represents an opportunity for some firms to change the structure of the industry.

A potential of the Web is that it will make mass customization work. It will enable customized service to each customer, while serving millions of them at the same time. All customers will get more or less what they want, tailored to what is unique to them and their circumstances. This will be achieved, almost without exception, by information technology. The really important aspect of this is that by mass customization, the firm will learn from customers; more importantly, customers are more likely to remain loyal, not so much because the firm serves them so well, but because they do not want to teach another firm what's already known about them by their current provider.

## Sustainable attractiveness

The problem with many Web sites, like many good ideas, is that they are easily imitated. In fact, because the Web is so public, firms can systematically analyze each other's Web sites. They can continually monitor the Web presence of competitors and, where possible, quickly imitate many initiatives. Consequently, organizations need to be concerned with sustainable attractiveness–the ability to create and maintain a site that continues to attract targeted stakeholders. In the case of a Web site, sustainable attractiveness is closely linked to the ease with which a site can be imitated.

Attractors can be classified by ease of imitation, an assessment of the cost and time to copy another Web site's concept (see See Ease of imitation of attractors). The easiest thing to reproduce is information that is already in print (e.g., the corporate brochure). Product descriptions, annual reports, price lists, product photographs, and so forth can be converted quickly to HTML, GIFs, or an electronic publishing format such as Adobe's portable document format (PDF). Indeed, this sort of information is extremely common on the Web, and so bland that we consider it has minimal attractiveness.

Exhibit 5.: Ease of imitation of attractors

| Ease of imitation | Examples of attractors |
|---|---|
| Easy | Corporate brochure |
| Imitate with some effort | Software utilitiesDirectory or search engine |
| Costly to imitate | Advanced customer service application<br>SponsorshipValuable and rare resources |
| Impossible to imitate | Archive with some exclusive features<br>Well-established brand name or corporate image |

There is a variety of attractors, such as utilities, that can be imitated with some effort and time. The availability of multiple search engines and directories clearly supports this contention. The original offerer may gain from being a first mover, but distinctiveness will be hard to sustain. Nevertheless, while investing in easily imitated attractors may provide little gain, firms may have to match their competitors' offerings so as to remain equally attractive, thus echoing the notion of strategic necessity of the strategic information systems literature. Attractors are more like services than products. Innovations generally are more easily imitated, just as the first life insurance company to offer premium discounts to nonsmokers was easily imitated (and therefore not remembered).

While a search engine or directory can be imitated, what is less difficult to copy is location or identity. Some search engines are better placed than others. For example, clicking on Netscape's Search button gives immediate access to Netscape's search engine, and additional clicks are required to access competitive search engines. This is like being the first gas station after the freeway exit or the only one on a section of highway with long distances between exit ramps. It is one of the best pieces of real estate on the information superhighway, and certainly Netscape should gain a high rent for this spot.

The key to imitation is whether a firm possesses valuable and rare resources and how much it costs to duplicate these resources or how readily substitutes can be found. Back-end computer applications that support Web front-end customer service can be a valuable resource, though not rare. FedEx's parcel tracking service is an excellent example of a large investment back-end IT application easily imitated by competitor UPS. IT investment can create a competitive advantage, but it is unlikely to be sustainable because competitors can eventually duplicate the system.

Sponsorship is another investment that can create a difficult-to-imitate attractor. Signing a long-term contract to sponsor a major sporting or cultural event can create the circumstances for a long-lived attractor. Sponsorship is a rare resource, but its very rareness may induce competitors to escalate the cost of maintaining sponsorship for popular events. Contracts eventually run their course, and failure to win the next round of the bidding war will mean loss of the attractor.

There are some attractors that can never be imitated or for which there are few substitutes. No other beverage company can have a Coke Museum–real or virtual. Firms with respected and well-known brands (e.g., Coca-Cola) have a degree of exclusiveness that they can impart to their Web sites. The organization that owns a famous Monet painting can retain exclusive rights to offer the painting as a screensaver. For many people, there is no substitute for the Monet painting. These attractors derive their rareness from the reputation and history of the firm or the object. History can be a source of enduring competitiveness and, in this case, enduring attractiveness.

This analysis suggests that Web application designers should try to take advantage of:

- prior back-end IT investments that take time to duplicate;
- special relations (e.g., sponsorship);
- special information resources (e.g., an archive);
- established brand or image (part of the enterprise's history);
- proprietary intellectual/artistic capital (e.g., a Monet painting).

## Strategies for attractors

Stakeholder analysis can be a useful tool for determining which types and forms of attractors to develop. Adapting the notion that a firm should sell to the most favorable buyers, an organization should concentrate on using its Web site to attract the most influential stakeholders. For example, it might use an attractor to communicate with employees or it may want to attract and inform investors and potential suppliers.

After selecting the targeted stakeholder group, the organization needs to decide the degree of focus of its attraction. We proffer a two-stage process for selecting the properties of an attractor (see Exhibit 6). First, identify the target stakeholder groups and make the site more attractive to these groups–the influence filter. Second, decide the degree of customization–the target refractor. For example, Kellogg's Web site, designed to appeal to all young children, filters but is not customized. American Airlines' Web site is an implementation of filtering and customization. The site is designed to attract prospective flyers (filtering). Frequent flyers, an important stakeholder group, have access to their mileage numbers by entering their frequent flyer number and a personal code (customization).

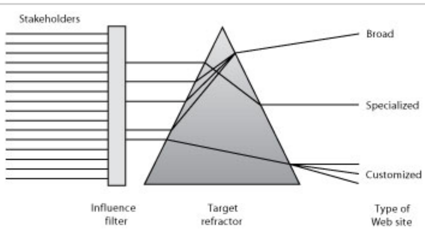

Exhibit 6.: Attractor strategies

### Broad attraction

A broad attractor can be useful for communicating with a number of types of stakeholders or many of the people in one category of stakeholders. Many archives, entertainment parks, and search engines have a general appeal, and there is no attempt to attract a particular segment of a stakeholder group. For example, Goodyear Tire & Rubber Company's Web site, with its information on tires, is directed at the general tire customer. A broad attractor provides content with minimal adjustment to the needs of the visitor. Thus, many visitors may not linger too long at the site because there is nothing that particularly catches their attention or meets a need. In terms of See Attractors grid, broad attractors are utilities or mass entertainment.

### Specialized attraction

A specialized attractor appeals to a more narrow audience. UPS, with its parcel tracking system, has decided to focus on current customers. A customer can enter an tracking number to determine the current location of a package and download software for preparing transportation documentation. A specialized attractor can be situation dependent. It may attract fewer visitors, but nearly all those who make the link find the visit worthwhile. A specialized attractor may be a utility (providing solutions to a particular class of problem) or a service center (providing service to a specific group of stakeholders) (see See Attractors grid).

## Personalized attractor

The marketer's goal is to develop an interactive relationship with individual customers. Personalized attractors, an incarnation of that dream, can be customized to meet the needs of the individual visitor. Computer magazine publisher Ziff-Davis offers visitors the opportunity to specify a personal profile. After completing a registration form, the visitor can then select what to see on future visits. For instance, a marketing manager tracking the CAD/CAM software market in Germany can set a profile that displays links to new stories on these topics. On future visits to the Ziff-Davis site, the manager can click on the personal view button to access the latest news matching the profile. The Mayo Clinic uses the Internet Chat facility to host a series of monthly on-line forums with Clinic specialists. The forums are free, and visitors may directly question an endocrinologist, for instance. Thus, visitors can get advice on their particular ailments.

There are two types of personalized attractors. Adaptable attractors can be customized by the visitor, as in the case of Ziff-Davis. The visitor establishes what is of interest by answering questions or selecting options. Adaptive attractors learn from the visitor's behavior and determine what should be presented. Advanced Web applications will increasingly use a visitor's previously gathered demographic data and record of pages browsed to create dynamically a personalized set of Web pages, just as magazines can be personalized.

One advantage of a personalized attractor is that it can create switching costs, which are not necessarily monetary, for the visitor. Although establishing a personal profile for an adaptable site is not a relatively high cost for the visitor, it can create some impediment to switching. An adaptive Web site further raises costs because the switching visitor will possibly have to suffer an inferior service while the new site learns what is relevant to the customer. Furthermore, an organization that offers an adaptable or adaptive Web site as a means of differentiation learns more about each customer. Since the capacity to differentiate is dependent on knowing the customer, the organization is better placed to further differentiate itself. Personalized attractors can provide a double payback–higher switching cost for customers and greater knowledge of each customer.

The flexibility of information technology means that organizations can build a Web page delivery platform that will produce a variety of customized pages. Thus, it is quite feasible for the visitor to determine before each access whether to receive a standard or customized page. For example, visitors could decide to receive the standard version of an electronic newspaper or one that they tailored. This choice might go hand in hand with a differential pricing mechanism so that visitors pay for customization, just as they do with many physical products. Flexible Web server systems should make it possible for organizations to provide simultaneously both broad and customized attractors. The choice then is not between types of attractors, but how much should the visitor pay for degrees of customization.

## Conclusion

Because we often learn by modeling the behavior of others, we have used metaphors and examples to illustrate the variety of attractors that are currently operational. These should provide a useful starting point for practitioners designing attractors because a variety of stimuli are the most important means of stimulating creative behavior. However, we have no way of verifying that we have covered the range of metaphors, and other useful ones may emerge as organizations discover innovative uses of the Web. The attractors grid (see See Attractors grid) is a more formal method of classifying attractors, and provided we have identified the key parameters for describing attractors, does indicate complete coverage of the types of attractors.

The difference in the direction of the diagonal in the service process matrix and attractors grid suggests a discontinuity in the approach to delivering service. For some services, there should no longer be a reduction but an increase in customization as human-delivered services are replaced by Web service systems. Thus, this chapter provides two decision aids, metaphors and the attractor grid, for those attempting to identify potential attractors, and these challenge managers to rethink the current trend in service delivery.

The attractor strategy model is the third decision aid proffered. Its purpose is to stimulate thinking about the audience to be attracted and the degree of interactivity with it. The attractor strategy model is promoted as a tool for linking attractors to a stakeholder-driven view of strategy. In our view, attractors are strategic information systems and must be aligned with organizational goals.

Web sites have the potential for creating competitive advantage by attracting numerous visitors so that many potential customers learn about a firm's products and services or influential stakeholders gain a positive impression of the firm. The advantage, however, may be short-lived unless the organization has some valuable and rare resource (e.g., sponsorship of a popular sporting event) that cannot be duplicated. A valuable, but not necessarily rare, resource for many organizations is the current IT infrastructure. Firms should find it useful to re-examine their existing databases to gauge their potential for highly attractive Web applications. Building front-end Web applications to create an attractor (e.g., customer service) can be a quick way of capitalizing on existing investments, but competitors are likely to be undertaking the same projects. IT infrastructure, however, is not enough to create a sustained attractor. The key assets are managerial IT skills and viewing information as the key asset that can create competitive advantage. Sustainable attractiveness is dependent on managers understanding what information to deliver and how to present it to stakeholders.

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## CHAPTER OVERVIEW

# 5: Ethics and Social Responsibility



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# 5.1: Why It Matters- Ethics and Social Responsibility

## Why learn about ethics and social responsibility?

Generally speaking, students believe that there are two primary reasons to act ethically:

1. Acting ethically is the right thing to do from a moral perspective;
2. If you act unethically, then you might get caught and be punished.

Neither of these is a bad reason to apply principles of ethics and social responsibility, but it is worth considering another reason, as well. In most cases strong ethical behavior leads to strong business results. Behaving ethically is actually good business. Let's look at two different auto companies whose track records on ethical behavior have had very different outcomes.

### Tesla and Social Responsibility

Tesla, Inc. was founded in 2003 by a group of engineers who wanted to prove that electric cars could be better than gasoline-powered cars. They hoped to build cars that wouldn't require the tradeoffs in power and comfort of electric cars in the past. The founders pledged that each new generation of cars would be increasingly affordable, helping the company work toward its mission: "to accelerate the world's transition to sustainable energy."[1]

In order to design and build luxury electric cars, Tesla invented a number of new technologies that it patented in order to protect its competitive advantage. In June 2014 the company announced that it was releasing access to all of its patents, making its technological advances open to competitors and inventors. In the announcement, company CEO Elon Musk said, "Tesla Motors was created to accelerate the advent of sustainable transport. If we clear a path to the creation of compelling electric vehicles, but then lay intellectual-property land mines behind us to inhibit others, we are acting in a manner contrary to that goal. Tesla will not initiate patent lawsuits against anyone who, in good faith, wants to use our technology."[2]

Tesla has a mission with an emphasis on social responsibility; it strives to develop products that have both a societal and economic benefit. Industry analysts and consumers alike see this as a distinct advantage in the marketplace. Investment analyst Seeking Alpha explains:

Companies like Toyota Motor and Honda are already pushing for gas-less cars and more and more efficiency from their cars. Tesla is not single-handedly pushing this, but it is part of the overall push to improve one of the most important aspects of our country—how we envision the car. Yet, the company extends beyond this—challenging how we vision luxury, how we understand how to build a car, and what the future electric grid could look like.[3]

### Volkswagen and Ethical Behavior

The car company Volkswagen (which is part of the larger Volkswagen Group) does not have a formal mission statement, but its goal is "to offer attractive, safe, and environmentally sound vehicles that can compete in an increasingly tough market and set world standards in their respective class."[4]

In September 2015, the Environmental Protection Agency announced that Volkswagen had installed special software in its cars to manipulate emissions levels (making it appear that the cars are less polluting than they are). A week later Volkswagen disclosed that 11 million diesel vehicles contained the devices, and CEO Martin Winterkorn resigned. The price of Volkswagen stock plunged—losing 30 percent of its value overnight—and the company scrambled to understand what had happened and control the damage to its reputation.

In the months following the discovery of the deceptive devices, investigators identified a team of Volkswagen employees who had hatched the plan and implemented it over a number of years. An internal evaluation identified a "culture of tolerance" for rule breaking at the company. It also came to light that Volkswagen's emphasis on "results at any cost" had contributed to the breach in ethical standards. Industry experts believe that the company's violation of consumers' trust will be will be exceedingly difficult to repair and that it may take years to rebuild the Volkswagen brand.

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## Contributors and Attributions

# 5.2: Regulatory Laws

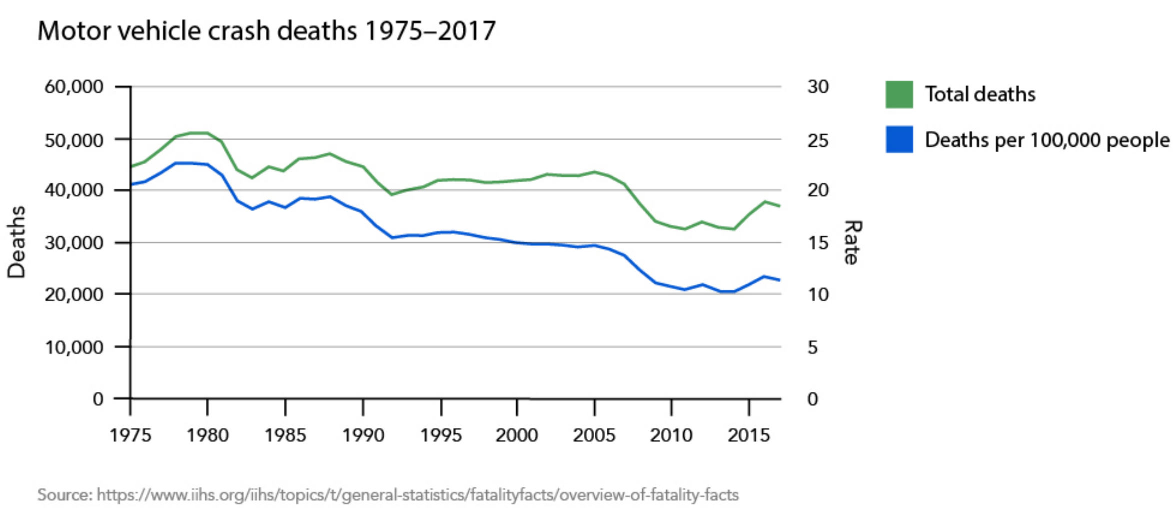
## What you'll learn to do: explain the laws that regulate marketing

While there are situations in which we expect individuals to act according to higher moral laws, at a basic level we always expect business professionals to follow the law. Most of the laws that impact marketers fall into a category called consumer protection. Consumer protection laws are created to ensure the rights of consumers and to create a fair marketplace for consumers.

### The History of Consumer Protection

Historically, consumer protection laws in the United States have been specific formal legal responses to address public outrage over the disclosure of industry abuses and crises. For example, in 1905 a man named Upton Sinclair exposed the terrible worker conditions in the American meat-packing industry. His work sparked public outrage and, in turn, led to the creation of the Food & Drug Administration and the first comprehensive inspection and regulation of food safety in the United States.[1]

Similarly, in the 1960s consumer advocate Ralph Nadar took on automobile safety, highlighting the immense profits made by auto companies relative to their investment in customer safety. In 1966 Congress unanimously passed the National Traffic and Motor Vehicle Safety Act, and the National Highway Traffic Safety Administration gained consumer protection powers. The number of vehicular deaths in the U.S. reached a high of 50,000 in 1960 and have continued to fall despite a larger number of drivers on the road.




### Government Consumer Protection and Enforcement Agencies

A number of governments agencies are charged with protecting consumers. The U.S. Federal Trade Commission (FTC) was created in 1914 and is charged with protecting America's consumers and promoting competition. The commission includes individual divisions that oversee a range of activities that are of importance to marketers, including the following:

- Privacy and identity protection
- Advertising practices
- Marketing practices
- Financial practices

The FTC's Bureau of Consumer Protection stops unfair, deceptive, and fraudulent business practices by collecting complaints and conducting investigations, suing companies and people who break the law, developing rules to maintain a fair marketplace, and educating consumers and businesses about their rights and responsibilities.

In addition to government-based agencies, consumer associations and other nonprofit entities also play an important role in protecting the consumer.

As a marketer, it is important to understand the current laws and consider where there are risks to consumers that might lead to new legislation.

### The European Union's General Data Protection Regulation (GDPR)

In May 2018 the European Union enacted the General Data Protection Regulation (GDPR) which protects the privacy of any European citizen by regulating the ways online information about consumers collected, protected, stored, and used. This regulation limits the type of information that can be collected about a person by a business, limits the length of time that information can be saved and used by a business, and limits how that information can be collected and stored. The GDPR is enforceable around the world, so businesses operating outside of the E.U. that have customers who are E.U. citizens must know about the GDPR and adjust their data collection accordingly. The European Data Protection Board (EDPB) is an independent body that provides resources, guidelines, and best practices for businesses operating within European markets. The EDPB does not enforce the GDPR, but supports businesses navigating the landscape of the regulation, to improve business operations and help them align with the rules.

The United Kingdom exited the European Union as of January 2020, and the E.U. GDPR no longer applies. The UK GDPR does apply, as a part of the Data Protection Act of 2018. The Information Commissioner's Office (ICO) is the authority that enforces the data protection act, which aligns with United Kingdom domestic laws.

In October 2020, Marriott International, Inc was fined by the ICO for 18.4 million pounds for violating the UK GDPR over the time period 2014 - 2018, when a cyber-security data breach was uncovered by the hotel chain. Personal information of nearly 340 million records across the world had been stolen in 2014, including personal identifying information, passport numbers, information about the stay, and membership in loyalty programs. ICO found that Marriott had failed to protect the data because they did not have sufficient technical or organizational structures, which led to the breach in security. While Marriott was quick to notify consumers, the ICO (on behalf of the E.U. and the U.K. governments) issued the fine due to lack of proper planning to protect the data. (ICO (2020): *ICO fines Marriott International Inc £18.4million for failing to keep customers' personal data secure*).

### California Consumer Protection Act (CCPA)

Also in 2018, the state of California passed the California Consumer Privacy Act of 2018 (CCPA), which assigns more control of personal data to consumers so that they may determine what information cand be collected about their online activities. It ensures the right to know which data points are being collected, how that data is being used, and how it is shared. Under the CCPA, consumers are granted authorixte to delete the personal information that is collected about them, and the right to opt-out if a business wants to share their information with others. If you are in California, maybe you've noticed more pop-ups about cookies, collecting data, and opt-in or opt-out messaging. Businesses have implemented these online measures to comply with the regulation.

## Introduction

Product liability is the legal liability a manufacturer or trader incurs for producing or selling a faulty product.

There is not a single federal law or code that covers all product liability. Fourteen states have adopted the Uniform Commercial Code, which governs business transactions between states. Specifically, Article 2 of the code includes the requirements for contract formation and breach, which are important in many product liability cases. In general, product liability laws come about as a result of civil court cases being prosecuted at the state level.

The courts are increasingly holding sellers responsible for the safety of their products. The U.S. courts generally maintain that the producer of a product is liable for any product defect that causes injury in the course of normal use. Liability can even result if a court or a jury decides that a product's design, construction, or operating instructions and safety warnings make the product unreasonably dangerous to use.

## Types of Product Defects

There are three types of product defects that incur product liability: design defects, manufacturing defects, and defects in marketing.

### Design Defects

Design defects exist before the product is manufactured. There is something in the design of the product that is inherently unsafe, regardless of how well it is manufactured. Since "product" is one of the primary elements of the marketing mix, the marketer bears responsibility for ensuring that the design results in a product that is safe and that the product will fulfill the promises of the other aspects of the marketing mix such as promotional commitments.


Hoverboard

Let's look at a current example of a product design going awry. One of the hottest holiday gift items in 2015 is the hoverboard self-balancing scooter. The premium models often cost more than $1,000, but several companies have created less expensive versions by using lower-cost board components. One expensive component that has been downgraded in the cheaper models is the rechargeable lithium-ion battery. Many less expensive boards use a lower-quality (and lower-priced) mass-produced battery cell. These cheaper batteries are more likely to have quality issues that might cause them to break and burst into flame when they are repeatedly bumped, which is a regular occurrence during the normal use of the scooter. After more than ten reported fires, the U.S. Consumer Product Safety Commission opened a case to investigate the hoverboard fires.

## Manufacturing Defects

Manufacturing defects occur while a product is being constructed, produced, or assembled. Specifically, when a product departs from its intended design, even though all possible care was exercised in the preparation and marketing of the product[2], it is a manufacturing defect. The manufacturer may be very careful with the design, the material selection, the development of the manufacturing process, and the quality-assurance guidelines. Nevertheless, if a poorly manufactured product leaves the manufacturers facility and causes injury when used for any of its intended purposes, then there is a defect in manufacturing.


It might seem that manufacturing defects occur only in product sales and not in the service industry, but there's a very well-known case in this category: the McDonald's coffee case.

On February 27, 1992, a seventy-nine-year-old woman named Stella Liebeck went to McDonald's with her grandson, Chris. They got the coffee, and Chris pulled into a parking space so that Stella could add cream and sugar. Since the car had a curved dash and lacked cup holders, Stella put the cup between her knees and removed the lid. When she did, the cup fell backward, burning her groin, thighs, genitalia, and buttocks. Liebeck was taken to the hospital, where it was discovered that she had third-degree burns on 6 percent of her body and other burns on 16 percent of her body. She required multiple skin grafts and was in the hospital for eight days. Liebeck spent two years recovering from the injury, lost 20 percent of her bodyweight after the accident, and was left permanently scarred by the ordeal.

Liebeck wrote a letter to McDonald's asking them to pay her medical bills, which totaled around $10,500 in 1992 (approximately $16,110 today). The company offered her $800. Liebeck and McDonald's exchanged several more letters, but the company refused to increase their $800 offer, so Liebeck hired a law firm.

Liebeck's lawyers conducted a study of coffee temperatures. They discovered that coffee brewed at home is usually served at 135–145°F and coffee served at most fast-food restaurants is in the 160–175°F range. McDonald's, however, served its coffee at 190°F, which can cause third-degree burns on human skin after two to seven seconds of contact. No safety study of any kind was undertaken by either McDonald's or the consultant who recommended the hotter temperature.

Moreover, Liebeck's lawyers also discovered more than seven hundred other burn claims—many of them for third-degree burns—from McDonald's customers between February 1983 and March 1992. In court, McDonald's quality-control manager, Christopher Appleton, testified that McDonald's served around 20 million cups of coffee a year and that seven hundred incidents during nine years was statistically insignificant. While this was factually accurate, the jury did not like to hear that McDonald's considered seven hundred burned customer to be insignificant.

The jury found in Liebeck's favor. They awarded her \$200,000 in compensatory damages, but that amount was later reduced to \$160,000 because they felt that the spill was 20 percent Liebeck's fault. The jury made headlines when it came to the punitive damages, however, which they settled at \$2.7 million. The jurors defended the amount, saying that it was to punish the company for its callous attitude toward Ms. Liebeck and the 700+ other McDonald's customers who had suffered burns. Although it sounds like a lot, \$2.7 million represented only two days' worth of McDonald's coffee sales, and the jurors felt that was fair.

The judge agreed, accusing McDonald's of "willful, wanton, and reckless behavior" for ignoring all the customer complaints.

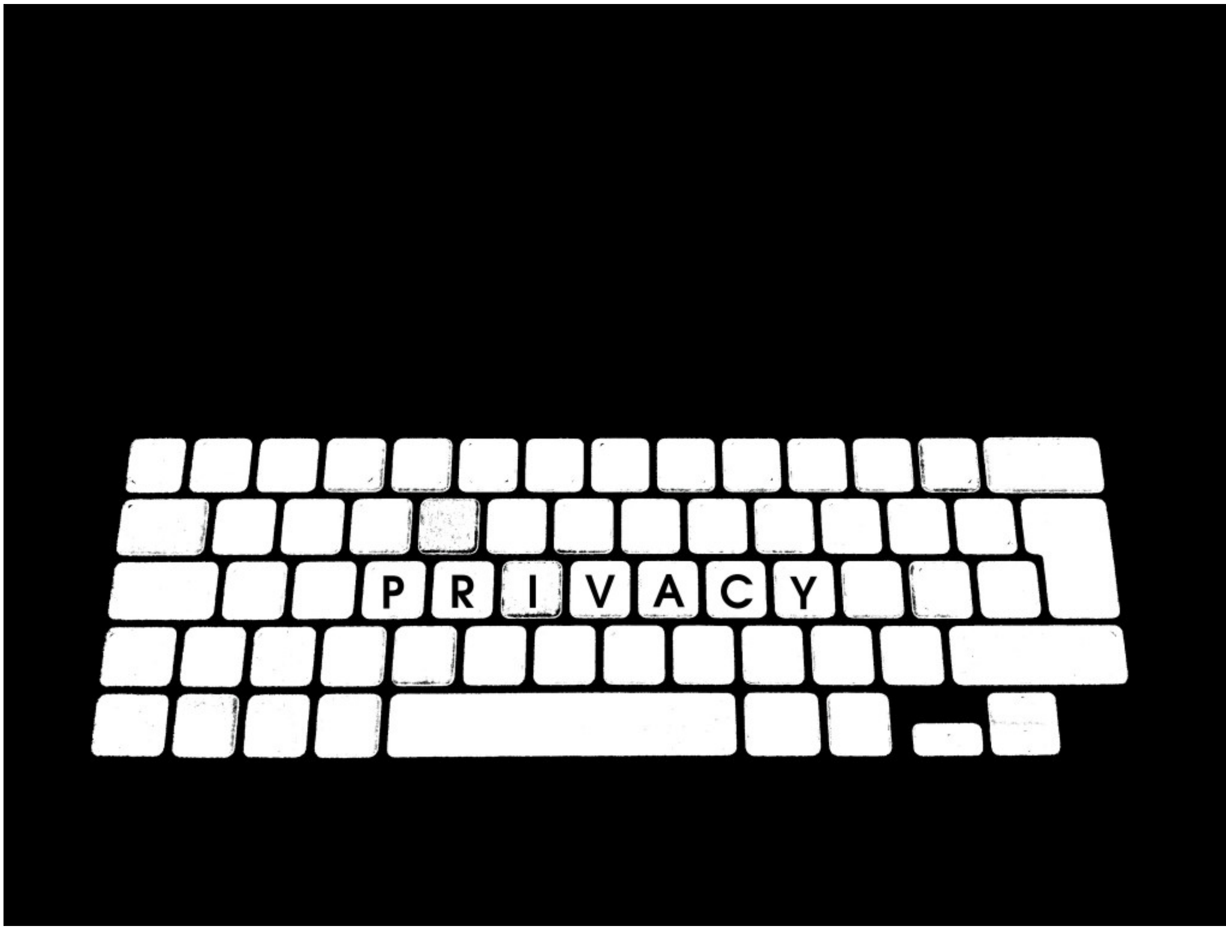
McDonald's process for making coffee constituted a manufacturing defect, which resulted in many customer injuries and generated significant product liability for the company.

### Marketing Defects

Marketing defects result from flaws in the way a product is marketed. Examples include improper labeling, poor or incomplete instructions, or inadequate safety warnings. Often marketing defects are referred to as a "failure to warn." It is important for the marketer to think not only about the warnings that the user might need when using the product as intended but also about other, potentially dangerous uses for which the product was not intended.

For example, fabric used in children's sleepwear must meet certain flammability requirements to prevent the risk of injury from fires. Certain comfortable children's clothing that does not meet the flammability requirement can be confused with sleepwear. For this reason, such clothing will often contain a warning label that reads, "Not intended for sleepwear."

Over time, product liability has shifted more to the side of the injured product user. Consumer advocates like Ralph Nader argue that, for too long, product liability favored producers at the expense of the product user. They assert that it's the threat of lawsuits and huge settlements and restitutions that force companies to make safe products. While a discussion of all aspects of product liability is beyond the scope of this course, it is clear that liability has and will continue to have a tremendous impact on consumers and manufacturers alike. These two groups are not the only ones affected, either. Retailers, franchises, wholesalers, sellers of mass-produced homes, and building-site developers and engineers are all subject to liability legislation.




What does privacy mean in today’s world? Privacy is the ability of an individual or group to seclude themselves, or information about themselves, and thereby express themselves selectively. Most of us expect some level of privacy, but the boundaries around privacy can differ depending on the individual and the situation.

The right-to-privacy issue has gotten more complicated as our culture has come to rely so heavily on digital communication—for everything from social networking to education to conducting business. Marketers have been quick to capitalize on the potential of digital technology to yield creative, aggressive techniques for reaching their target buyers. Sometimes these aggressive tactics cause a public backlash that results in new laws. For example, intrusive telephone marketing activities led to the passage of the the Do-Not-Call Implementation Act of 2003, which permits individuals to register their phone number to prevent marketing calls from organizations with which they don’t have an existing relationship. The act was intended to protect consumers from a violation of privacy (incessant sales phone calls particularly during the evening hours), and it closed down many businesses that had used telephone solicitation as their primary sales channel.

What follows is an overview of important privacy laws that have a particular impact on marketers. These are areas in which marketers need to be thinking ahead of the law. While there are plenty of perfectly legal marketing tactics that utilize personal information, if they are a nuisance to prospective customers, they are probably not good marketing and may be affected by future legislation when the public decides it has had enough.

## Email Spam

Have you received email messages without giving permission to the sender? The Controlling the Assault of Non-Solicited Pornography and Marketing (CAN-SPAM) Act, passed in 2003, establishes federal standards for commercial email. Consumers must be given the opportunity to opt out of receiving future solicitations, as in this opt-out notice provided by the clothing company Abercrombie & Fitch:

This is a product offering from Abercrombie & Fitch. You have received this email since you submitted your email address to our list of subscribers. To unsubscribe, please click here and submit your email address. Please see our Website Terms of Use, and to know how we use your personal data, please see our Privacy Policy.

Despite its name, the CAN-SPAM Act doesn't apply just to bulk email. It covers all commercial messages, which the law defines as "any electronic mail message the primary purpose of which is the commercial advertisement or promotion of a commercial product or service," including email that promotes content on commercial Web sites. The law makes no exception for business-to-business email. That means that all email—even, for example, a message to former customers announcing a new product line—must comply with the law. Each separate email in violation of the CAN-SPAM Act is subject to penalties of up to $16,000, so non-compliance can be very costly. The good news is that following the law isn't complicated.

## Managing Customer Data

Sometimes companies and organization possess personal data about their customers that is collected during the course of doing business. The most obvious examples are medical organizations that keep confidential patient records, financial institutions that capture your financial data, and educational institutions that record student test scores and grades. Other companies might know your contact information, your purchase patterns, and your Internet-shopping or search history. These organization all have important legal responsibilities to protect your data.

The Federal Trade Commission (FTC) gives access to an important source of information about the necessity of securing sensitive data: the lessons contained in the more than fifty law enforcement actions taken by the FTC so far. These are settlements—no findings have been made by a court—and the details of the orders apply just to the companies involved, but learning about alleged lapses that have led to law enforcement actions can help your company improve its practices. Most of these alleged practices involve basic, fundamental security missteps or oversights. Without getting into the details of those cases, below are ten practical tips that we can learn from them. Distilling the facts of those cases down to their essence, here are ten lessons to learn that touch on vulnerabilities that could affect your company, along with practical guidance on how to reduce the risks they pose.

1. Start with security: only collect customer data when necessary; be transparent; and treat the data with extreme care.
2. Control and restrict access to sensitive data.
3. Require strong, secure passwords and authentication; protect access to sensitive data
4. Store sensitive personal information securely and protect it during transmission: use best-in-class security technology.
5. Segment your network and monitor who's trying to get in and out
6. Secure remote access to your network: put sensible access limits in place.
7. Apply sound security practices when developing new products; train engineers in security and test for common vulnerabilities.
8. Make sure your service providers implement reasonable security measures: write security into contracts and verify compliance.
9. Establish procedures to keep your security current and address vulnerabilities that may arise; heed credible security warnings.
10. Secure paper, physical media, and devices—not all data are stored digitally.

These may seem like overly technical considerations that aren't important to someone working in a marketing organization, but in the same way that it is important for a marketer to protect its company from product liability suits, it is important to protect customers from security breaches related to the company's products, services, and marketing activities. Keep in mind that your customers may be citizens or residents of a place (such as the E.U. or California) that provides additional protections for consumers and as a business you should plan to accommodate them. Fines are high for violations of GDPR or CCPA, and your business may not make up the costs in added sales.

## Protecting Privacy Online

The Internet provides unprecedented opportunities for the collection and sharing of information from and about consumers. But studies show that consumers have very strong concerns about the security and confidentiality of their personal information in the online marketplace. Many consumers also report reluctance to engage in online commerce, partly because they fear that their personal information can be misused. These consumer concerns present an opportunity for marketers to build consumer trust by implementing sound practices for protecting consumers'' information privacy.

The FTC recommends four Fair Information Practice Principles. These are guidelines that represent widely accepted concepts concerning fair information practice in an electronic marketplace.

### Notice

Consumers should be given notice of an entity's information practices before any personal information is collected from them, including, at a minimum, identification of the entity collecting the data, the uses to which the data will be put, and any potential recipients of the data.

### Choice

Choice and consent in an online information-gathering sense means giving consumers options to control how their data is used. Specifically, *choice* relates to secondary uses of information beyond the immediate needs of the information collector to complete the consumer's transaction. The two typical types of choice models are "opt-in" or "opt-out." The opt-in method requires that consumers give permission for their information to be used for other purposes. Without the consumer taking these affirmative steps in an opt-in system, the information gatherer assumes that it cannot use the information for any other purpose. The opt-out method requires consumers to affirmatively decline permission for other uses. Without the consumer taking these affirmative steps in an opt-out system, the information gatherer assumes that it *can* use the consumer's information for other purposes.

### Access

Access, as defined in the Fair Information Practice Principles, includes not only a consumer's ability to view the data collected but also to verify and contest its accuracy. This access must be inexpensive and timely in order to be useful to the consumer.

### Security

Information collectors should ensure that the data they collect is accurate and secure. They can improve the integrity of data by cross-referencing it with only reputable databases and by providing access for the consumer to verify it. Information collectors can keep their data secure by protecting against both internal and external security threats. They can limit access within their company to only necessary employees to protect against internal threats, and they can use encryption and other computer-based security systems to stop outside threats.

In June 1998, the FTC issued a report to Congress noting that while more than 85 percent of all Web sites collected personal information from consumers, only 14 percent of the sites in the FTC''s random sample of commercial Web sites provided any notice to consumers of the personal information they collect or how they use it. In May 2000, the FTC issued a follow-up report that showed significant improvement in the percent of Web sites that post at least some privacy disclosures; still, only 20 percent of the random sample sites were found to have implemented all four fair information practices: notice, choice, access, and security. Even when the survey looked at the percentage of sites implementing the two critical practices of notice and choice, only 41 percent of the random sample provided such privacy disclosures.

In the evolving field of privacy law there is an opportunity for marketers build trust with target customers by setting standards that are higher than the legal requirements and by respecting customers' desire for privacy.

*Fraud* is the deliberate deception of someone else with the intent of causing damage. The damage need not be physical damage—in fact, it is often financial.[3]

The Federal Trade Commission has determined that a representation, omission, or practice is deceptive if it is likely to:

- mislead consumers and
- affect consumers' behavior or decisions about the product or service.

When it comes to marketing fraud, the two key words are *deliberate deception*. In a legal setting, a judge asked to rule on a marketing fraud case would need to evaluate the extent of the deception and the impact of the deception on the consumer. For our purposes, though, it is more useful to begin outside the courtroom with the basic starting point of marketing: the goal of marketing is *not* to deceive the customer; it is, in fact, to build trust.

When we consider the elements of the marketing mix—product, price, promotion, and distribution—there are opportunities for


deception in each area.

**Product**: Is the product designed and manufactured as the customer would expect, given the other elements of the marketing mix? Is the customer warned about the product's limitations or uses that are not recommended?

**Price**: Is the total price of the product fairly presented to the customer? Is the price charged for the product the same as the price posted or advertised? Has something been marketed as "free" and, if so, does it meet FTC guidelines for the definition of free? Does the company disclose information about finance charges?

**Promotion**: Can claims made to consumers be substantiated? Are disclaimers clear and conspicuous? For products marketed to children, is extra care taken to accurately represent the product?

**Place** (Distribution): Does the distribution channel deliver the product at the price and quality promised? Do other companies in the distribution channel (wholesalers, retailers) perform as promised and deliver on expectations set for product, price, and promotions?

## Marketing Fraud in Education

Sadly, it is easy enough to find a case of pervasive marketing fraud that any student can understand: Corinthian Colleges.

As you review the following press release from the Consumer Financial Protection Bureau, consider the following questions:

- Where was the Corinthian Colleges chain deliberately deceptive in presenting its offering to students?
- Where was Corinthian deliberately deceptive in the way it represented pricing?
- Where was the company's promotion of its offering deceptive?

### CFPB Sues For-Profit Corinthian Colleges for Predatory Lending Scheme[4]

***Bureau Seeks More than $500 Million In Relief For Borrowers of Corinthian's Private Student Loans***

**WASHINGTON, D.C. —** Today, the Consumer Financial Protection Bureau (CFPB) sued for-profit college chain Corinthian Colleges, Inc. for its illegal predatory lending scheme. The Bureau alleges that Corinthian lured tens of thousands of students to take out private loans to cover expensive tuition costs by advertising bogus job prospects and career services. Corinthian then used illegal debt collection tactics to strong-arm students into paying back those loans while still in school. To protect current and past students of the Corinthian schools, the Bureau is seeking to halt these practices and is requesting the court to grant relief to the students who collectively have taken out more than $500 million in private student loans.

"For too many students, Corinthian has turned the American dream of higher education into an ongoing nightmare of debt and despair," said CFPB Director Richard Corday. "We believe Corinthian lured consumers into predatory loans by lying about their future job prospects, and then used illegal debt collection tactics to strong-arm students at school. We want to put an end to these predatory practices and get relief for the students who are bearing the weight of more than half a billion dollars in Corinthian's private student loans."

Corinthian Colleges, Inc. is one of the largest for-profit, post-secondary education companies in the United States. The publicly traded company has more than 100 school campuses across the country. The company operates schools under the names Everest, Heald, and WyoTech. As of last March, the company had approximately 74,000 students.

In June, the U.S. Department of Education delayed Corinthian's access to federal student aid dollars because of reports of malfeasance. Since then, Corinthian has been scaling down its operations as part of an agreement with the Department of Education. However, Corinthian continues to enroll new students.

Today's CFPB lawsuit alleges a pervasive culture across the Everest, Heald, and WyoTech schools that allowed employees to routinely deceive and illegally harass private student loan borrowers. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the CFPB has the authority to take action against institutions engaging in unfair, deceptive, or abusive practices. Based on its investigation, the CFPB alleges that the schools made deceptive representations about career opportunities that induced prospective students to take out private student loans, and then used illegal tactics to collect on those loans. Today's lawsuit covers the period from July 21, 2011 to the present.

### Lured into Loans by Lies

Most students who attend Everest, Heald, and WyoTech schools come from economically disadvantaged backgrounds and many are the first in their families to seek an education beyond a high school diploma. According to internal Corinthian documents, most students lived in households with very low income. Today's lawsuit alleges that the schools owned by Corinthian Colleges, Inc. advertised their education as a gateway to good jobs and better careers. It alleges that throughout the Corinthian schools, consumers were lured into loans by lies, including:

- **Sham job placement rates:** The CFPB alleges that Corinthian's school representatives led students to think that when they graduated they were likely to land good jobs and sufficient salaries to repay their private student loans. But the CFPB believes that Corinthian inflated the job placement rates at its schools. Based on its investigation, the CFPB alleges that this included creating fictitious employers and reporting students as being placed at those fake employers.
- **One-day long "career":** According to the CFPB's investigation, Corinthian schools told students they would have promising career options with an Everest, Heald, or WyoTech degree. But Corinthian counted a "career" as a job that merely lasted one day, with the promise of a second day.
- **Pay for placement:** The CFPB also alleges that the Corinthian schools further inflated advertised job placement rates by paying employers to temporarily hire graduates. The schools did not inform students about these payments or that these jobs were temporary.
- **Craigslist career counseling:** According to the CFPB's investigation, the Corinthian schools promised students extensive and lasting career services that were not delivered. Students often had trouble contacting anyone in the career services office or getting any meaningful support. The limited career services included distributing generally available job postings from websites like Craigslist.

### Predatory Loans

Tuition and fees for some Corinthian programs were more than five times the cost of similar programs at public colleges. In 2013, the Corinthian tuition and fees for an associate's degree was $33,000 to $43,000. The tuition and fees for a bachelor's degree at Corinthian cost $60,000 to $75,000.

The CFPB believes the Corinthian colleges deliberately inflated tuition prices to be higher than federal loan limits so that most students were forced to rely on additional sources of funding. The Corinthian schools then relied on deceptive statements regarding its education program to induce students into taking out its high-cost private student loans, known as "Genesis loans." Today's lawsuit alleges that under the Genesis loan program:

- **Interest rates were more than twice as expensive:** Corinthian sold its students predatory loans that typically had substantially higher interest rates than federal loans. In July 2011, the Genesis loan interest rate was about 15 percent with an origination fee of 6 percent. Meanwhile, the interest rate for federal student loans during that time was about 3 percent to 7 percent, with low or no origination fees.
- **Loans were likely to fail:** Corinthian expected that most of its students would ultimately default on their Genesis loans. In fact, more than 60 percent of Corinthian school students defaulted on their loans within three years. The Everest, Heald, and WyoTech schools did not tell students about these high default rates. Defaulting on private student loans can have grave consequences for consumers, including affecting a borrower's job prospects and making it difficult to get any kind of loan for years.

### Strong-Armed by Illegal Debt Collection Tactics

Under the Genesis loan program, nearly all student borrowers were required to make monthly loan payments while attending school. This is unusual; federal loans and almost all other sources of private student loans do not require repayment until after graduation. This put pressure on Everest, Heald, and WyoTech students to come up with funding while attending school. Today's lawsuit alleges that Corinthian took advantage of this position of power to engage in aggressive debt collection tactics. The CFPB alleges that Corinthian's campus staff members received bonuses based in part on their success in collecting payments from students. The debt collection tactics included:

- **Pulling students out of class:** The CFPB's investigation revealed that Corinthian's efforts to collect payments included shaming students by pulling them out of class. Financial aid officers would inform instructors and other staff that students were past due on their Genesis loans. Corinthian schools also required students to meet with campus presidents to discuss the seriousness of the overdue loans. At one Corinthian campus, students and employees referred to one financial aid staff member as the "Grim Reaper" because the staff member so frequently pulled students out of class to collect debts.
- **Putting education in jeopardy:** According to the CFPB's investigation, the Corinthian colleges jeopardized students' academic experience by denying them education until they paid up. They blocked students' access to school computer terminals and other academic resources. The Corinthian schools also prevented students from attending and registering for class, and from receiving their books for their next classes.
- **Withholding diplomas:** According to the CFPB investigation, Corinthian schools informed students that they could not participate in the graduation ceremony or would have their certificate withheld if they were not current on their Genesis loan in-school payments. In many cases, financial aid staff threatened that if students did not become current on their loans, they could not graduate or start their externships. Some former students stated that Corinthian schools continue to withhold their certificates because they are unable to make payments on their Genesis loans.

#### Halting Illegal Conduct and Obtaining Relief for Private Student Loan Borrowers

Today's lawsuit seeks, among other things, compensation for the tens of thousands of students who took out Genesis loans. The CFPB estimates that from July 2011 through March 2014, students took out approximately 130,000 private student loans to pay tuition and fees at Everest, Heald, or WyoTech colleges. Some of these loans have been paid back in part or in full; the total outstanding balance of these loans is in excess of $569 million.

The CFPB is seeking redress for all the private student loans made since July 21, 2011, including those that have been paid off. In its lawsuit, the CFPB is also seeking to keep Corinthian from continuing the illegal conduct described above, and to prevent new students from being harmed.

Today the CFPB is also publishing a special notice for current and former Corinthian students to help them navigate their options in this time of uncertainty, including information on loan discharge options.

## The Close of the Corinthian College Story

In May 2015, Corinthian Colleges declared bankruptcy. [5]

In October 2015, the CFPB won its case against Corinthian Colleges in federal court.

As a fellow student you will be pleased to hear that the federal government is providing loan relief for students who were victims of financial fraud.[6]

From a marketer's point of view, the story demonstrates a number of different types of fraud, which had devastating consequences for both shareholders and stakeholders. Deliberate deception was part of the company's strategy, and it played a dominant role in all aspects of marketing.

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1. Spencer Weber Waller, Jillian G. Brady, and R.J. Acosta, "Consumer Protection in the United States: An Overview," www.luc.edu/media/lucedu/law/...nFormatted.pdf. ↵
2. Restatement of Torts, Third, Apportionment of Liability (2000) ↵
3. https://www.law.cornell.edu/wex/fraud ↵
4. http://www.consumerfinance.gov/newsroom/cfpb-sues-for-profit-corinthian-colleges-for-predatory-lending-scheme/ ↵
5. http://www.bloomberg.com/news/articles/2015-05-07/for-profit-college-implosion-intensifies-as-campuses-shut-down?cmpid=the_street ↵
6. studentaid.ed.gov/sa/about/announcements/corinthian ↵

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# 5.3: Social Responsibility Marketing Impact

# 5.4: Using Marketing Information

## Translating Marketing Information into Action

With marketing information and research results collected, it's now the responsibility of marketers to share this information internally with people who need to understand it. It's standard practice to hold meetings with appropriate team members to walk through the research findings and brainstorm together about how to apply the results to marketing strategy and operations. It's also good practice to make the research report available on a company intranet or other central forum, where people who need the information can readily find and access it.

The reception to research results may vary from person to person or from team to team. In some cases, where marketers have been waiting on the research results before they move forward, the new information fills a gap in their knowledge. They are likely very eager to take guidance from the research and charge ahead. In other cases, marketers may have a vested interest in continuing to do the things they've always done—perhaps because they dislike change or because they think the original course of action is still working. In these situations, if the research suggests that a course change is necessary, there may be significant resistance.

### Start Conversations About New Customer Insights

To help encourage a better reception to what the organization is learning from marketing information, it may be useful to review the original problem the research is trying to solve. Remind team members that the goal of using marketing information is to gain new customer insights that will help make the organization more effective. With this in mind, marketers should think about how the research results can help them better understand customers and translate this understanding into adjustments to the marketing mix to better address customers' needs. By framing research results around a deeper or broader understanding of the customer, it can help defuse resistance and make people feel more informed and empowered to make good marketing decisions.

The following section lists the types of questions marketers can explore as they brainstorm about how marketing information and research results can help them adjust marketing strategy and improve the marketing mix. These questions are a useful jumping-off point for deeper conversations about new customer insights and how to put them into action.

### Using Marketing Information to Shape Marketing Strategy: Types of Questions to Explore

Target Segment(s)

- What new insights do we have about our target segment(s)?
- Which problems should we be solving for our customers?
- Are we targeting the right segments?

Product

- What attracts customers to our products?
- What improvements would make them even more attractive to our target segments?

Promotion

- What types of messages will make target segments want our products?
- What types of promotional campaigns will work best for each target segment?
- Who do out target segments listen to, and what are they saying about us?

Price

- How are we going at providing good value for the price?
- How does out pricing affect customers' willingness to buy?
- How would changes to pricing affect sales?

Place

- Are we offering our products in the places and times that target segments feel the need for them? If now, how can we improve?
- How can we make it easier for customers to find and buy our products?
- Are there more efficient ways for us to get out products into customers' hands?

### Don't Forget to Measure Impact

As marketers begin to apply the research findings and recommendations, it is essential to track the impact of the new strategy to determine whether the original problem or challenge is being addressed. If the original marketing problem was focused on improving the messaging associated with a product, for example, then the organization should start to see improved lead generation, inquiries, and/or sales once the new messaging is adopted and implemented. If the original marketing problem was focused on which segments to target and how to reach them, organizations should be able to track improvements in interest and sales among these segments after they have begun to implement a market mix focused on these segments.

This link between taking action and measuring results is important. It provides a continuing stream of marketing information to help marketers understand if they are on the right path and where to continue to make adjustments. Eventually this process will surface new marketing problems that warrant attention through the marketing research process. In this way, the process of using marketing information to solve problems becomes a continuous cycle.

What does this process look like in the real world? Let's examine two examples.

#### ✓ ✓ Example: Procter & Gamble Goes to China

For decades, the consumer products company Procter & Gamble has been a visible leader when it comes to relying on marketing research and using it to guide marketing strategy decisions. In particular, it has focused on ways of entering new markets and establishing a leading market position. As it explored opportunities for market leadership in China, one standout product category was disposable diapers, a profitable category for P&G in the U.S. and other global markets.

In the early 2000s, the company rushed in to launch Pampers in China, its leading disposable diaper brand. The effort flopped. Culturally, Chinese parents did not see the need for the new American disposable diaper product. They were doing fine using cloth diapers and *kaidangku*, the open-crotch pants used traditionally for infants and young children. Instead of pulling out, P&G turned to marketing research for additional insights about ways of generating demand for Pampers. The research focused on identifying "winning qualities" of disposable diapers that would make Chinese mothers interested in trying the product. It concluded that improving infants' sleep quality could become a powerful motivator.

In 2007, P&G launched campaign called "Golden Sleep" to promote the idea that Pampers disposable diapers can help babies fall asleep faster and sleep with less disruption. Marketing research was directly responsible P&G's adjustments to product positioning and promotion strategy. The campaign invited parents to upload pictures of their sleeping babies to a Chinese Pampers Web site. This reinforced the link between Pampers products and the message of "better sleep for babies." The ad campaign also featured research results linked to Pampers and infant sleep such as, "Baby Sleeps with 50 percent Less Disruption," and "Baby Falls Asleep 30 percent Faster."

"Golden Sleep" was a tremendous success, moving Pampers to a leading market position and creating broad demand for a product category that was previously almost nonexistent in China. P&G attribute this success to the insights generated by a marketing team and research effort focused on better understanding and addressing customer needs.[1]

#### ✓ ✓ Example: Shaking Up the Milkshake

A fast-food restaurant chain identified milkshakes as a focus for improving sales. Initial marketing research efforts were focused on creating a “typical” milkshake-drinker profile. The researchers then found people who fit the profile and were willing to help them understand what constituted the ideal milkshake: thick or thin? Which flavors? Smooth or chunky? These effort led the company to tinker with its milkshake products, segmentation, targeting, and promotion strategies, but sales still did not improve.

The company hired an outside researcher to help the company understand what they might be missing about milkshakes. This researcher spent time in a restaurant observing and documenting milkshake sales, as well as talking to milkshake buyers about why they had made their product choice. A couple of key insights emerged about milkshake buyers. First and somewhat surprising, 40 percent of milkshake sales took place early in the morning, and the buyers were commuters on their way to work. Second, the ideal milkshake for these customers was thick and substantial but easy to consume during a commute. Third, another key buyer audience was parents purchasing a treat for children, but the ideal milkshake for them was a thinner product children can drink quickly with a straw.

Acting on these new insights, the company adjusted its marketing strategy. Instead of focusing on a single “milkshake buyer” profile, it reformulated its milkshake products and promotion strategy to better fit the needs of different types of target milkshake customers. It offered a thicker, chunkier “morning milkshake” to appeal to commuters who wanted a satisfying alternative to a morning donut or bagel. The chain also introduced a different milkshake positioned as a kid treat, which offered the thinner, easier-and-quicker-to drink benefits parents wanted. Persistence and perseverance in the marketing research process led the company to dig deeper to understand customers, their unique needs, and how to adjust marketing strategy in response to this new information.[2]

1. http://www.forbes.com/sites/china/2010/04/27/how-procter-and-gamble-cultivates-customers-in-china/ ↵
2. http://hbswk.hbs.edu/item/clay-christensens-milkshake-marketing ↵

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# CHAPTER OVERVIEW

## 6: Segmentation



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# 6.1: Segment Your Market- Who's Out There?

## LEARNING OBJECTIVES

After studying this section, students should be able to do the following:

1. *Recognize* the target marketing process that includes segmenting, targeting, and positioning.
2. *Describe* the key characteristics of market segments by examining the demographic, geographic, psychological/lifestyle (psychographic), and behavioral variables found in those segments.

**Segmentation** is the process of dividing a larger market into smaller pieces based on one or more meaningful and measurable shared characteristics. It's crucial to slice up the pie so you can focus your resources on customers whose needs you have the best chance of satisfying. These are the benefits of a segmentation approach.

Segmenting the population gives you a concrete vision of your potential customer. For example, targeting upper-income unmarried men with a college education gives you a more specific vision of the intended audience than does simply advertising to "people."

Segmenting the population provides focus and specificity on those people most likely to buy your product. It's better to find the five million people who are 80 percent likely to buy than it is to find the eighty million people who have a 5 percent chance of buying.

Segmenting the population lets you estimate the number of people in a given category (such as "Affluent Retirees"), which gives you an idea of your potential market size. Knowing how many potential customers you'll have influences your sales estimates, your total marketing budget, and the advertising media you use. For example, if you'll be targeting Hispanic consumers in Phoenix, your total market size will be 1.36 million people.Kevin Downey, "Phoenix: Ad Budgets Soar in Newly Ensconced 8th-Largest Latino Market, But Immigration Remains a Concern," *Marketing y Medios*, October 22, 2007, www.marketingymedios.com/marketingymedios/market_profile/article_display.jsp?vnu_content_id=1003661213 (accessed November 5, 2008).

## Demographic Segmentation

**Demographics** are measurable aspects of a population. Each key variable is usually defined in terms of a small number of categories or ranges. For example, age data might record the number of thirty- to forty-year-olds in aggregate, rather than separately tallying each age group of people who are thirty, thirty-one, thirty-two, thirty-three, and so on.

These are widely used demographic measures:

- **Gender** of the individual or head-of-household (e.g., Female)
- **Age** (e.g., 18–24)
- **Life stage** (e.g., empty-nest parents who have more time for each other now that their kids are in college)
- **Household income** (e.g., $30,000–$40,000 per year)
- **Education** (e.g., college graduate)
- **Occupation** (e.g., banker)
- **Race/ethnicity** (e.g., African American)
- **Religion** (e.g., Buddhist)
- **Socio-economic status** or **SES** (e.g., DINKs—"double income, no kids")

### SS+K Spotlight

While demographics can be an effective way to begin to understand your potential consumers, msnbc.com and SS+K knew that they would need to dig deeper to identify the specific audience for their branding campaign. While some product categories can move forward with demographic information only, services such as news, entertainment, and sports media need more information to fine-tune their targets. For example, the Bravo network, which has successfully created numerous high-style reality shows that revolve around upscale pursuits like gourmet cooking, fashion modeling, or home design, recently developed for advertisers a one-off (that is, one-time publication) magazine it called *Bravo Affluencer*. Each of the two people on the cover represented a distinct psychographic segment that is key to Bravo's targeting strategy: an attractive man and woman, both in their late twenties, shopping bags and PDAs in hand, passports visible in pockets, dressed casually but stylishly. These two models are reminiscent of the popular stars of the sitcom *Will and Grace*—and that's no accident. Bravo executives actually use the phrase "Will and Grace" to describe two of their key viewer segments: urban gay men and single female professionals. Many of the network's most popular shows such as *Project Runway* and *Top Chef* attract these viewers in large numbers.Susan Dominus, “The Affluencer,” *New York Times Magazine*, October 30, 2008, http://www.nytimes.com/2008/11/02/magazine/02zalaznick-t.html? partner=rssnyt&emc=rsscc (accessed November 5, 2008). As we learned in Chapter 5 "Know Your Audience: SS+K Learns All About msnbc.com, Inside and Out", SS+K and msnbc.com had done significant segmenting and research to identify their target audience, the *News Explorer*.

### Dig Deeper

MySpace recently launched a separate version of its site to reach twenty-eight million Americans who are Spanish speakers at latino.myspace.com. Users can still become friends with MySpace users across the network of sites. Nielsen//NetRatings reports that MySpace is one of the top five Web sites U.S. Hispanics visit.Emily Burg, “Do You Want To Be My Amigo? MySpace Launches En Espanol,” *Marketing Daily*, April 26, 2007, http://www.mediapost.com (accessed November 5, 2008). How do U.S. advertisers appeal to non-English speakers on social networking sites? What else might they do to broaden their reach?

## Geographic Segmentation

**Geography** plays three roles in the target marketing process:

1. *Customer and market characteristics*. Geography defines key aspects of climate, culture, and customer density. Think about where people buy snowshoes, the time of year Midwesterners hold backyard barbecues, or the differences between laid-back Southern Californians and ambitious New Yorkers. News items and ads served on msnbc.com when possible need to be relevant to the geographic profile of a registered user; a web surfer in Florida probably isn’t too interested in today’s ski conditions.
2. *Advertising channels*. Some advertising strategies, such as newspapers and direct mail, are strongly tied to geography. For example, automobile companies tailor their ads by geography. Automakers purchase TV time on local cable stations and tailor the ads based on where people live. People who live in zip codes located in the suburbs see ads for SUVs, while those in the cities see commercials for cars—during the same programs. As you’ll learn in the media planning chapter, msnbc.com made very strategic geographic media and messaging decisions in order to maximize the value of their buy.“For car marketers, local cable ads are spot-on,” *Automotive News*, May 28, 2007, 26F.
3. *Product distribution*: Many companies, especially small and medium-size businesses, have a regional scope. Even national companies like Wal-Mart want to assess how many people live within ten miles of a store that carries a product that they will promote.

Most geographic segmentation schemes use definitions the government created for census, postal, and economic forecasting purposes.

- *Zip code*. **Zip codes**, as defined by the U.S. Postal Service, identify each of roughly forty-three thousand neighborhoods. Other countries, too, have analogous postal code systems. Zip codes are often the basis for direct mail advertising. Car dealers use zip code information as a proxy for income, making different offers, such as lease-to-own or cash incentives, to entice potential buyers in different neighborhoods.

### Dig Deeper

In addition to other applications, a widely used system called **PRIZM** helps clients to fine-tune their advertising by directing mailings to specific types of customers based upon where they live (“birds of a feather flock together”). PRIZM (Potential Rating Index for Zip Markets) classifies all U.S. neighborhoods into sixty-two distinct clusters based upon very detailed data about the products and media people who live in different neighborhoods consume relative to the national average. PRIZM offers a little something for everyone, with groups like Urban Gold Coast (elite urban singles and couples), New Empty Nests (upscale suburban fringe couples), and Norma Rae-ville (young families in biracial mill towns).

Visit PRIZM’s Web site and look up your zip code to see what category you fall into. Do you agree with this classification? (www.claritas.com/MyBestSegments/Default.jsp?ID=20&SubID=&pageName= ZIP%2BCode%2BLook-up)

- *MSA*. **Metropolitan Statistical Areas (MSAs)** are important for local advertising channels (e.g., newspaper, radio, outdoor, local broadcast TV, and cable). The U.S. Office of Management and Budget (OMB) defines 363 MSAs in the United States. MSAs are defined using census data at a county level (or a group of economically linked contiguous counties) with at least one urbanized area of fifty thousand or more population. One MSA, called the “New York-Northern New Jersey-Long Island, NY-NJ-PA” MSA is the most populous MSA in America and contains approximately nineteen million people.
- *Civil boundary regions*.

- *City*. Of U.S. cities, nine have a population over one million, and 254 have a population over one hundred thousand.
- *County*. There are 3,066 counties in the United States.www.naco.org/Content/NavigationMenu/About_Counties/Data_and_Demographics/Data_and_Demographics.htm (accessed November 15, 2008).
- *State*. Identifying customers by state can be important because laws may vary from state to state, especially for industries such as financial services (like insurance), tobacco, and alcohol. These regulations can affect advertising strategies. For example, California law heavily restricts distribution of coupons for cigarettes.

- *Census regions and divisions*. Four broad regions (West, Midwest, Northeast, and South) further divided into nine divisions.
- *DMA codes*. **Designated Market Areas (DMAs)** are markets in the United States that are within range of a particular broadcast television station. The term was originally defined by Nielsen Media Research to identify TV stations whose broadcast signals reach a specific area and attract the most viewers. A DMA consists of all counties whose largest viewing share is given to stations of that same market area. Nielsen gathers data to verify DMAs four times a year; there are currently 210 nonoverlapping DMAs in the United States.
- *Sales or distribution regions*. Many companies create their own geographic subdivisions, which vary by company. For example, a product might be sold through a specialty retailer that only operates in the Northwest.
- *Climatic*. Some products are specific to or more prevalent in areas with a specific client. For example, Minnesotans buy more snowshoes than do Texans.

### Dig Deeper

Like it or not, global warming is here to stay—at least in our lifetimes. Warmer (or at least more unpredictable) temperatures will have many consequences—some you may not have thought about. For example, think about how these changes will affect the $200 billion American apparel industry. Will we still think about "winter clothes" versus "summer clothes" in a few years? At least a few companies are thinking ahead. Liz Claiborne hired a climatologist to help the company better time the shipments of seasonal garments to retailers.For more information, see http://topics.nytimes.com/top/news/business/companies/claiborne_liz_inc/index.html?inline=nyt-org. Target created a "climate team" to provide advice on what the retailer should sell throughout the year (hint: think lighter-weight fabrics).For more information, see http://topics.nytimes.com/top/news/business/companies/target_corporation/index.html?inline=nyt-org. Weatherproof, a coat manufacturer, went so far as to take out a $10 million insurance policy against unusually warm weather.Michael Barbaro, "Meteorologists Shape Fashion Trends," *New York Times Online*, December 2, 2007, http://www.nytimes.com/2007/12/02/business/02weather.html (accessed July 11, 2008).

How will this new weather reality influence the way seasonal industries like apparel plan their advertising campaigns?

## Psychographic Segmentation

While demographics are useful, advertisers often need to slice and dice even further. Traditional demographic segments (such as gender, age, and income) provide only a rough estimate of the attitudes and desires of different groups, so marketers often give consumer groups labels that capture something about their lifestyles and motivations as well.

Imagine an advertiser that defines a segment as *recent moms*. This label implies that all women who have recently given birth are fairly similar and that they all will respond the same way to an advertising message—how accurate is that assumption? Bloomingdale's Quotation, a store-within-a-store, instead calls its target market "yummy mummies." These are women age thirty-five to forty-five who have gained weight after their babies but don't want to look matronly. They are affluent, suburban, and casual yet fashionable. Bloomie's research department provided further insight into the target customer: she thinks classic sportswear like Jones New York is too formal but contemporary sportswear like Juicy Couture is too young. The mom wants clothes that look pretty and feminine and have flair but offer a generous, not-too-tight fit.Elizabeth Woyle. "What Do 35-Year-Old Women Want?" *BusinessWeek*, April 2, 2007, 66.

**Psychographics** refers to dimensions that segment consumers in terms of personality, values, attitudes, and opinions. While demographics can divide people along specific (often quantitative) dimensions, psychographics captures the reasoning and emotion behind people's decisions. This information also enables advertisers to capture the themes, priorities, and "inside meanings" that a specific taste culture identifies with. For example, Svedka Vodka targets urban party people who are out drinking until three o'clock in the morning three nights a week. This target market is irreverent, and Svedka's ads speak their language. The ads feature futuristic imagery and lines like "Svedka says 'thank you' for making the gay man's fashion gene available over the counter in 2033."Dan Heath and Chip Heath. "Polarize Me," *Fast Company*, April 2007, 59.

| PRIZM NE classifies psychographic segments based on where they live. | |
|---|---|
| | Affluent people who live in wealthy exurban (beyond suburban) areas make up this segment. They like their space and their conveniences. They are typically Baby Boomers who balance their lives between high-powered jobs and laid-back leisure.<br>They are mostly college-educated Whites between the ages of 35 and 54 with a median household income of $84,851. They are most likely to travel for business, take a golf vacation, read *Skiing* magazine, and drive a Toyota Land Cruiser. |
| | Older, middle-class seniors who live comfortably in the suburbs characterize this segment. These retired homeowners are opting to stay in their homes rather than move to a retirement community. The mostly White, college-educated suburbanites have a median household income of $51,367. They are most likely to shop at Lord and Taylor, belong to a veterans' club, watch the U.S. Senior Open on TV, and drive a Buick LaCrosse. |

| | |
|---|---|
| | This segment includes upper-middle-class suburban couples, with children, who enjoy focusing on their families. They live in a large home in a subdivision. Their white-collar profession and young age (25–44) provides them the means to have it all.<br>The segment includes a growing number of Hispanic and Asian Americans. The median household income is $70,490. They are most likely to shop at The Disney Store, eat at Chuck-E-Cheese, watch Nickelodeon TV, and drive a Nissan Armada SUV. |
| | Young, working singles living active lifestyles in sprawling apartment complexes in fast-growing satellite cities compose this segment. They are under 35, ethnically diverse, and hip, and they want it all. Nightlife, restaurants, and convenience products and services are important to them. Their median household income is $38,910. Since they don't have children, they are very active. They are most likely to go snowboarding, watch Fuse network, read *The Source* magazine, and drive a Nissan Sentra. |

Sometimes marketing and advertising firms create psychographic segmentation systems with cute names or acronyms for the segments, such as DINKs (double income, no kids), who are good targets for yuppie products like expensive roadsters and exotic vacations, or even DINKWADs (double income, no kids, with a dog), who are like DINKS but would add in lots of treats for a pampered pooch. msnbc.com, for example, termed its new target audience the *News Explorer*.

These are some well-known psychographic segmentation tools that advertisers use to divide up their markets:

- **VALS2™** (Values and Lifestyle System): According to its parent, SRI International, "VALS reflects a real-world pattern that explains the relationship between personality traits and consumer behavior. VALS uses psychology to analyze the dynamics underlying consumer preferences and choices."For more information, see www.sric-bi.com/VALS/. VALS2™ divides U.S. adults into eight groups according to what drives them psychologically as well as by their economic resources.

  The system arranges groups vertically by their resources (including such factors as income, education, energy levels, and eagerness to buy) and horizontally by self-orientation. Three self-orientations make up the horizontal dimension.

  1. Consumers with a *principle* orientation make purchase decisions guided by a strong internal belief system.
  2. People with a *status* orientation base their decisions on what they think their peers think.
  3. *Action*, or self-oriented individuals, buy products to have an impact on the world around them.

  *Actualizers*, the top VALS2™ group, are successful consumers with many resources. This group is concerned with social issues and is open to change. The next three groups also have sufficient resources but differ in their outlooks on life:Martha Farnsworth Riche, "VALS 2," *American Demographics*, July 1989, 25. Additional information provided by William D. Guns, Director, Business Intelligence Center, SRI Consulting Inc., personal communication, May 1997.

1. *Fulfilleds* are satisfied, reflective, and comfortable. They tend to be practical and value functionality.
2. *Achievers* are career-oriented and prefer predictability to risk or self-discovery.
3. *Experiencers* are impulsive and young, and they enjoy offbeat or risky experiences.

The next four groups have fewer resources:

1. *Believers* have strong principles and favor proven brands.
2. *Strivers* are similar to achievers but have fewer resources. They are very concerned about the approval of others.
3. *Makers* are action-oriented and tend to focus their energies on self-sufficiency. They will often be found working on their cars, canning their own vegetables, or building their own houses.
4. *Strugglers* are at the bottom of the economic ladder. They are most concerned with meeting the needs of the moment and have limited ability to acquire anything beyond the basic goods needed for survival.

VALS2™ helped Isuzu market its Rodeo sport-utility vehicle by targeting Experiencers who believe it's fun to break rules. The company and its advertising agency promoted the car as a vehicle that lets a driver break the rules by going off road. One ad showed a kid jumping in mud puddles after his mother went to great lengths to keep him clean.For other examples of applications see "Representative VALS™ Projects," *SRI Consulting Business Intelligence*, www.sric-bi.com/VALS/projects.shtml#positioning (accessed February 29, 2008).

- Trend analyst Faith Popcorn's firm BrainReserve refers to segments based on life stages like MOBYs (mommy older, baby younger), DOBYs (the daddies); former yuppies divided into PUPPIEs (poor urban professionals) and WOOFs (well-off older folks); latchkey kids, sandwichers (adults caught between caring for their children and their older parents); and SKIPPIEs (school kids with income and purchasing power). The company also groups consumers based on special interests, like global kids (kids with strong feelings about the environment plus strong influence over family purchase choice); and new health age adults (consumers who consider their health and the health of the planet to be top priorities).
- Mediamark Research (MRI) divides the wealthiest 10 percent of U.S. households ("the upper deck") by lifestyles: the good life, well-feathered nests, no strings attached, nanny's in charge, and two careers.

### SS+K Spotlight

The additional insights msnbc.com uncovered about the site's users, as a result of the psychographic information the company obtained in its primary and secondary research, allowed its analysts to start with broad demographic segments and then further slice these groups into smaller but more meaningful psychographic segments. As the company did the research described in Chapter 5 "Know Your Audience: SS+K Learns All About msnbc.com, Inside and Out", it was able to discriminate, for example, between News Explorers and News Junkies.

## Behavioral Segmentation

**Behavioral segmentation** slices the market in terms of participation or nonparticipation in an activity. Sometimes this involves identifying the different ways consumers use products in a category. Mattel introduced a new brand it calls Barbie Girls to attract the increasing number of girls who spend a lot of time online in virtual worlds instead of playing with real dolls in the physical world. It features a free Web site, BarbieGirls.com, that will allow children to create their own virtual characters, design their own room, and try on clothes at a cyber mall. It's following up with Barbie-inspired handheld MP3 music devices."Mattel Aims at Preteens with Barbie Web Brand: Toymaker Turns to Tech as Sales Slump for Iconic Fashion Doll," *Associated Press*, April 26, 2007, http://www.msnbc.com (accessed April 26, 2007).

Segmenting by behavior often singles out heavy users of a product, because even though these consumers may be relatively small in number, they often are key to sales in a category. Indeed, there is a lot of truth to the so-called **80/20 rule**: this is a rough rule of thumb that says 20 percent of customers buy 80 percent of a product. Sure enough, for example, Kraft Foods began a $30 million campaign to remind its core users not to "skip the zip" after its research showed that indeed 20 percent of U.S. households account for 80 percent of the usage of Miracle Whip—"heavy" users (pun intended) consume seventeen pounds of Miracle Whip per year!Judann Pollack, "Kraft's Miracle Whip Targets Core Consumers with '97 Ads," *Advertising Age*, February 3, 1997, 12.

Information sources that can pinpoint heavy users in a brand or product category include:

- **Industry group reports** (for example, the National Golf Foundation tracks the number of golfers in the United States and the extent of their participation in the game).
- **Surveys** of consumer behavior (for example, the number of people who eat fast food more than three times per week).

- **Product sales** (install base): Owners of particular products can be an affinity group. For example, a company can choose to target owners of Apple iPods either with accessories or with a brand image that resonates with that population.

### Video Spotlight

*SS+K*

(click to see video)

*Michelle Rowley explains how behavioral segmentation of the audience led to understanding the difference between a CNN.com user and an msnbc.com lover.*

## B2B (Business to Business) Segments

Many clients sell products used by businesses rather than (or in addition to) end users. B2B advertisers also segment their markets, but the dimensions they use are different. In addition to data the government collects about businesses, trade organizations often offer data about their members. In addition, services like Hoovers Online provide detailed breakdowns about many companies. Relevant dimensions include these:For more information, see www.hoovers.com.

- *Company size*. This comprises such things as revenues or headcount.
- *Industry*. Marketers often use the **North American Industry Classification System (NAICS)**, a numerical coding of industries the United States, Canada, and Mexico developed. The NAICS reports the number of firms, the total dollar amount of sales, the number of employees, and the growth rate for industries, all broken down by geographic region.
- *Geography*. This comprises such things as location of headquarters, sites, or geographic focus of distribution.
- *Buying cycle*. Companies often have a deliberative process for buying with known intentions to buy within a certain number of months.
- *Buyer role*. Advertising often targets specific people within an organization (e.g., those who influence, specify, and make buying decisions).

### Dig Deeper

Encryption-product maker GlobalCerts targets companies that have one hundred to one thousand employees. When GlobalCerts began its direct mail campaign, it collected information on its key prospects, including their needs, buying cycle, and decision makers' contact information. Knowing the buying cycle of an organization is important because decision makers need different kinds of information, depending on where they are in the buying cycle. Early on, decision makers are looking for more general information about solutions that meet their business needs. In later stages, they want very product-specific performance information. Having a salesperson call a potential customer too early in the buying cycle will likely annoy the customer—they're not ready to buy—and waste the time of the salesperson.Elias Terman, "Name Dropping," *American Printer*, January 1, 2007, v124.

### SS+K Spotlight

Defining the audience is a job for both the left brain and the right brain. We use this expression because in general the left side of our brains is more rational and fact-oriented while the right side is more emotional and artistic. Some people tend to be more logical when they approach problems while others are more creative and emotional. For fans of the original *Star Trek* TV series, just think of Mr. Spock and Dr. McCoy and you'll get the difference immediately.

So, SS+K needs to combine both rational and emotional factors when they think about their target market. Even the most comprehensive demographic profile seldom communicates a sufficiently nuanced understanding of any group of consumers. At SS+K, the account planners and researchers that make up the AIU are charged with acquiring information beyond current user demographics that will allow the account, media, and creative team to visualize and understand the consumer. An insightful and comprehensive target profile should enable the writers and art directors to imagine the target consumer so well, in fact, that the creatives can develop an empathic understanding of that consumer's relevant needs and wants. The more complete the creatives' understanding of the audience, the more likely the team will be able to craft a message that speaks in an authentic, compelling voice to the target consumer.

### Video Spotlight

*Michelle Rowley: Primary Research Informs User Differences*

(click to see video)

*Listen as Michelle describes the process of working with Energy Infuser and what the triads uncovered.*

If an agency relies on simple demographics to define its target market, the risks of oversimplification and naïve projections are considerable. The job of an account planner like SS+K's Michelle Rowley is to dig deeper; to see, understand, and report significant differences among potential target markets on the basis of characteristics that aren't immediately apparent to just anyone with access to a marketing database.

The profile provided Michelle with a basic understanding of the msnbc.com user. In addition to some telling demographics, Michelle had a good sense of how users describe their technological acumen and online news-gathering behavior and preferences.

After analyzing a veritable mountain of proprietary research already collected by the client, Michelle and her colleagues identified a trio of expectations consumers brought to their online news and information experiences. First, the online news audience assumed "the cost of entry" for credible sources was an ability to provide breaking news in a *timely* fashion; research indicated that consumers considered this a generic attribute and not a point of differentiation for any news provider. The second and third expectations were also considered essential *parity characteristics* (i.e., elements that any competitor would need): a *well-organized site* that provides ease of access and a *multi-faceted* presentation of text, photos, and video. Users said the most important attribute for news and online information providers was to provide *trusted* coverage.

Beyond that, there were still some significant gaps in the research that Michelle and company had to fill before they were prepared to commit fully to a target audience and position the brand in the marketplace. SS+K wanted to better understand the factors involved in making a choice for news and information:

- What role does news and information play in the lives of online consumers?
- What were the emotional drivers in choosing a source?
- Who was likely to influence others' choice of a news site, and how was this influence exercised?

Once these more global issues were better understood, SS+K could more effectively address how to position msnbc.com relative to its competition.

Understanding consumers' behaviors, as well as their motivations and gratifications for using particular sites, was a key focus of the next research phase. The ultimate goal was to find a voice, a tone, a way of presenting the brand that was relevant and clearly differentiated in the minds of the consumers as unique to msnbc.com. Michelle and her colleagues organized focus groups and interviews for further exploration of the opposing goals and perspectives suggested by the initial research. Among these were the following:

- Attraction versus retention
  - What is the relationship between what attracts you to a site and what keeps you interested once you're there?
  - Why are users accessing broadcast-related media online?
  - How can msnbc.com differentiate itself from MSN? What is the value of the association beyond driving traffic?
  - What type of content will motivate your current consumers to spend more time on the site?
  - Are light msnbc.com users clicking through on other sites?
- Credibility versus liability
  - What value do the NBC news brands bring to an online news site?
  - What is credible about the NBC brands?
  - How strong are the associations with NBC news personalities?
- Informed versus overwhelmed
  - What is the balance between knowledge as power and news as noise?
  - Do online news users want "all the news that's fit to print" or "enough information so I don't look stupid"?
  - Do your users want to know it all or just know enough?
- Entertained versus unfulfilled
  - What causes the negative reaction to the site among non-users? Are non-users reacting to the actual product or its reputation?
  - What is the appropriate balance between hard news and entertainment content?
  - How does the style of storytelling affect a user's perception of the content on the site?

SS+K needed answers to questions like these before the agency could identify the profile of the person most likely to be attracted to msnbc.com as a news source. That's where the targeting process comes in, so we'll turn to that next.

## Key Takaway

It’s very rare for an idea, product, or service to appeal to all consumers. Segmentation is the process of dividing the total population into groups that share important characteristics relevant to a client’s product or service. These segments may be based on demographics, psychological/lifestyle characteristics (psychographics), or behavior (e.g., heavy users versus light users of the brand).

1. *Segmenting* subdivides the population to help you think about who are and are not the potential customers for your product and the potential audience of the advertising.
2. *Targeting* picks the segment(s) for the campaign that will be the focus of the advertising.
3. *Positioning* is how to think about the relationship between your product and the customer/audience, with the purpose of distinguishing your product from the competition.

## EXERCISES

1. Target marketing requires that we use the STP process, which consists of three steps. List and briefly describe those steps.
2. Demographics are measurable aspects of a population. There are nine widely used demographic measures. List and briefly describe five of those demographic measures.
3. Explain how advertisers might be able to use SRI International’s VALS2™ to construct consumer ad campaigns.

# 6.2: How Markets Are Segmented

## Learning Objectives

1. Understand and outline the ways in which markets are segmented.
2. Explain why marketers use some segmentation bases versus others.

Sellers can choose to pursue consumer markets, business-to-business (B2B) markets, or both. Consequently, one obvious way to begin the segmentation process is to segment markets into these two types of groups.

Different factors influence consumers to buy certain things. Many of the same factors can also be used to segment customers. A firm will often use multiple segmentation bases, or criteria to classify buyers, to get a fuller picture of its customers and create real value for them. Each variable adds a layer of information. Think of it as being similar to the way in which your professor builds up information on a PowerPoint slide to the point at which you are able to understand the material being presented.

There are all kinds of characteristics you can use to slice and dice a market. "Big-and-tall" stores cater to the segment of population that's larger sized. What about people with wide or narrow feet, or people with medical conditions, or certain hobbies? Next, we look primarily at the ways in which consumer markets can be segmented. Later in the chapter, we'll look at the ways in which B2B markets can be segmented.

## Types of Segmentation Bases

Table 5.1 shows some of the different types of buyer characteristics used to segment markets. Notice that the characteristics fall into one of four segmentation categories: *behavioral*, *demographic*, *geographic*, or *psychographic*. We'll discuss each of these categories in a moment. For now, you can get a rough idea of what the categories consist of by looking at them in terms of how marketing professionals might answer the following questions:

- **Behavioral segmentation.** What benefits do customers want, and how do they use our product?
- **Demographic segmentation.** How do the ages, races, and ethnic backgrounds of our customers affect what they buy?
- **Geographic segmentation.** Where are our customers located, and how can we reach them? What products do they buy based on their locations?
- **Psychographic segmentation.** What do our customers think about and value? How do they live their lives?

Table 5.1 Common Ways of Segmenting Buyers

| By Behavior | By Demographics | By Geography | By Psychographics |
|---|---|---|---|
| • Benefits sought from the product<br>• How often the product is used (usage rate)<br>• Usage situation (daily use, holiday use, etc.)<br>• Buyer's status and loyalty to product (nonuser, potential user, first-time users, regular user) | • Age/generation<br>• Income<br>• Gender<br>• Family life cycle<br>• Ethnicity<br>• Family size<br>• Occupation<br>• Education<br>• Nationality<br>• Religion<br>• Social class | • Region (continent, country, state, neighborhood)<br>• Size of city or town<br>• Population density<br>• Climate | • Activities<br>• Interests<br>• Opinions<br>• Values<br>• Attitudes<br>• Lifestyles |

## Segmenting by Behavior

Behavioral segmentation divides people and organization into groups according to how they behave with or act toward products. *Benefits segmentation*—segmenting buyers by the benefits they want from products—is very common. Take toothpaste, for example. Which benefit is most important to you when you buy a toothpaste: The toothpaste's price, ability to whiten your teeth, fight tooth decay, freshen your breath, or something else? Perhaps it's a combination of two or more benefits. If marketing professionals know what those benefits are, they can then tailor different toothpaste offerings to you (and other people like you). For example, Colgate 2-in-1 Toothpaste & Mouthwash, Whitening Icy Blast is aimed at people who want the benefits of both fresher breath and whiter teeth.

Video Clip

A Vintage Colgate Commercial from the 1950s

Watch the YouTube video to see a vintage Colgate toothpaste ad that describes the product's various benefits to consumers. (Onscreen kissing was evidently too racy for the times.)

Another way in which businesses segment buyers is by their usage rates—that is, how often, if ever, they use certain products. Harrah's, an entertainment and gaming company, gathers information about the people who gamble at its casinos. High rollers, or people who spend a lot of money, are considered "VIPs." VIPs get special treatment, including a personal "host" who looks after their needs during their casino visits. Companies are interested in frequent users because they want to reach other people like them. They are also keenly interested in nonusers and how they can be persuaded to use products.

The way in which people use products is also be a basis for segmentation. Avon Skin So Soft was originally a beauty product, but after Avon discovered that some people were using it as a mosquito repellant, the company began marketing it for that purpose. Eventually, Avon created a separate product called Skin So Soft Bug Guard, which competes with repellents like Off! Similarly, Glad, the company that makes plastic wrap and bags, found out customers were using its Press'n Seal wrap in ways the company could never have imagined. The personnel in Glad's marketing department subsequently launched a Web site called 1000uses.com that contains both the company's and consumers' use tips. Some of the ways in which people use the product are pretty unusual, as evidenced by the following comment posted on the site: "I have a hedgehog who likes to run on his wheel a lot. After quite a while of cleaning a gross wheel every morning, I got the tip to use 'Press'n Seal wrap' on his wheel, making clean up much easier! My hedgie can run all he wants, and I don't have to think about the cleanup. Now we're both GLAD!"

Figure 5.4: Encouraging consumers to use your products for multiple purposes is a smart marketing strategy. Last Human Getaway – Hedgehog – CC BY-NC-ND 2.0.

Although we doubt Glad will ever go to great lengths to segment the Press ’n Seal market by hedgehog owners, the firm has certainly gathered a lot of good consumer insight about the product and publicity from its 1000uses.com Web site. (Incidentally, one rainy day, the author of this chapter made “rain boots” out of Press ’n Seal for her dog. But when she later tried to tear them off of the dog’s paws, he bit her. She is now thinking of trading him in for a hedgehog.)

## Segmenting by Demographics

Segmenting buyers by personal characteristics such as age, income, ethnicity and nationality, education, occupation, religion, social class, and family size is called demographic segmentation. Demographics are commonly utilized to segment markets because demographic information is publicly available in databases around the world. You can obtain a great deal of demographic information on the U.S. Census Bureau’s Web site. Other government Web sites you can tap include FedStats (www.fedstats.gov) and *The World Factbook*, which contains statistics about countries around the world. In addition to current statistics, the sites contain forecasts of demographic trends, such as whether some segments of the population are expected to grow or decline.

## Age

At this point in your life, you are probably more likely to buy a car than a funeral plot. Marketing professionals know this. That’s why they try to segment consumers by their ages. You’re probably familiar with some of the age groups most commonly segmented (see Table 5.2) in the United States. Into which category do you fall?

Table 5.2 U.S. Generations and Characteristics

| Generation | Also Known As | Birth Years | Characteristics |
|---|---|---|---|
| Seniors | “The Silent Generation,” “Matures,” “Veterans,” and “Traditionalists” | 1945 and prior | • Experienced very limited credit growing up<br>• Tend to live within their means<br>• Spend more on health care than any other age group<br>• Internet usage rates increasing faster than any other group |
| Note: Not all demographers agree on the cutoff dates between the generations. | | | |

| Generation | Also Known As | Birth Years | Characteristics |
|---|---|---|---|
| Baby Boomers | | 1946–1964 | • Second-largest generation in the United States<br>• Grew up in prosperous times before the widespread use of credit<br>• Account for 50 percent of U.S. consumer spending<br>• Willing to use new technologies as they see fit |
| Generation X | | 1965–1979 | • Comfortable but cautious about borrowing<br>• Buying habits characterized by their life stages<br>• Embrace technology and multitasking |
| Generation Y | “Millennials,” “Echo Boomers,” includes “Tweens” (preteens) | 1980–2000 | • Largest U.S. generation<br>• Grew up with credit cards<br>• Adept at multitasking; technology use is innate<br>• Ignore irrelevant media |
| Note: Not all demographers agree on the cutoff dates between the generations. | | | |

Today’s college-age students (Generation Y) compose the largest generation. The baby boomer generation is the second largest, and over the course of the last thirty years or so, has been a very attractive market for sellers. Retro brands—old brands or products that companies “bring back” for a period of time—were aimed at baby boomers during the recent economic downturn. Pepsi Throwback and Mountain Dew Throwback, which are made with cane sugar—like they were “back in the good old days”—instead of corn syrup, are examples (Schlacter, 2009). Marketing professionals believe they appealed to baby boomers because they reminded them of better times—times when they didn’t have to worry about being laid off, about losing their homes, or about their retirement funds and pensions drying up.

Baby boomers are aging and the size of the group will eventually decline. By contrast, the members of Generation Y have a lifetime of buying still ahead of them, which translates to a lot of potential customer lifetime value (CLV), the amount a customer will spend on a particular brand over his/her lifetime, for marketers if they can capture this group of buyers. However, a recent survey found that the latest recession had forced teens to change their spending habits and college plans and that roughly half of older Generation Yers reported they had no savings[1].

So which group or groups should your firm target? Although it’s hard to be all things to all people, many companies try to broaden their customer bases by appealing to multiple generations so they don’t lose market share when demographics change. Several companies have introduced lower-cost brands targeting Generation Xers, who have less spending power than boomers. For example, kitchenware and home-furnishings company Williams-Sonoma opened the Elm Street chain, a less-pricey version of the Pottery Barn franchise. The Starwood hotel chain’s W hotels, which feature contemporary designs and hip bars, are aimed at Generation Xers (Miller, 2009).

The video game market is very proud of the fact that along with Generation X and Generation Y, many older Americans still play video games. (You probably know some baby boomers who own a Nintendo Wii.) Products and services in the spa market used to be aimed squarely at adults, but not anymore. Parents are now paying for their tweens to get facials, pedicures, and other pampering in numbers no one in years past could have imagined.

Video Clip: Evian Water: Roll, Baby, Roll! Watch the YouTube video to see a fun generational type of advertisement. No, the ad isn’t designed to appeal to babies. It’s aimed at us adults! https://youtu.be/HiaTr8qqaIc

As early as the 1970s, U.S. automakers found themselves in trouble because of changing demographic trends. Many of the companies’ buyers were older Americans inclined to “buy American.” These people hadn’t forgotten that Japan bombed Pearl Harbor during World War II and weren’t about to buy Japanese vehicles, but younger Americans were. Plus, Japanese cars had developed a better reputation. Despite the challenges U.S. automakers face today, they have taken great pains to cater to the “younger” generation—today’s baby boomers who don’t think of themselves as being old. If you are a car buff, you perhaps have noticed that the once-stodgy Cadillac now has a sportier look and stiffer suspension. Likewise, the Chrysler 300 looks more like a muscle car than the old Chrysler Fifth Avenue your great-grandpa might have driven.

Automakers have begun reaching out to Generations X and Y, too. General Motors (GM) has sought to revamp the century-old company by hiring a new younger group of managers—managers who understand how Generation X and Y consumers are wired and what they want. “If you’re going to appeal to my daughter, you’re going to have to be in the digital world,” explained one GM vice president (Cox, 2009).

Companies have to develop new products designed to appeal to Generations X and Y and also find new ways to reach them. People in these generations not only tend to ignore traditional advertising but also are downright annoyed by it. To market to Scion drivers, who are generally younger, Toyota created Scion Speak, a social networking site where they can communicate, socialize, and view cool new models of the car. Online events such as the fashion shows broadcast over the Web are also getting the attention of younger consumers, as are text, e-mail, and Twitter messages they can sign up to receive so as to get coupons, cash, and free merchandise. Advergames are likewise being used to appeal to the two demographic groups. Advergames are electronic games sellers create to promote a product or service. Would you like to play one now? Click on the following link to see a fun one created by Burger King to advertise its Tender Crisp Chicken.

Burger King Advergame

You could boss the “subservient chicken” around in this advergame. He will do anything you want—well, *almost* anything. Unfortunately the game requires Adobe Flash which is no longer supported, but the video shows the Chicken in action

## Income

Tweens might appear to be a very attractive market when you consider they will be buying products for years to come. But would you change your mind if you knew that baby boomers account for 50 percent of all consumer spending in the United States? Americans *over* sixty-five now control nearly three-quarters of the net worth of U.S. households; this group spends $200 billion a year on major “discretionary” (optional) purchases such as luxury cars, alcohol, vacations, and financial products (Reisenwitz, 2007).

Income is used as a segmentation variable because it indicates a group’s buying power and may partially reflect their education levels, occupation, and social classes. Higher education levels usually result in higher paying jobs and greater social status. The makers of upscale products such as Rolexes and Lamborghinis aim their products at high-income groups. However, a growing number of firms today are aiming their products at lower-income consumers. The fastest-growing product in the financial services sector is prepaid debit cards, most of which are being bought and used by people who don’t have bank accounts. Firms are finding that this group is a large, untapped pool of customers who tend to be more brand loyal than most. If you capture enough of them, you can earn a profit (von Hoffman, 2006). Based on the targeted market, businesses can determine the location and type of stores where they want to sell their products.


Figure 5.5: Automobile companies may segment markets based on income, age, social class, and gender. Tetyana Pryymak – CC BY-NC-ND 2.0.

Sometimes income isn't always indicative of who will buy your product. Companies are aware that many consumers want to be in higher income groups and behave like they are already part of them. Mercedes Benz's cheaper line of "C" class vehicles is designed to appeal to these consumers.

## Gender

Gender is another way to segment consumers. Men and women have different needs and also shop differently. Consequently, the two groups are often, but not always, segmented and targeted differently. Marketing professionals don't stop there, though. For example, because women make many of the purchases for their households, market researchers sometimes try to further divide them into subsegments. (Men are also often subsegmented.) For women, those segments might include *stay-at-home* housewives, *plan-to-work* housewives, *just-a-job* working women, and *career-oriented* working women. Research has found that women who are solely homemakers tend to spend more money, perhaps because they have more time.

Figure 5.6: Considering the rising number of U.S. women who live without spouses, entrepreneurs have launched handyman services in many markets. Let Ideas Compete – Handyman, up close, fixing a door – CC BY-NC-ND 2.0.

In addition to segmenting by gender, market researchers might couple gender with marital status and other demographic characteristics. For, example, did you know that more women in America than ever before (51 percent) now live without spouses? Can you think of any marketing opportunities this might present? (Barry, 1985)

## Family Life Cycle

Family life cycle refers to the stages families go through over time and how it affects people's buying behavior. For example, if you have no children, your demand for pediatric services (medical care for children) is likely to be slim to none, but if you have children, your demand might be very high because children frequently get sick. You may be part of the target market not only for pediatric services but also for a host of other products, such as diapers, daycare, children's clothing, entertainment services, and educational products. A secondary segment of interested consumers might be grandparents who are likely to spend less on day-to-day childcare items but more on special-occasion gifts for children. Many markets are segmented based on the special events in people's lives. Think about brides (and want-to-be brides) and all the products targeted at them, including Web sites and television shows such as *Say Yes to the Dress*, *My Fair Wedding*, *Platinum Weddings*, and *Bridezillas*.

Figure 5.7: Many markets are segmented based on people's family life cycle needs. Wikimedia Commons – public domain.

Resorts also segment vacationers depending on where they are in their family life cycles. When you think of family vacations, you probably think of Disney resorts. Some vacation properties, such as Sandals, exclude children from some of their resorts. Perhaps they do so because some studies show that the market segment with greatest financial potential is married couples without children (Hill, et. al., 1990).

Keep in mind that although you might be able to isolate a segment in the marketplace, including one based on family life cycle, you can't make assumptions about what the people in it will want. Just like people's demographics change, so do their tastes. For example, over the past few decades U.S. families have been getting smaller. Households with a single occupant are more commonplace than ever, but until recently, that hasn't stopped people from demanding bigger cars (and more of them) as well as larger houses, or what some people jokingly refer to as "McMansions."

The trends toward larger cars and larger houses appear to be reversing. High energy costs, the credit crunch, and concern for the environment are leading people to demand smaller houses. To attract people such as these, D. R. Horton, the nation's leading homebuilder, and other construction firms are now building smaller homes.

## Ethnicity

People's ethnic backgrounds have a big impact on what they buy. If you've visited a grocery store that caters to a different ethnic group than your own, you were probably surprised to see the types of products sold there. It's no secret that the United States is becoming—and will continue to become—more diverse. Hispanic Americans are the largest and the fastest-growing minority in the United States. Companies are going to great lengths to court this once overlooked group. In California, the health care provider Kaiser Permanente runs television ads letting members of this segment know that they can request Spanish-speaking physicians and that Spanish-speaking nurses, telephone operators, and translators are available at all of its clinics (Berkowitz, 2006).

African Americans are the second-largest ethnic group in America. Collectively, they have the most buying power of any ethnic group in America. Many people of Asian descent are known to be early adapters of new technology and have above-average incomes. As a result, companies that sell electronic products, such as AT&T, spend more money segmenting and targeting the Asian community[2]. Table 5.3 contains information about the number of people in these groups and their buying power.

Table 5.3 Major U.S. Ethnic Segments and Their Spending

| Group | Percentage of U.S. Population | Annual Spending Power (Billions of Dollars) |
|---|---|---|
| Hispanics | 13.7 | 736 |
| African Americans | 13.0 | 761 |
| Asians | 5.0 | 397 |

Source: New American Dimensions, LLC.

As you can guess, even within various ethnic groups there are many differences in terms of the goods and services buyers choose. Consequently, painting each group with a broad brush would leave you with an incomplete picture of your buyers. For example, although the common ancestral language among the Hispanic segment is Spanish, Hispanics trace their lineages to different countries. Nearly 70 percent of Hispanics in the United States trace their lineage to Mexico; others trace theirs to Central America, South America, and the Caribbean.

All Asians share is race. Chinese, Japanese, and Korean immigrants do not share the same language[2]. Moreover, both the Asian and Hispanic market segments include new immigrants, people who immigrated to the United States years ago, and native-born Americans. So what language will you use to communicate your offerings to these people, and where?

Subsegmenting the markets could potentially help you. New American Dimension, a multicultural research firm, has further divided the Hispanic market into the following subsegments:

- **Just moved in'rs.** Recent arrivals, Spanish dependent, struggling but optimistic.
- **FOBrs (fashionistas on a budget).** Spanish dominant, traditional, but striving for trendy.
- **Accidental explorers.** Spanish preferred, not in a rush to embrace U.S. culture.
- **The englightened.** Bilingual, technology savvy, driven, educated, modern.
- **Doubting Tomáses.** Bilingual, independent, skeptical, inactive, shopping uninvolved.
- **Latin flavored.** English preferred, reconnecting with Hispanic traditions.
- **SYLrs (single, young latinos).** English dominant, free thinkers, multicultural.

You could go so far as to break down segments to the individual level, which is the goal behind one-to-one marketing. However, doing so would be dreadfully expensive, notes Juan Guillermo Tornoe, a marketing expert who specializes in Hispanic marketing issues. After all, are you really going to develop different products and different marketing campaigns and communications for each group? Probably not, but "you need to perform your due diligence and understand where the majority of the people you are trying to reach land on this matrix, modifying your message according to this insight," Tornoe explains (Tornoe, 2008).

## Segmenting by Geography

Suppose your great new product or service idea involves opening a local store. Before you open the store, you will probably want to do some research to determine which geographical areas have the best potential. For instance, if your business is a high-end restaurant, should it be located near the local college or country club? If you sell ski equipment, you probably will want to locate your shop somewhere in the vicinity of a mountain range where there is skiing. You might see a snowboard shop in the same area but probably not a surfboard shop. By contrast, a surfboard shop is likely to be located along the coast, but you probably would not find a snowboard shop on the beach.

Geographic segmentation divides the market into areas based on location and explains why the checkout clerks at stores sometimes ask for your zip code. It's also why businesses print codes on coupons that correspond to zip codes. When the coupons are redeemed, the store can find out where its customers are located—or not located. Geocoding is a process that takes data such as this and plots it on a map. Geocoding can help businesses see where prospective customers might be clustered and target them with various ad campaigns, including direct mail. One of the most popular geocoding software programs is PRIZM NE, which is produced by a company called Claritas. PRIZM NE uses zip codes and demographic information to classify the American population into segments. The idea behind PRIZM is that "you are where you live." Combining both demographic and geographic information is referred to as geodemographics or neighborhood geography. The idea is that housing areas in different zip codes typically attract certain types of buyers with certain income levels. To see how geodemographics works, visit the following page on Claritas' Web site: www.claritas.com/MyBestSegmen...ault.jsp?ID=20.

Type in your zip code, and you will see customer profiles of the types of buyers who live in your area. Table 5.4 shows the profiles of buyers who can be found the zip code 76137—the “Brite Lites, Li’l City” bunch, and “Home Sweet Home” set. Click on the profiles on the Claritas site to see which one most resembles you.

Table 5.4: An Example of Geodemographic Segmentation for 76137 (Fort Worth, TX)

| Number | Profile Name |
|---|---|
| 12 | *Brite Lites, Li’l City* |
| 19 | *Home Sweet Home* |
| 24 | *Up-and-Comers* |
| 13 | *Upward Bound* |
| 34 | *White Picket Fences* |

The tourism bureau for the state of Michigan was able to identify and target different customer profiles using PRIZM. Michigan’s biggest travel segment are Chicagoans in certain zip codes consisting of upper-middle-class households with children—or the “kids in cul-de-sacs” group, as Claritas puts it. The bureau was also able to identify segments significantly different from the Chicago segment, including blue-collar adults in the Cleveland area who vacation without their children. The organization then created significantly different marketing campaigns to appeal to each group.

City size and population density (the number of people per square mile) are also used for segmentation purposes. Have you ever noticed that in rural towns, McDonald’s restaurants are hard to find, but Dairy Queens (DQ) are usually easy to locate? McDonald’s generally won’t put a store in a town of fewer than five thousand people. However, this is prime turf for the “DQ”— because it doesn’t have to compete with bigger franchises like McDonald’s.


Figure 5.8: Virgin Mobile is helping stores capitalize on proximity marketing by sending text messages to Virgin Mobile users when they opt to receive them. Billboards outside stores tell Virgin Mobile users to (Who wouldn’t want free stuff?). D@LY3D – Richard Branson – CC BY 2.0.

Proximity marketing is an interesting new technology firms are using to segment and target buyers geographically within a few hundred feet of their businesses using wireless technology. In some areas, you can switch your mobile phone to a “discoverable mode” while you’re shopping and, if you want, get ads and deals from stores as you pass by them, which is often less expensive than hiring people to hand you a flier as you walk by[3].

## Audio Clip

Interview with Apurva Ghelani

http://app.wistia.com/embed/medias/d0b89776be

To learn about how proximity marketing works at a real company, listen to Apurva Ghelani in this audio clip. Ghelani is a senior sales engineer for Air2Web, a company that helps businesses promote their brands and conduct transactions with people via their mobile phones.

In addition to figuring out where to locate stores and advertise to customers in that area, geographic segmentation helps firms tailor their products. Chances are you won't be able to find the same heavy winter coat you see at a Walmart in Montana at a Walmart in Florida because of the climate differences between the two places. Market researchers also look at migration patterns to evaluate opportunities. TexMex restaurants are more commonly found in the southwestern United States. However, northern states are now seeing more of them as more people of Hispanic descent move northward.

## Segmenting by Psychographics

If your offering fulfills the needs of a specific demographic group, then the demographic can be an important basis for identifying groups of consumers interested in your product. What if your product crosses several market segments? For example, the group of potential consumers for cereal could be "almost" everyone although groups of people may have different needs with regard to their cereal. Some consumers might be interested in the fiber, some consumers (especially children) may be interested in the prize that comes in the box, other consumers may be interested in the added vitamins, and still other consumers may be interested in the type of grains. Associating these specific needs with consumers in a particular demographic group could be difficult. Marketing professionals want to know *why* consumers behave the way they do, what is of high priority to them, or how they rank the importance of specific buying criteria. Think about some of your friends who seem a lot like you. Have you ever gone to their homes and been shocked by their lifestyles and how vastly different they are from yours? Why are their families so much different from yours?

Psychographic segmentation can help fill in some of the blanks. Psychographic information is frequently gathered via extensive surveys that ask people about their activities, interests, opinion, attitudes, values, and lifestyles. One of the most well-known psychographic surveys is VALS (which originally stood for "Values, Attitudes, and Lifestyles") and was developed by a company called SRI International in the late 1980s. SRI asked thousands of Americans the extent to which they agreed or disagreed with questions similar to the following: "My idea of fun at a national park would be to stay at an expensive lodge and dress up for dinner" and "I could stand to skin a dead animal" (Donnelly, 2002). Based on their responses to different questions, consumers were divided up into the following categories, each characterized by certain buying behaviors.

- **Innovators.** Innovators are successful, sophisticated, take-charge people with high self-esteem. Because they have such abundant resources, they exhibit all three primary motivations in varying degrees. They are change leaders and are the most receptive to new ideas and technologies. Innovators are very active consumers, and their purchases reflect cultivated tastes for upscale, niche products and services. Image is important to Innovators, not as evidence of status or power but as an expression of their taste, independence, and personality. Innovators are among the established and emerging leaders in business and government, yet they continue to seek challenges. Their lives are characterized by variety. Their possessions and recreation reflect a cultivated taste for the finer things in life.
- **Thinkers.** Thinkers are motivated by ideals. They are mature, satisfied, comfortable, and reflective people who value order, knowledge, and responsibility. They tend to be well educated and actively seek out information in the decision-making process. They are well informed about world and national events and are alert to opportunities to broaden their knowledge. Thinkers have a moderate respect for the status quo institutions of authority and social decorum but are open to consider new ideas. Although their incomes allow them many choices, Thinkers are conservative, practical consumers; they look for durability, functionality, and value in the products they buy.
- **Achievers.** Motivated by the desire for achievement, Achievers have goal-oriented lifestyles and a deep commitment to career and family. Their social lives reflect this focus and are structured around family, their place of worship, and work. Achievers live conventional lives, are politically conservative, and respect authority and the status quo. They value consensus, predictability, and stability over risk, intimacy, and self-discovery. With many wants and needs, Achievers are active in the consumer marketplace. Image is important to Achievers; they favor established, prestige products and services that demonstrate success to their peers. Because of their busy lives, they are often interested in a variety of timesaving devices.
- **Experiencers.** Experiencers are motivated by self-expression. As young, enthusiastic, and impulsive consumers, Experiencers quickly become enthusiastic about new possibilities but are equally quick to cool. They seek variety and excitement, savoring the new, the offbeat, and the risky. Their energy finds an outlet in exercise, sports, outdoor recreation, and social activities. Experiencers are avid consumers and spend a comparatively high proportion of their income on fashion, entertainment, and socializing. Their purchases reflect the emphasis they place on looking good and having "cool" stuff.
- **Believers.** Like Thinkers, Believers are motivated by ideals. They are conservative, conventional people with concrete beliefs based on traditional, established codes: family, religion, community, and the nation. Many Believers express moral codes that are deeply rooted and literally interpreted. They follow established routines, organized in large part around home, family,

community, and social or religious organizations to which they belong. As consumers, Believers are predictable; they choose familiar products and established brands. They favor American products and are generally loyal customers.
- **Strivers.** Strivers are trendy and fun loving. Because they are motivated by achievement, Strivers are concerned about the opinions and approval of others. Money defines success for Strivers, who don't have enough of it to meet their desires. They favor stylish products that emulate the purchases of people with greater material wealth. Many see themselves as having a job rather than a career, and a lack of skills and focus often prevents them from moving ahead. Strivers are active consumers because shopping is both a social activity and an opportunity to demonstrate to peers their ability to buy. As consumers, they are as impulsive as their financial circumstance will allow.
- **Makers.** Like Experiencers, Makers are motivated by self-expression. They express themselves and experience the world by working on it—building a house, raising children, fixing a car, or canning vegetables—and have enough skill and energy to carry out their projects successfully. Makers are practical people who have constructive skills and value self-sufficiency. They live within a traditional context of family, practical work, and physical recreation and have little interest in what lies outside that context. Makers are suspicious of new ideas and large institutions such as big business. They are respectful of government authority and organized labor but resentful of government intrusion on individual rights. They are unimpressed by material possessions other than those with a practical or functional purpose. Because they prefer value to luxury, they buy basic products.
- **Survivors.** Survivors live narrowly focused lives. With few resources with which to cope, they often believe that the world is changing too quickly. They are comfortable with the familiar and are primarily concerned with safety and security. Because they must focus on meeting needs rather than fulfilling desires, Survivors do not show a strong primary motivation. Survivors are cautious consumers. They represent a very modest market for most products and services. They are loyal to favorite brands, especially if they can purchase them at a discount[4].

To find out which category you're in, take a VALS survey at http://www.strategicbusinessinsights.com/vals/presurvey.shtml. VALS surveys have been adapted and used to study buying behavior in other countries, too. Note that both VALS and PRIZM group buyers are based on their values and lifestyles, but PRIZM also overlays the information with geographic data. As a result, you can gauge what the buying habits of people in certain zip codes are, which can be helpful if you are trying to figure out where to locate stores and retail outlets.

The segmenting techniques we've discussed so far in this section require gathering quantitative information and data. Quantitative information can be improved with *qualitative* information you gather by talking to your customers and getting to know them. (Recall that this is how Healthy Choice frozen dinners were created.) Consumer insight is what results when you use both types of information. You want to be able to answer the following questions:

- Am I looking at the consumers the way they see themselves?
- Am I looking at life from their point of view?

Best Buy asked store employees to develop insight about local consumer groups in order to create special programs and processes for them. Employees in one locale invited a group of retirees to their store to explain how to make the switch to digital television. The store sold $350,000 worth of equipment and televisions in just two hours' time. How much did it cost? The total cost included ninety-nine dollars in labor costs plus coffee and donuts.

Intuit, the company that makes the tax software Quicken, has a "follow me home" program. Teams of engineers from Intuit visit people's homes and spend a couple of hours watching consumers use Quicken. Then they use the insights they gain to improve the next version of Quicken. Contrast this story with that of a competing firm. When a representative of the firm was asked if he had ever observed consumers installing or using his company's product, he responded, "I'm not sure I'd want to be around when they were trying to use it" (Nee, 2003). This company is now struggling to stay in business.

To read about some of the extreme techniques Nokia uses to understand cell phone consumers around the world, click on the following link: http://www.nytimes.com/2008/04/13/magazine/13anthropology-t.html?pagewanted=all.

## Segmentation in B2B Markets

Many of the same bases used to segment consumer markets are also used to segment B2B markets. For example, Goya Foods is a U.S. food company that sells different ethnic products to grocery stores, depending on the demographic groups the stores serve—Hispanic, Mexican, or Spanish. Likewise, B2B sellers often divide their customers by geographic areas and tailor their products to them accordingly. Segmenting by behavior is common as well. B2B sellers frequently divide their customers based on their product usage rates. Customers that order many goods and services from a seller often receive special deals and are served by salespeople who call on them in person. By contrast, smaller customers are more likely to have to rely on a firm's Web site, customer service people, and salespeople who call on them by telephone.

Researchers Matthew Harrison, Paul Hague, and Nick Hague have theorized that there are fewer behavioral and needs-based segments in B2B markets than in business-to-consumer (B2C) markets for two reasons: (1) business markets are made up of a few hundred customers whereas consumer markets can be made up of hundreds of thousands of customers, and (2) businesses aren't as fickle as consumers. Unlike consumers, they aren't concerned about their social standing or influenced by their families and peers. Instead, businesses are concerned solely with buying products that will ultimately increase their profits. According to Harrison, Hague, and Hague, the behavioral, or needs-based, segments in B2B markets include the following:

- **A price-focused segment** is composed of small companies that have low profit margins and regard the good or service being sold as not being strategically important to their operations.
- **A quality and brand-focused segment** is composed of firms that want the best possible products and are prepared to pay for them.
- **A service-focused segment** is composed of firms that demand high-quality products and have top-notch delivery and service requirements.
- **A partnership-focused segment** is composed of firms that seek trust and reliability on the part of their suppliers and see them as strategic partners (Harrison, et. al., 2010).

B2B sellers, like B2C sellers, are exploring new ways to reach their target markets. Trade shows and direct mail campaigns are two traditional ways of reaching B2B markets. Now, however, firms are finding they can target their B2B customers more cost-effectively via e-mail campaigns, search-engine marketing, and "fan pages" on social networking sites like Facebook. Companies are also creating blogs with cutting-edge content about new products and business trends of interest to their customers. For a fraction of the cost of attending a trade show to exhibit their products, B2B sellers are holding Webcasts and conducting online product demonstrations for potential customers.

## Key Takeaway

Segmentation bases are criteria used to classify buyers. The main types of buyer characteristics used to segment consumer markets are behavioral, demographic, geographic, and psychographic. Behavioral segmentation divides people and organization into groups according to how they behave with or toward products. Segmenting buyers by personal characteristics such as their age, income, ethnicity, family size, and so forth is called demographic segmentation. Geographic segmentation involves segmenting buyers based on where they live. Psychographic segmentation seeks to differentiate buyers based on their activities, interests, opinions, attitudes, values, and lifestyles. Oftentimes a firm uses multiple bases to get a fuller picture of its customers and create value for them. Marketing professionals develop consumer insight when they gather both quantitative and qualitative information about their customers. Many of the same bases used to segment consumer markets are used to segment business-to-business (B2B) markets. However, there are generally fewer behavioral-based segments in B2B markets.

## Review Questions

1. What buyer characteristics do companies look at when they segment markets?
2. Why do firms often use more than one segmentation base?
3. What two types of information do market researchers gather to develop consumer insight?

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# 6.3: Common Segmentation Approaches

## Common Approaches to Market Segmentation

Segmentation starts by identifying all the potential buyers for your product: individuals with the need and the means to buy what you offer. In most cases, this represents a large universe of people or organizations that are similar in some ways but different in many other ways. Segmentation is a process that helps marketers narrow their focus on the most promising groups within that universe.

There is no single correct way to segment a market. Defining a target consumer base can be performed using a variety of segmentation methods. Several common methods are discussed below. Marketers may apply a combination of these methods to provide greater insight into their target market and the customers they want to serve. In fact, good marketers generally try out different methods and combinations to figure out what approach is most successful to help them achieve their goals. Because people and their needs change, effective approaches for segmenting a market can also evolve over time.

The following is a list of common market segmentation approaches:

- **Geographic:** nations, states, regions, cities, neighborhoods, zip codes, etc.
- **Demographic:** age, gender, family size, income, occupation, education, religion, ethnicity, and nationality.
- **Psychographic:** lifestyle, personality, attitudes, and social class.
- **Behavioral:** user status, purchase occasion, loyalty, readiness to buy.
- **Decision maker:** decision-making role (purchaser, influencer, etc.)

### Geographic Segmentation

You’re much more likely to sell surfboard in a location with a beach than in a landlocked location.

Geographic criteria—nations, states, regions, countries, cities, neighborhoods, or zip codes–define geographic market segments. Geography represents the oldest basis for segmentation. Regional differences in consumer tastes for products are well known, such as the affinity for barbecue in the southern U.S. or preferences for health-conscious menus in coastal California. Geographic segmentation suggests that in areas prone to rain, for instance, you can sell things like raincoats, umbrellas, and rubber boots. In hot regions, you can sell summer wear; in cold regions, you can sell warm clothes.

Geographic markets are easily identified, and large amounts of data are usually available. Many companies simply do not have the resources to expand beyond local or regional areas, so they must focus on one geographic segment only. There is very little waste in the marketing effort, in that the product and supporting activities such as advertising, physical distribution, and repair can all be directed at the customer. Further, geography provides a convenient organizational framework. Products, salespeople, and distribution networks can all be organized around a central, specific location.

The drawbacks of using a geographic basis for segmentation are also worth noting. There is always the possibility that consumer preferences aren’t dictated by location—other factors, such as ethnic origin or income, may be more important. The stereotypical Texan, for example, is hard to find in Houston, where one-third of the population has immigrated from other states. Another problem is that geographic areas can be defined as very large, regional locations. Members of a geographic segment may be too heterogeneous to qualify as a meaningful target market.

### Demographic Segmentation

Demographics are statistical data that describe various characteristics of a population. Demographic segmentation consists of dividing the market into groups based on demographic variables such as age, gender, family size, income, occupation, education, religion, political opinions, ethnicity, and nationality. Demographic segmentation variables are among the most popular bases for segmenting customer groups because demographic data are plentiful and customer wants and needs often link closely to these variables.

For example, the youth market (roughly ages five to thirteen) not only influences how their parents spend money, but also how they make purchases of their own. Manufacturers of products such as toys, records, snack foods, and video games have designed promotional efforts directed at this group. “Tweens” are children between the ages of eight and twelve who are discovering what it means to be a consumer and are shaping the attitudes and brand perceptions they will carry with them as they grow up and gain more purchasing power. The elderly market (age sixty-five and over) has grown in importance for producers of products such as low-cost housing, cruises, hobbies, and health care.

**✓ ✓ Dove Shampoo**

The following advertisement illustrates how the advertising and marketing promotion of Dove’s Men+Care product line focuses on the unique needs and interests of the young to middle-aged male segment.

A link to an interactive elements can be found at the bottom of this page.

You can view the transcript for “Dove Men+Care Asks: Is your hair ready for anything?” here (opens in new window).

Life stage is another demographic trait associated with age, gender, marital, and family status. There is evidence that individuals and families go through predictable behavioral patterns associated with buying behaviors. For example, a young couple with one young child has far different purchasing needs than empty-nesters in their late fifties or single, middle-aged professionals.[1]

Income is perhaps the most common demographic basis for segmenting a market because it indicates who can or cannot afford a particular product. It is quite reasonable, for example, to assume that individuals earning minimum wage could not easily purchase a $80,000 sports car. Income is particularly useful as a segmentation input as the price tag for a product increases. It can also be helpful in understanding certain types of buying behavior, such which income groups are most prone to use coupons.

Similarly, other demographic characteristics can influence other types of consumer activities.

Despite the apparent advantages of demographic segmentation (i.e., low cost and ease of implementation), uncertainty exists about its effectiveness. The method can be misused. For example, it might be said that the typical consumer of Thai food is under thirty-five years of age, has a college education, earns more than $10,000 a year, lives in a suburban fringe of a moderate-size urban community, and resides in the West. While these characteristics may describe a typical consumer of Thai food, they also describe many other consumers and may paint an overly broad or inaccurate portrait of a supposed “segment.” When a segment is too broad, it loses its defining characteristics and there isn’t much to differentiate the target segment from the general population. In this situation, the segmentation approach does not provide much useful guidance to help marketers make effective marketing choices.

### Psychographic Segmentation

In psychographic segmentation, consumers are divided according to common characteristics in their lifestyle, personality, attitudes, and social class. Evidence suggests that attitudes of prospective buyers toward certain products influence their subsequent purchase or nonpurchase of them. If persons with similar attitudes can be isolated, they represent an important psychological segment. Attitudes can be defined as predispositions to behave in certain ways in response to given stimulus.[2]

For market segmentation purposes, personality is defined as long-lasting characteristics and behaviors of a person that shape how they cope and respond to their environment. Consumption of particular products or brands relates to consumer personality. For example, risk-seeking individuals are attracted to extreme sports and travel, and extroverts tend to dress conspicuously.

Social class segmentation identifies individuals based on a combination of socioeconomic such as education, occupation, income, family background, and attitudes related to these factors.

Lifestyle segmentation refers to the orientation that an individual or a group has toward consuming products, work, and play and can be defined as a pattern of attitudes, interests, and opinions held by a person. Lifestyle segmentation has become very popular with marketers, because of the availability of consumer data, measurement devices and instruments, and the intuitive categories that result from this process.[3] As a result, producers target versions of their products and their promotions to various lifestyle segments. For example, U.S. companies like All State Insurance are designing special programs for the good driver, who has been extensively characterized through a lifestyle segmentation approach.[4]

Lifestyle analysis generally begins by asking questions about the consumer's activities, interests, and opinions. If a woman earns $100,000–$150,000 per year as an executive, is married and has two children, what does she think of her roles as a professional, a wife, and a mother? How does she spend her spare time? To what groups does she belong? What does she read? How does she use electronic devices? What brands does she prefer, and why? AIO (activities, interests, opinions) inventories, as they are called, reveal vast amounts of information concerning attitudes toward product categories, brands within product categories, and user and non-user characteristics.

Overall, psychographic segmentation tends to focus on how people spend their money; their patterns of work and leisure; their major interests; and their opinions of social and political issues, institutions, and themselves. While it can create intuitive groupings and useful insights into consumer behavior, it can also take significant research and effort to inform a more complex and nuanced approach to defining market segments.

### Behavioral Segmentation

Consumers are divided into groups according to common behaviors they share. Typically these behaviors link to their knowledge of, attitude toward, use of, or response to a product.

The most common type of behavioral segmentation is around user segments. In 1964, the market researcher Twedt made one of the earliest departures from demographic segmentation when he suggested that the heavy user, or frequent consumer, was an important basis for segmentation. He proposed that consumption of a product should be measured directly to determine usage levels, and that promotion should be aimed directly at the heavy user. This approach has since become very popular. Considerable research has been conducted on "heavy users" of a variety of products. The results suggest that finding other characteristics that correlate with usage rate often greatly enhances marketing efforts.[5]

Other behavioral bases for market segmentation include the following:

- **User status:** Looking beyond "heavy users," it can also be helpful to identify segments based on a broader set of use patterns, such as non-users versus ex-users, or one-time users versus regular users. Mobile phone service providers examine usage patterns to create optimal plans and targeting based on specific sets of user needs: family plans, individual plans, no contract plans, unlimited talk and data plans, and so forth. New car producers have become very sensitive to the need to provide new car buyers with a great deal of supportive information after the sale in order to minimize unhappiness after the purchase.

- **Purchase occasion:** This approach tries to determine the reason or occasion for purchasing a product and how it will be used. For example, airlines typically segment customers based on the reason for a passenger's trip: business versus personal travel. Someone traveling for business generally has different needs and wants from someone traveling for pleasure. A business traveler tends to be less sensitive about price and more focused on timing, location, and convenience.
- **Loyalty:** This approach places consumers in loyalty categories based on their purchase patterns of particular brands. A key category is the brand-loyal consumer. Companies have assumed that if they can identify individuals who are brand loyal to their brand, and then delineate other characteristics these people have in common, they will locate the ideal target market. There is still a great deal of uncertainty about the most reliable way of measuring brand loyalty.
- **Readiness:** Readiness segmentation proposes that potential customers can be segmented according to how ready they are to purchase a product: unaware, aware, informed, interested, desirous, and intend to buy. Using this approach, a marketing manager can design the appropriate market strategy to move them through the various stages of readiness. These stages of readiness are rather vague and difficult to measure accurately, but readiness may be a useful lens for understanding the customer's mindset and how to nudge them toward buying, particularly when an education process is required prior to purchase.

### Decision-Maker Segmentation

This segmentation approach groups people according to who makes the purchasing decision in an organization or household. Typically there is a "primary buyer": the individual who makes the final decision about what to buy and allocates the budget for the purchase. Many purchasing decisions also involve "influencers." These are people who do not make the final purchasing decision, but they can influence the final choice about what to buy.

In families, for example, young children may be influencers in whether a parent buys Cheerios, Chex, or Fruit Loops. In companies, a department manager may be the primary buyer for a software product, but that manager's work team may influence product selection by helping evaluate options to determine which choice best fits their needs. Segmentation by decision-making role helps marketers understand who truly matters in the purchase process and home in on the individuals who matter most.

## Segmenting Business-to-Business Markets

All of the segmentation approaches above apply to consumer markets. There are many similarities between consumer and business behavior, and therefore similar segmentation bases and variables apply. Common business segmentation approaches include:

- **Organization size:** segmentation according to large, medium, and small customers by revenue, by number of employees, by geographic reach, etc.
- **Geography:** organizing segments based on geographic location
- **Industry:** segmenting by the industrial sector an organization operates within—for example manufacturing, retail, hospitality, education, technology, health care, government, professional services, and so forth
- **User status:** usage frequency, volume used, loyalty, longevity, products already in use, readiness to buy, etc. For example, longtime loyal customers with "strategic" relationships are often handled differently and receive preferable terms compared to newer customers.
- **Benefits sought:** grouping customers by common elements they look for in a product or purchasing experience
- **End use:** identifying segments based on how they plan to use the product and where it fits into their operations and supply chain. For example, an electric motor manufacturer learned that customers operated motors at different speeds. After making field visits and confirming these uses, he thought to divide the market into slow-speed and high speed segments. In the slow-

speed segment, the manufacturer emphasized a competitively priced product with a maintenance advantage, while in the high-speed market product, superiority was stressed.
- **Purchasing approaches:** organizing the market according to the way in which organizations prefer to make purchases; those preferences, in turn, determine how the seller builds the relationship with the customer and works the deal.

## Combining Multiple Bases for Segmentation

Marketers may find it most useful to combine different bases for segmentation in order to create a richer picture of their target market. For example, a "geo-cluster" approach combines demographic data with geographic data to create a more accurate profile of a specific consumer. Geographic data combined with behavioral data can point companies toward locations where customers are clustered who demonstrate behaviors that make them a good target for a company's product. Overlaying demographic data onto lifestyle or behavioral segments helps marketers understand more about their target customers and how to reach them effectively with the marketing mix.

Any of these approaches may be the "right" approach for a given company and product set. It is also important for marketers to continually evaluate what's happening in their target market and to adjust their segmentation approach as customer attitudes, behaviors, and other market dynamics evolve.

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## Contributors and Attributions

# 6.4: Segmentation Decisions

## Conducting a Market Segmentation

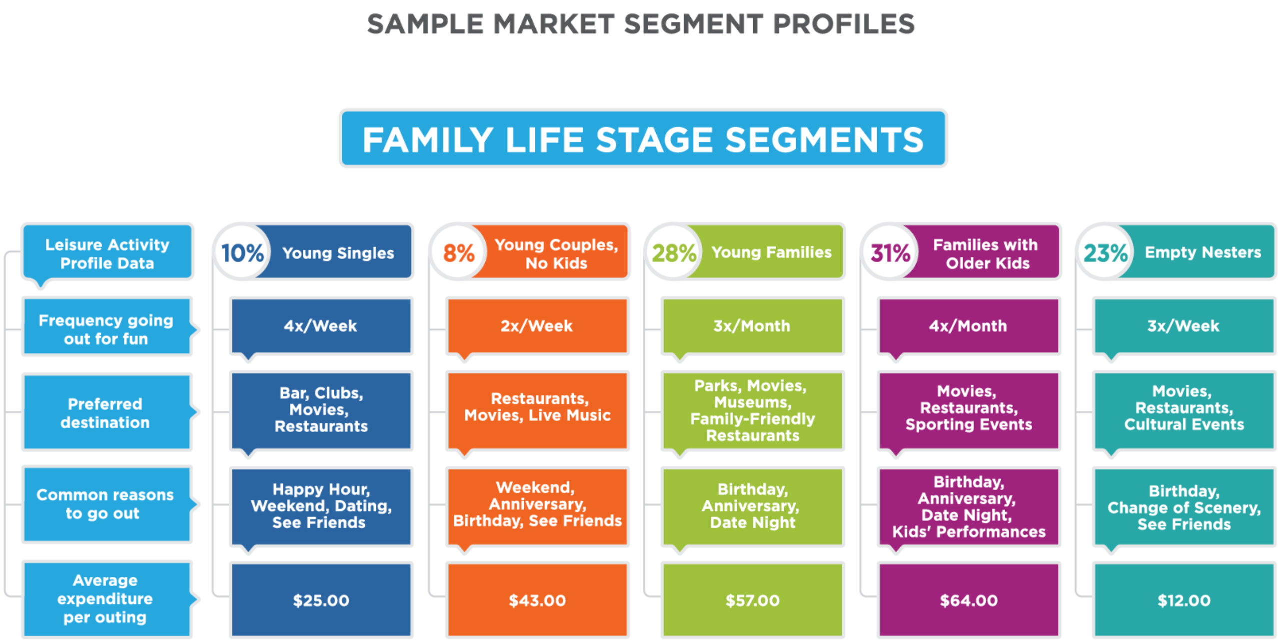
As you have seen, there are many different ways a company can segment its market, and the optimal method varies from one product to another. Good market segmentation starts by identifying the total market for the product: all the individuals who might conceivably need a product and have the means to purchase it. The total market for accounting software, say, is different from the total market for Lego building sets or the total market for chewing gum.

The next step is to identify marketing goals you want to achieve with the segmentation strategy. Do you want to generate awareness and sales in a local community that has never heard of your company? Do you want to get occasional customers to buy your product regularly? Do you want loyal supporters to dig deeper into their pockets and spend more of their money on your goods or services? Your segmentation approach should offer the best fit for your specific marketing goals.

Your marketing goals point you toward the segmentation criteria that will be most useful to achieve your marketing objectives. For example, if your goal is to build loyalty or increase frequency of purchase, behavioral segmentation is important to consider. If your goal is to broaden your customer base within a given region, geographic segmentation may be useful.

As you identify segmentation criteria that will help you understand the total market and meet your marketing goals, you'll develop the basis for your segmentation approach. Next, you conduct research to collect segmentation data. Analyzing the market data can tell you whether your segmentation approach makes sense and where you may need to adjust the criteria to yield useful, valid market-segment data.

After conducting research and analysis of segmentation data, you should be able to diagram and profile different segments within your total market. A typical segmentation diagram could look like this:




## Evaluating Your Segmentation Approach

An ideal market segment meets all of the following conditions:

- **It's possible to measure.** If you can't measure it, you can't collect data to know who the segment is or how to reach them.
- **It's profitable.** Segments must have the resources to purchase the product and be large enough to earn a profit for the company; otherwise they aren't worth pursuing.
- **It's stable.** Segments need to stick around long enough for you to execute your marketing plan.
- **It's reachable.** It must be possible for marketers to reach potential customers via the organization's promotion and distribution channel(s).
- **It's internally homogeneous.** Potential customers in the same segment must prefer the *same* product qualities and exhibit similar characteristics that are pertinent to the segmentation approach.
- **It's externally heterogeneous.** Potential customers from different segments have *different* product quality preferences and characteristics that affect their purchasing decisions.
- **It's responsive.** Segments should respond consistently to a given market stimulus or marketing mix. If they do not, then marketing efforts directed at them will not be well spent.
- **It's cost-effective.** Worthwhile market segments can be reached by marketing activities in a cost-effective manner. If too expensive to reach, then serving this segment will negatively impact profits.
- **It helps determine the marketing mix.** Ideally, when you have identified a market segment, you'll have insight into ways of shaping the combination of product, promotion, price, and place to fit that segment's needs.

If your segmentation approach fails to meet any of these conditions, you should go back to the drawing board to refine it. If any one of these factors is not in place, your market segmentation may actually undermine the effectiveness of your marketing and business. But with all these factors in place, market segmentation will point you toward the most promising customer groups in your target market.

For example, if you're trying to launch a print services company in a large city, targeting "all business owners" isn't cost effective, and the individuals within this group are actually quite different. That means that no single marketing mix will be effective with everyone in this segment. Instead, you would be better served by researching types of businesses (by industry, size, etc.), geographic locations, and other relevant factors to help you identify and target logical segments with shared characteristics.

Keep in mind that market segmentation is an ongoing activity that needs periodic evaluation to ensure that the approach still makes sense. Since markets are dynamic and people and products change over time, the basis for segmentation must also evolve.

## Selecting Target Segments

Rolex focuses on a single market segment—those who want a luxury watch—and is thus a prime example of the concentration strategy of market segmentation.

Once an actionable segmentation approach is in place, marketing organizations typically follow one of two major segmentation strategies: a concentration strategy or a multisegment strategy.

In the concentration strategy, a company chooses to focus its marketing efforts on only one market segment. Only one marketing mix is developed: the combination of product offerings, promotional communications, distribution, and pricing targeted to that single market segment. The primary advantage of this strategy is that it enables the organization to analyze the needs and wants of only one segment and then focus all its efforts on that segment. The primary disadvantage of concentration is that if demand in the segment declines, the organization's sales and financial position will also decline.

In the multisegment strategy, a company focuses its marketing efforts on two or more distinct market segments. The organization develops a distinct marketing mix for each segment. Then they develop marketing programs tailored to each of these segments. This strategy is advantageous because it may increase total sales with more marketing programs targeting more customers. The disadvantage is the higher costs, which stem from the need for multiple marketing programs that may include segment-specific product differentiation, promotions and communication, distribution/delivery channels, and pricing.

How do you choose?

Selecting the target segments boils down the following questions, which connect to the "ideal segment" conditions listed above:

- Whose needs can you best satisfy?
- Who will be the most profitable customers?
- Can you reach and serve each target segment effectively?
- Are the segments large and profitable enough to support your business?
- Do you have the resources available to effectively reach and serve each target segment?

As you answer these questions with regard to the different market segments you have defined, you will confirm which segments are most likely to be good targets for your product(s). These segments become your target market—the object of your targeting strategy, marketing mix, and marketing activities.

## Contributors and Attributions

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# 6.5: Case Study- eHarmony Targets Women

## Segmentation Success: A Dating Web Site for Women

When it was launched in 2000, eHarmony quickly made its mark as a new brand and new category in the online dating landscape: a dating site for the serious relationship seeker, particularly women. By focusing on women as its target segment, eHarmony made wise, profitable choices about its product and user experience to address this group's unique needs.

eHarmony entered an online market dominated by two well-established brands, Match.com and Yahoo, and it seemed to violate all the standard practices and conventional wisdom of the industry at the time. Unlike other dating sites, eHarmony decided not to allow users to search and browse their Web site for potential mates. Instead, it requires participants to complete an exhaustive questionnaire before they can receive any information about prospective suitors.

This process creates a much better user experience for eHarmony's target demographic in a couple ways. First, women don't feel like they are being judged solely on their looks. They perceive that they are being matched according to a complex array of compatibility criteria—not just superficial markers like age or income. Second, the entire eHarmony process is very time-consuming. It takes at least forty minutes to fill out the initial questionnaire, and users must court their potential mates through a series of essay questions and then write reviews of any contenders. By making the process so time-consuming, eHarmony has the natural effect of weeding out non-serious users and helping women to feel less vulnerable. This makes the product much better for the serious female relationship seeker who doesn't want to waste time on or take a chance with casual dating.

In the following eHarmony ad, notice how the company differentiates itself from competitors:

A link to an interactive elements can be found at the bottom of this page.

You can view the transcript for "Free Personality Profile" here (opens in new window).

The result of creating a product suited to women seeking marriage or long-term relationships has had two huge financial benefits for eHarmony. First, they can charge much more and enjoy much better margins than competitors. Because the customer perceives more value in being matched with a "soul mate" than in just being helped to "find a date," eHarmony is able to charge more than other dating sites ($50 per month versus $20 per month). Second, eHarmony is able to generate revenue from women users much more effectively than other dating sites (many of which make most of their money on men): almost 60% of eHarmony's paying users are women.

## Contributors and Attributions

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# CHAPTER OVERVIEW

## 7: Targeting

# 7.1: Target Your Customer - Who's Going to Want It?

## LEARNING OBJECTIVES

After studying this section, students should be able to do the following:

1. *Identify* who customers are by following the targeting process.
2. *Review* the properties of a good market target in order to select the optimal target for marketing and advertising efforts.
3. *Examine* behavioral targeting as a means of determining what consumers want and like.

**Targeting** increases the cost-effectiveness of advertising. Most advertising channels have a cost that is a strong function of the amount of exposure (e.g., the number of people who see the ad) regardless of whether audience members are potential customers or not. Targeting helps define who the customers are. This section explores how the advertiser can:

1. Profile segments:
    1. According to buying power
    2. According to likelihood of buying your product or service
    3. According to likelihood of being attracted by a potential ad
2. Assess the attractiveness of each potential target.
3. Select segment(s) that are both attractive and likely to have a similar favorable response to a given advertising message.

## What Are the Properties of a Good Target?

- *Measurable*: Key variables easily (and accurately) identify and assess the target.
- *Accessible*: The target group must be reachable by advertising.
- *Profitable*: The target group must have sufficient size, willingness to buy, and ability to pay.
- *Distinguishable*: The target group must provide a clearly differentiated segment in terms of percentage of potential customers and coherence of response to potential advertising messages.

### Dig Deeper

In 2007, Japanese auto maker Suzuki began aggressively targeting a new segment: female car buyers in India who now have the income to buy their own vehicles due to India's economic boom. The carmaker's Zen Estilo (Estilo means "style" in Spanish) sells for less than $8,000 and comes in eight colors, including "purple fusion," "virgin blue," and "sparkling olive." For a more modern look, Suzuki gave the car a two-tone dashboard and a front grille design that makes the little car look like it is smiling. Style-conscious drivers can also add rear spoilers, side skirts, and extra colors to the body. Many of Suzuki's foreign competitors ignored this market because they chose to focus on selling mid- to high-end vehicles.Eric Bellman, "Suzuki's Stylish Compacts Captivate India's Women," *Wall Street Journal*, May 11, 2007, B1.

### SS+K Spotlight

While a lot of readers visit msnbc.com, not all are News Explorers. Remember, the News Explorer is the target that msnbc.com and SS+K determined was the best target for the branding campaign.

## Behavioral Targeting: Advertisers Know What You Like (Like It or Not)

The STP process is evolving rapidly as new advances in technology enable advertisers to identify and reach consumers where they live, work, and especially surf (online).

Today, companies define and manage finer and finer segments. In the past, segments had to be broad because it was difficult to reach finer-level segments and because such fine-grain data were not available. Now, companies can process terabytes of data on customers, and new ad channels (such as keyword advertising on the Internet) allow companies to reach smaller segments, down to segments of one (yes, like you).

These three factors fuel the accelerating trend of targeting small, very well-defined segments:

- Growing volume of data on customers
- Rising use of computers and analytic software
- Increasing specificity of advertising channels (e.g., keyword advertising on the Internet)

**Behavioral targeting** refers to putting ads in front of people customized to their Internet use. It's become fairly easy for marketers to tailor the ads you see based on prior Web sites you've visited. The logic is inescapable: you're more likely to respond (and probably appreciate) an ad for an idea, product, or service that's relevant to your needs.

Obviously, privacy concerns arise as advertisers learn more about the sites we visit. But many consumers seem more than happy to trade off some of their personal information in exchange for information they consider more useful to them. More than half of respondents in one recent survey said they're willing to provide demographic information in exchange for a personalized online experience."Consumers Willing to Trade Off Privacy for Electronic Personalization," *Marketing Daily*, http://www.mediapost.com (accessed January 23, 2007). While the ethics of gathering personal information are still being evaluated, behavioral targeting is the next frontier for many advertisers.

- When you (along with 263 million other users) sign up for Microsoft's free e-mail service called Hotmail, the service asks you for personal information including your age, occupation, and address (though you're not required to answer). If you use Microsoft's Live Search search engine, the company keeps a records of the words you search for and the results you clicked on. Microsoft's behavioral targeting system will allow its advertising clients to send different ads to each person surfing the Web. For instance, if a twenty-five-year-old financial analyst living in a big city is comparing prices of cars online, BMW could send her an ad for a Mini Cooper. But it could send a forty-five-year-old suburban businessman with children, who is doing the same search, an ad for the X5 SUV.Aaron O. Patrick, "Microsoft Ad Push Is All About You: 'Behavioral Targeting' Aims to Use Customer Preferences to Hone Marketing Pitches," *Wall Street Journal*, December 26, 2006, B3; Brian Steinberg, "Next Up on Fox: Ads That Can Change Pitch," *Wall Street Journal*, April 21, 2005, B1, http://www.aef.com/industry/news/data/2005/3105; Bob Tedeschi, "Every Click You Make, They'll Be Watching You," *New York Times*, April 3, 2006, http://www.nytimes.com/2006/04/03/business/03ecom.html?ei=5088&en=9e55aeacf695c33a&ex=1301716800&partner=rssnyt&emc= rss&pagewanted=all (accessed November 15, 2008); David Kesmodel, "Marketers Push Online Ads Based on Your Surfing Habits," *Wall Street Journal*, April 5, 2005, cob.bloomu.edu/sbatory/CH%2006%20E%20Mktg%20&%20Customer%20Relationships%202 Oct06%20n48.ppt (accessed November 15, 2008).
- The Fox network offers **tweakable ads** it can digitally alter so they contain elements relevant to particular viewers at the time they watch them. By changing voice-overs, scripts, graphic elements, or other images, advertisers can make an ad appeal to teens in one instance and seniors in another.
- Starwood Hotels & Resorts Worldwide Inc. uses a behavioral targeting campaign to promote spas at its hotels. The hospitality company works with an online media company to deliver ads to Internet users who have browsed travel articles or surfed the Web site of a Starwood-branded hotel like Westin or Sheraton.
- Startup advertising company Pudding Media is testing a service that would let customers make voice-over-Internet protocol (VoIP) calls free, if they agree to let their calls be monitored by speech-recognition software that would then present online ads based on the words it culled from the conversation. The customer would have already supplied Pudding with his or her zip code, age range, and gender, so ads would be targeted by demographics and location, as well as by real-time conversation."Startup Offers Free Calls in Exchange for Eavesdropping," *InformationWeek*, September 24, 2007, http://www.informationweek.com/news/internet/ebusiness/showArticle.jhtml?articleID=202101023 (accessed November 15, 2008).

## Dig Deeper

Behavioral targeting allows advertisers to identify our consumption practices so that they can tailor ads to our precise interests. They argue that this technology increases efficiency, saves money, and reduces advertising bloat because we won't be bombarded with commercial messages for products we don't want. On the other hand, critics of this practice argue that we're "making a deal with the devil" because we're giving companies access to our personal behaviors. This controversy has surfaced on Facebook, which is now sharing data about users' online behaviors with advertisers. What is the current status of this conflict? How can advertisers do a better job of targeting while respecting the privacy of consumers—especially those who don't *want* to be targeted?

## SS+K Spotlight

**Targeting the msnbc.com User**

SS+K was charged with two goals for the new msnbc.com campaign: increase the number of unique viewers who visit the site, and increase the number of clicks per visit among current msnbc.com users.

To refine their understanding of how to develop the msnbc.com proposition, SS+K enlisted the aid of Energy Infuser, a market research company in Chicago that specializes in unearthing consumer insights through qualitative methods such as focus groups, projective techniques, and consumer diaries. A number of "triads" (groups of three consumers) were recruited and agreed to offer their time and consumer experiences of online information seeking. Through analysis of the group's transcripts, the SS+K team developed a better sense of why a user might choose msnbc.com over other options: relative to competitors like bland news aggregators and "cold" and "serious" CNN.com, msnbc.com virtually sparkled with energy and personality. The site was inviting for users who enjoyed browsing for news and tidbits, including lighthearted information on entertainment, fashion, and sports.

### Video Spotlight

*Michelle Rowley: The Research Epiphany*

(click to see video)

*Choosing One from Among Many: Target Defined*

*Michelle describes consumer insights and how one triad participant helped to clarify just who the client's key user is and how the brand should speak to its target.*

*You can see media coverage of consumer focus groups at Energy Infuser here: www.energyinfuser.com/video/InfuseronNBC.wvx).*

*Ultimately, the target audience—now called the News Explorer—reflected observations about the typical msnbc.com user and what the site had to offer that set it apart from its primary competition. The profile was developed in dialogue with consumers through research approaches and, finally, through negotiation of research findings among client/agency team members.*

### Key Takaway

Targeting is the process of selecting the customers whose needs you're likely to satisfy. Targets need to be easily identifiable and measurable. As technology continues to develop, behavioral targeting that allows advertisers to customize messages and products to the needs of each individual will become a more central part of advertisers' strategies.

### EXERCISES

1. Targeting helps define who the customers are. Targeting calls for the advertiser to take three steps. Describe and detail each of those three steps.
2. Good target markets have a series of properties that make them very attractive to advertisers and marketers. Describe and detail the four properties of a good target market.
3. Discuss the logic of using behavioral targeting to reach consumers. Be specific in your discussion.

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# 7.2: Targeting and Marketing Mix

## Using the Marketing Mix to Reach Target Segments

Once target segments are identified, the marketing manager selects a targeting strategy that will be the best fit for reaching them. Targeted marketing enables the marketing and sales teams to customize their message to the targeted group(s) of consumers in a focused manner. The targeting strategy is where the marketing mix comes together to create the right offer and marketing approach for each target segment. A summary of common targeting strategies is provided in the table below.

Common Target Strategies

| **Strategy** | **Target Market** | **Example** |
|---|---|---|
| Mass marketing | Everybody everywhere | Target |
| Differentiated marketing | Large groups within the total market | Costco, Sam's Club |
| Niche marketing | High penetration within smaller, specialized segments | Trader Joe's, Whole Foods |
| Micromarketing | Individual customers or localized microsegments | Groupon |

### Mass Marketing

Mass marketing, also called *undifferentiated marketing*, involves marketing to the entire market the same way. Mass marketing effectively ignores segmentation and instead generates a single offer and marketing mix for everyone. The market is treated as a homogeneous aggregate. Mass marketing aims to reach the largest audience possible, and exposure to the product is maximized. In theory, this would directly correlate with a larger number of sales or buy-in to the product.

Mass marketing tries to spread a marketing message to anyone and everyone willing to listen. Communication tends to be less personal, as evidenced by common mass-marketing tactics: national television, radio and print advertising campaigns; nationally focused coupons; nationally focused point-of-purchase displays. The success of mass-marketing depends on whether it is possible to reach enough people, through mass-communication techniques and one universal product offer, to keep them interested in the product and make the strategy worthwhile. While mass-marketing tactics tend to be costly because they operate on a large scale, this approach yields efficiencies and cost savings for companies because it requires the marketing team to execute only one product offer and marketing mix.

All-purpose toothpaste isn't targeted to one particular market segment.

For certain types of widely consumed items (e.g., gasoline, soft drinks, white bread), the undifferentiated market approach makes the most sense. For example, toothpaste (such as the brands Crest and Colgate) isn't made specially for one consumer segment, and it is sold in huge quantities. The manufacturer's goal is to get more people to select and buy their particular brand over another when they come to the point of purchase. Walk through any supermarket, and you will observe hundreds of grocery products, especially generic items, that are perceived as nearly identical by the consumer and are treated as such by the producer. Many mass-marketed items are considered staple or “commodity” items. People buy new ones when the old ones wear out or are used up, and mass-marketed brand loyalty might be the primary driver when they decide which replacement product to purchase.

### Differentiated Marketing

A differentiated marketing strategy is one in which the company decides to provide separate offerings to each different market segment that it targets. It is also called multisegment marketing. Each segment is targeted in a particular way, as the company provides unique benefits to different segments. The goal is to help the company increase sales and market share across each segment it targets. Proctor and Gamble, for example, segments some of its markets by gender, and it has separate product offerings and marketing plans for each: Secret-brand deodorant for women, and Rogaine (a treatment for hair loss) for men.[1]

When it is successful, differentiated marketing can create a very strong, entrenched market presence that is difficult for competitors to displace because of consumers’ strong affinity for products and offers that meet the unique needs of their segment. A differentiated strategy can be a smart approach for new companies that enter a market and lure customers away from established players to capture share in a large overall market. Often, established companies become vulnerable to new competitors because they don’t give sufficient attention to the perfect marketing mix for any given market segment.

However, differentiated marketing is also very expensive. It carries higher costs for the company because it requires the development of unique products to fit each target segment. Likewise, each unique product and market segment requires its own marketing plans and execution: unique messages, campaigns, and promotional tactics and investments. Costs can add up quickly, especially if you are targeting a lot of unique market segments.

#### Chinese Oreos

For a large company such as Kraft, the cost of this kind of marketing is well worth it, since its products are sold all over the world. An example of its differentiated marketing strategy are the many surprising variations of the famous Oreo cookie developed for the Chinese market. Consumers there can enjoy Oreos with cream flavors such as green-tea ice cream, raspberry-blueberry, mango-orange, and grape-peach. All of these Oreo formulations have been heavily market tested and are based on the unique preferences of Chinese consumers. [2]

### Niche Marketing

Niche marketing (also called concentrated marketing) is a strategy that targets only one or a few very defined and specific segments of the consumer population. The goal is to achieve high penetration among the narrowly defined target segments. For example, the manufacturer of Rolex watches has chosen to concentrate on only the luxury segment of the watch market.

An organization that adopts a niche strategy gains an advantage by focusing all efforts on only one or a small handful of segments. All of their market analysis, product development, marketing strategy, and tactics concentrate on serving that select part of the market. When they do it well, this approach can provide a differential advantage over other organizations that don’t concentrate all their efforts on the “niche” segment(s). Niche targeting is particularly effective for small companies with limited resources, as it does not require the use of mass production, mass distribution, or mass advertising. When a company is highly successful in desirable “niche” market segments, it can be very profitable.

Ralph Lauren store, London

The primary disadvantage of niche marketing is that it makes companies vulnerable to demand in the narrow market segments they serve. As long as demand is robust, the organization’s financial position will be strong. But if something changes and demand drops off, the company has nothing to cushion it from financial hardship. Since the company has focused all efforts on one market (essentially putting all their eggs in one basket), the firm is always somewhat at risk. Such companies are especially vulnerable to small shifts in population or consumer tastes, which can greatly affect their position (for better or for worse). Large competitors with deeper pockets may choose to enter a market and use their size and resources to put smaller, niche players out of business. To insulate themselves from this type of risk, many companies pursing a niche strategy may target multiple segments.

Luxury-goods providers are a great illustration of the challenges of the niche marketing strategy. When economic recessions occur, luxury-goods providers like Rolex, Chanel, and Armani routinely struggle financially because their narrow segment of "luxury" consumers has less disposable income. When fickle consumer tastes shift from Ralph Lauren to Dolce & Gabanna to Prada (and back again), the company's profitability can hang in the balance.

### Micromarketing

Micromarketing is a targeting strategy that focuses even more narrowly than niche marketing. It caters to the needs of individuals ("individual marketing") or very small segments in a targeted geography ("local marketing"). Micromarketing can be very powerful by giving consumers exactly what they want, when they want it. However, to achieve large-scale success with this approach, companies must figure out how to meet highly individualized needs efficiently and profitably.

**Individual marketing** is sometimes referred to as "mass customization" or "one-to-one marketing." With this approach, companies offer consumers a product created to their individual specifications. For example, Build-A-Bear Workshop invites children to create their own custom stuffed animals. A child can select the type of animal, from teddy bear to unicorn, along with color, size, clothing, and other accessories. Creators of handmade goods on Etsy.com take orders from buyers who may request variations on the individually crafted jewelry, clothing, toys, and other items displayed on the Web site. In the following video, Etsty CEO, Chad Dickerson, explains what makes the company's approach unique.

A YouTube element has been excluded from this version of the text. You can view it online here: pb.libretexts.org/pom2/?p=176

You can view the transcript for "Etsy Business" (opens in new window).

Achieving wide-scale success with individual marketing requires product providers to develop production strategies and an entire marketing mix that can ramp up as demand grows. Frequently this involves offering a baseline product with parameters customers can customize to fit their needs. For example, you can order custom M&M candies , selecting colors, packaging, and even custom-printed with words or images you select. The advent of digital print technologies has also made mass customization a viable targeting strategy for companies like Vistaprint and Sticker Mule. They provide custom print materials, stickers, decals and other printed products for businesses and individuals using designs created and uploaded by customers. Their primary messaging emphasizes custom products designed by and for individual customers, matching their unique needs and preferences.

**Local marketing** is a targeting strategy focused expressly on a small, clearly defined neighborhood or geographic area. Organizations using this technique strive to generate a strong local presence, and targets may include any person or organization within that small area.

A weekly produce share from Suzie's Farm, a CSA in California

Groupon and Amazon Local are excellent examples of local marketing. Both online services partner with local businesses to promote timely offers and special pricing for individuals living in a designated geographic area. Limited-time and limited-quantity deals may include restaurant meals, spa treatments, performances, recreational activities, lessons, hotel accommodations, and a wide variety of other local area products and services. These local marketing companies earn revenue when consumers purchase and redeem the special offers in their neighborhood or city. Another example are farm cooperatives and CSAs (community-supported agriculture shares), which virtually always use a local marketing strategy. They market locally grown produce and farm-fresh goods to people residing in the immediate community, and their ongoing goal is to increase local supply and demand for healthy, local, farm-fresh food and produce.

## Applying the Marketing Mix to Target Segments

With any of the strategies described above, the marketing team must come together to develop a marketing mix tailored to the needs of each segment being targeted. This marketing mix is the unique combination of product, promotion, place, and price


designed expressly to fit a designated market segment.

**? ? Try It**

This course will explore each element of the marketing mix in further detail in other modules. However, the following questions can help you start down the path toward shaping the marketing mix to fit your target segments.

### Product

- What would make the ideal product for your target segment?
- What special features or capabilities are critical for this segment?
- What unique problems does your product help this segment solve?

### Promotion

- What are the best ways to get your target segment's attention?
- What do you want this segment to remember about your product?

Place / Distribution

- Where does this segment look or shop for your product?
- What is the best way to get your product to your target customers?

Price

- What price(s) are your target customers willing to pay for your product?
- How much is too expensive? How much is too cheap?

As you consider each of these questions, you generate ideas for altering the marketing mix to appeal to your target segment.

## Example: Alumni Charitable Giving

Let's see how this works in practice. A university alumni organization embarks on a fund-raising campaign to generate funding for the strategic expansion of new and existing university programs. The baseline "product" this organization sells is charitable giving: an affiliation with the university, a tax deductible charitable donation, and the honor of contributing to a worthy philanthropic cause.

For the coming year, the alumni organization decides to use a niche marketing strategy. Specifically, it will target alumni with significant upcoming reunions or years since graduation: 5 years, 10 years, 15 years, 20 years, 25 years, 30 years, and so forth. The organization chooses to tailor the marketing mix as follows:

- **Product:** The ideal product for these alumni isn't just a generic philanthropic donation. Instead, it is a giving opportunity that reflects their significant anniversary. For this reason, the alumni organization introduces a new "product" or type of donation opportunity: a class legacy fund that encourages alumni to contribute with other classmates to a common fund. When they do, they can select the areas they want their donation to benefit, such as scholarships, library, technology, and endowed professorship, etc.
- **Promotion:** Getting the attention of busy alumni scattered across the world is a challenge. People are most likely to pay attention when a message is coming from someone they know personally, and so the alumni organization decides to capitalize on classmate relationships. It recruits several well-connected people from each class to post on social media and send email messages to fellow classmates about an upcoming reunion as well as the legacy-fund donation opportunity. The email message asks people to share with other former classmates who may not have heard about the reunion and class legacy fund. Hopefully, this message begins to go viral, working through pre-existing networks to spread the word. The organization also sends a letter about the class legacy fund to older alumni who are less likely to be active with email or digital technology.
- **Place/Distribution:** As people learn about the class legacy fund, the alumni organization wants to make sure the donation opportunity is easy for anyone to act on. For this reason, they offer a variety of different ways to contribute: mail a check; dial a phone number; donate on a Web site using PayPal or a credit card; donate via phone using a mobile app. People can even come to the annual reunion activities and contribute to the legacy fund in person.
- **Price:** For a voluntary donation, "price" can be tricky. On one hand, the alumni organization wants to encourage donations of any size to the class legacy funds, no matter how small. On the other hand, it also wants to encourage alumni to consider making larger donations when possible. Based on publicly available income data, the alumni organization recognizes that most recent graduates have lower average salaries and disposable income compared to those who have been working their fields for a decade or more. Acting on this information, it adjusts the range of "suggested donation" levels for each class. Recent alumni marking a 5-year anniversary are invited to contribute between $25 and $250. Alumni marking 10- and 15-year anniversaries are invited to contribute between $50 and $500 to class legacy funds. Alumni with 20 or more years see suggested donation amounts ranging from $150 to $2,500 or more.

Thoughtful consideration of the four Ps leads to a successful launch of the alumni organization's class legacy funds. Because the alumni organization has tailored the product, promotional strategy, placement, and pricing to the interests of the target segments, the effort is much more successful than the all-purpose, generic, "please donate to your alumni organization" campaign used in the past. In this example, wise targeting strategy works hand-in-hand with the marketing mix to yield better results.

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2. Eric Jou,Jou, Eric. "The Wonderfully Weird World Of Chinese Oreos." Kotaku. Kotaku, October 1, 2012. http://kotaku.com/5947767/the-wonderfully-weird-world-of-chinese-oreos. ↵


## Contributors and Attributions

# 7.3: Target Market Selection

Few companies can afford to enter all markets open to them. Even the world's largest companies such as General Electric or Nestlé must exercise strategic discipline in choosing the markets they serve. They must also decide when to enter them and weigh the relative advantages of a direct or indirect presence in different regions of the world. Small and midsized companies are often constrained to an indirect presence; for them, the key to gaining a global competitive advantage is often creating a worldwide resource network through alliances with suppliers, customers, and, sometimes, competitors. What is a good strategy for one company, however, might have little chance of succeeding for another.

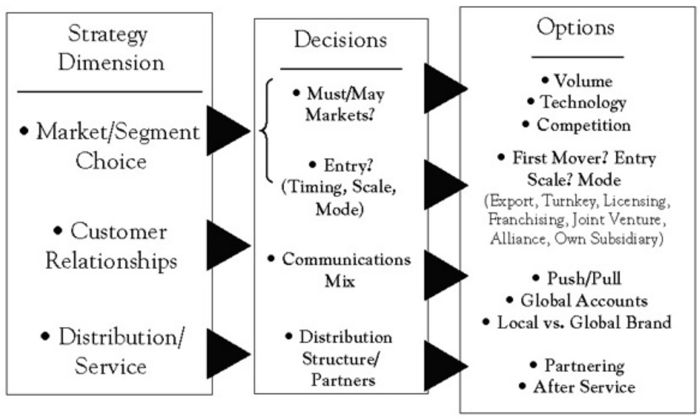


Figure 7.3.1: Market Participation

The track record shows that picking the most attractive foreign markets, determining the best time to enter them, and selecting the right partners and level of investment has proven difficult for many companies, especially when it involves large emerging markets such as China. For example, it is now generally recognized that Western carmakers entered China far too early and overinvested, believing a "first-mover advantage" would produce superior returns. Reality was very different. Most companies lost large amounts of money, had trouble working with local partners, and saw their technological advantage erode due to "leakage." None achieved the sales volume needed to justify their investment.

Even highly successful global companies often first sustain substantial losses on their overseas ventures, and occasionally have to trim back their foreign operations or even abandon entire countries or regions in the face of ill-timed strategic moves or fast-changing competitive circumstances. Not all of Wal-Mart's global moves have been successful, for example—a continuing source of frustration to investors. In 1999, the company spent $10.8 billion to buy British grocery chain Asda. Not only was Asda healthy and profitable, but it was already positioned as "Wal-Mart lite." Today, Asda is lagging well behind its number-one rival, Tesco. Even though Wal-Mart's UK operations are profitable, sales growth has been down in recent years, and Asda has missed profit targets for several quarters running and is in danger of slipping further in the UK market.

This result comes on top of Wal-Mart's costly exit from the German market. In 2005, it sold its 85 stores there to rival Metro at a loss of $1 billion. Eight years after buying into the highly competitive German market, Wal-Mart executives, accustomed to using Wal-Mart's massive market muscle to squeeze suppliers, admitted they had been unable to attain the economies of scale it needed in Germany to beat rivals' prices, prompting an early and expensive exit.

What makes global market selection and entry so difficult? Research shows there is a pervasive the-grass-is-always-greener effect that infects global strategic decision making in many, especially globally inexperienced, companies and causes them to overestimate the attractiveness of foreign markets. (Ghemawat (2001)). As noted in Chapter 1, "distance," broadly defined, unless well-understood and compensated for, can be a major impediment to global success: cultural differences can lead companies to overestimate the appeal of their products or the strength of their brands; administrative differences can slow expansion plans, reduce the ability to attract the right talent, and increase the cost of doing business; geographic distance impacts the effectiveness of communication and coordination; and economic distance directly influences revenues and costs.

A related issue is that developing a global presence takes time and requires substantial resources. Ideally, the pace of international expansion is dictated by customer demand. Sometimes it is necessary, however, to expand ahead of direct opportunity in order to secure a long-term competitive advantage. But as many companies that entered China in anticipation of its membership in the World Trade Organization have learned, early commitment to even the most promising long-term market makes earning a satisfactory return on invested capital difficult. As a result, an increasing number of firms, particularly smaller and midsized ones, favor global expansion strategies that minimize direct investment. Strategic alliances have made vertical or horizontal integration less important to profitability and shareholder value in many industries. Alliances boost contribution to fixed cost while expanding a company's global reach. At the same time, they can be powerful windows on technology and greatly expand opportunities to create the core competencies needed to effectively compete on a worldwide basis.

Finally, a complicating factor is that a global evaluation of market opportunities requires a multidimensional perspective. In many industries, we can distinguish between "must" markets—markets in which a company must compete in order to realize its global ambitions—and "nice-to-be-in" markets—markets in which participation is desirable but not critical. "Must" markets include those that are critical from a *volume* perspective, markets that define *technological leadership*, and markets in which key *competitive* battles are played out. In the cell phone industry, for example, Motorola looks to Europe as a primary competitive battleground, but it derives much of its technology from Japan and sales volume from the United States.

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# 7.4: Measuring Market Attractiveness

Four key factors in selecting global markets are (a) a *market's size and growth rate*, (b) a particular country or region's *institutional contexts*, (c) a region's competitive environment, and (d) a market's *cultural, administrative, geographic*, and *economic distance* from other markets the company serves.

## Market Size and Growth Rate

There is no shortage of country information for making market portfolio decisions. A wealth of country-level economic and demographic data are available from a variety of sources including governments, multinational organizations such as the United Nations or the World Bank, and consulting firms specializing in economic intelligence or risk assessment. However, while valuable from an overall investment perspective, such data often reveal little about the prospects for selling products or services in foreign markets to local partners and end users or about the challenges associated with overcoming other elements of distance. Yet many companies still use this information as their primary guide to market assessment simply because country market statistics are readily available, whereas real product market information is often difficult and costly to obtain.

What is more, a country or regional approach to market selection may not always be the best. Even though Theodore Levitt's vision of a global market for uniform products and services has not come to pass, and global strategies exclusively focused on the "economics of simplicity" and the selling of standardized products all over the world rarely pay off, research increasingly supports an alternative "global segmentation" approach to the issue of market selection, especially for branded products. In particular, surveys show that a growing number of consumers, especially in emerging markets, base their consumption decisions on attributes beyond direct product benefits, such as their perception of the global brands behind the offerings.

Specifically, research by John Quelch and others suggests that consumers increasingly evaluate global brands in "cultural" terms and factor three global brand attributes into their purchase decisions: (a) what a global brand signals about quality, (b) what a brand symbolizes in terms of cultural ideals, and (c) what a brand signals about a company's commitment to corporate social responsibility. This creates opportunities for global companies with the right values and the savvy to exploit them to define and develop target markets across geographical boundaries and create strategies for "global segments" of consumers. Specifically, consumers who perceive global brands in the same way appear to fall into one of four groups:

1. *Global citizens* rely on the global success of a company as a signal of quality and innovation. At the same time, they worry whether a company behaves responsibly on issues like consumer health, the environment, and worker rights.
2. *Global dreamers* are less discerning about, but more ardent in their admiration of, transnational companies. They view global brands as quality products and readily buy into the myths they portray. They also are less concerned with companies' social responsibilities than global citizens.
3. *Antiglobals* are skeptical that global companies deliver higher-quality goods. They particularly dislike brands that preach American values and often do not trust global companies to behave responsibly. Given a choice, they prefer to avoid doing business with global firms.
4. *Global agnostics* do not base purchase decisions on a brand's global attributes. Instead, they judge a global product by the same criteria they use for local brands.Quelch (2003, August); Holt, Quelch, and Taylor (2004, September).

Companies that use a "global segment" approach to market selection, such as Coca-Cola, Sony, or Microsoft, to name a few, therefore must manage two dimensions for their brands. They must strive for superiority on basics like the brand's price, performance, features, and imagery, and, at the same time, they must learn to manage brands' global characteristics, which often separate winners from losers. A good example is provided by Samsung, the South Korean electronics maker. In the late 1990s, Samsung launched a global advertising campaign that showed the South Korean giant excelling, time after time, in engineering, design, and aesthetics. By doing so, Samsung convinced consumers that it successfully competed directly with technology leaders across the world, such as Nokia and Sony. As a result, Samsung was able to change the perception that it was a down-market brand, and it became known as a global provider of leading-edge technologies. This brand strategy, in turn, allowed Samsung to use a global segmentation approach to making market selection and entry decisions.

## Institutional Contexts (Khanna, Palepu, and Sinha (2005)).

Khanna and others developed a five-dimensional framework to map a particular country or region's institutional contexts. Specifically, they suggest careful analysis of a country's (a) *political and social systems*, (b) *openness*, (c) *product markets*, (d) *labor markets*, and (e) *capital markets*.

A country's political system affects its product, labor, and capital markets. In socialist societies like China, for instance, workers cannot form independent trade unions in the labor market, which affects wage levels. A country's social environment is also important. In South Africa, for example, the government's support for the transfer of assets to the historically disenfranchised native African community has affected the development of the capital market.

The more open a country's economy, the more likely it is that global intermediaries can freely operate there, which helps multinationals function more effectively. From a strategic perspective, however, openness can be a double-edged sword: a government that allows local companies to access the global capital market neutralizes one of the key advantages of foreign companies.

Even though developing countries have opened up their markets and grown rapidly during the past decade, multinational companies struggle to get reliable information about consumers. Market research and advertising are often less sophisticated and, because there are no well-developed consumer courts and advocacy groups in these countries, people can feel they are at the mercy of big companies.

Recruiting local managers and other skilled workers in developing countries can be difficult. The quality of local credentials can be hard to verify, there are relatively few search firms and recruiting agencies, and the high-quality firms that do exist focus on top-level searches, so companies scramble to identify middle-level managers, engineers, or floor supervisors.

Capital and financial markets in developing countries often lack sophistication. Reliable intermediaries like credit-rating agencies, investment analysts, merchant bankers, or venture capital firms may not exist, and multinationals cannot count on raising debt or equity capital locally to finance their operations.

Emerging economies present unique challenges. Capital markets are often relatively inefficient and dependable sources of information, scarce while the cost of capital is high and venture capital is virtually nonexistent. Because of a lack of high-quality educational institutions, labor markets may lack well-trained people requiring companies to fill the void. Because of an underdeveloped communications infrastructure, building a brand name can be difficult just when good brands are highly valued because of lower product quality of the alternatives. Finally, nurturing strong relationships with government officials often is necessary to succeed. Even then, contracts may not be well enforced by the legal system.

## Competitive Environment

The number, size, and quality of competitive firms in a particular target market compose a second set of factors that affect a company's ability to successfully enter and compete profitably. While country-level economic and demographic data are widely available for most regions of the world, competitive data are much harder to come by, especially when the principal players are subsidiaries of multinational corporations. As a consequence, competitive analysis in foreign countries, especially in emerging markets, is difficult and costly to perform and its findings do not always provide the level of insight needed to make good decisions. Nevertheless, a comprehensive competitive analysis provides a useful framework for developing strategies for growth and for analyzing current and future primary competitors and their strengths and weaknesses.

### Minicase: Which BRIC Countries? A Key Challenge for Carmakers (Haddock and Jullens (2009)).

Today, automobile manufacturers face a critical challenge: deciding which BRIC countries (Brazil, Russia, India, and China) to bet on. In each, as per capita income rises, so will per capita car ownership—not in a straight line but in classic "S-curve" fashion. Rates of vehicle ownership stay low during the first phases of economic growth, but as the GDP or purchasing power of a country reaches a level of sustained broad prosperity, and as urbanization reshapes the work patterns of a country, vehicle sales take off. But that is about where the similarities end. Each of the four BRIC nations has a completely different set of market and industry dynamics that make decision choices about which countries to target, including making difficult decisions about which markets to avoid, extremely difficult.

For one thing, vehicle manufacturing is a high-profile industry that generates enormous revenue, employs millions of people, and is often a proxy for a nation's manufacturing prowess and economic influence. Governments are extensively involved in regulating or influencing virtually every aspect of the product and the way the industry operates—including setting emissions and safety standards, licensing distributors, and setting tariffs and rules about how much manufacturing must take place locally. This reality makes the job of understanding each market and appreciating the differences more vital. For example, a summary overview of the BRIC nations reveals the differences among these markets and the operating complexities in all of them.

*Brazil*, with Russia, is one of the smaller BRIC countries, with 188 million people (by comparison, China and India each have more than 1 billion, Russia has 142 million). Yet car usage is already relatively high: 104 cars in use per 1,000 people, nearly 10 times the rate of usage in India, according to the *Economist* Intelligence Unit. Because of this, growth projections for Brazil are relatively low—more in line with developed nations than with the other BRIC countries. Projections made by the industry research firm Global Insight show that sales will grow just 2% until 2013, underperforming even the U.S. market's projected growth rate.

On the plus side, Brazil is socioeconomically stable, with increasing wealth and a maturing finance system that is helping to propel growth among rural, first-time buyers who prefer compact cars. Few domestic brands exist, as the market is dominated by GM, Ford, Fiat, and Volkswagen. Prompted by generous government incentives, high import taxes, and exchange rate risks, foreign automakers have invested significantly in Brazil, which has thus become an unrivaled production hub for the rest of South America. Brazilian consumers live in a country with large rural areas and very rough terrain; they demand fairly large, SUV-like cars, made with economical small engines and flex-fuel power trains friendly to the country's biofuel industry. When a Latin American family buys its first automobile, chances are it was made in Brazil.

*Russia*, even though it is the smallest of the BRIC countries in population, has the highest auto adoption of the four: 213 cars in use per 1,000 people. (Western Europe, by comparison, has 518, according to the *Economist Intelligence Unit*.) Yet Global Insight expects future sales growth to average 6.5% from 2008 to 2013, far outpacing Brazil (2%), Western Europe (1.2%), and Japan and Korea (0.2%).

Given Russia's proximity to Europe, consumer preferences there are more akin to those of the developed markets than to those of China or India, and expensive, status-enhancing European models remain popular, although European safety features, interior components, and electronics are often stripped out to reduce costs. For vehicle manufacturers, the attractions of the Russian market include an absence of both local partnership requirements and significant local competitors. But there is high political risk. So far, the Russian government has permitted foreign carmakers to operate relatively freely, but the Kremlin's history of meddling in private enterprise and undercutting private ownership worries some executives. These concerns were heightened in November 2008, when Russia implemented tariffs against car imports in hopes of avoiding layoffs that might spark labor unrest among the country's 1.5 million car industry workers.

*India* has 1.1 billion people, but its level of car adoption is still low, with only 11 cars in use per 1,000 people. The upside is higher potential growth: among the BRIC countries, India is expected to have the fastest-growing auto sales, almost 15% per year until 2013, according to Global Insight. Sales of subcompact cars are strong, even during the global recession. The popularity of these small cars combines with India's energy shortages and the country's chronic pollution to provide foreign carmakers with an ideal opportunity to further develop electric power-train technologies there.

Until the early 1990s, foreign automobile manufacturers were mostly shut out of India. That has changed radically. Today, foreign automakers are welcomed and the government promotes foreign ownership and local manufacturing with tax breaks and strong intellectual property protection. And because foreign companies were shut out for a long period of time, India has capable manufacturers and suppliers for foreign vehicle manufacturers to partner with. Local competition is strong but is thus far concentrated among three players: Maruti Suzuki India, Ltd., Tata, and the Hyundai Corporation, which is well established in India.

*China* is almost as large as the other three combined in total auto sales and production. Its overall auto usage is just 18 cars per 1,000 households, but annual sales growth until 2013 is expected to be almost 10%. Its size and growth potential make China a dominant force in the industry going forward; new models and technologies developed there will almost certainly become available elsewhere.

But the Chinese government plays a central role in shaping the auto industry. Current ownership policies mandate that foreign vehicle manufacturers enter into 50-50 joint ventures with local automakers, and poor intellectual property rights enforcement puts the design and engineering innovations of foreign car companies at constant risk. At the same time, to cope with energy shortages and rampant pollution, the Chinese government is strongly encouraging research and development on alternative power trains, including electric cars and gasoline-electric hybrids. As a result, Chinese car companies may develop significant power-train capabilities ahead of their competitors.

Like their Indian counterparts, Chinese car companies have outpaced global automakers in developing cars specifically for emerging markets. A few Western companies, like Volkswagen AG, which has sold its Santana models in China through a joint venture (Shanghai Volkswagen Automotive Company) since 1985, are competitive. Some Chinese carmakers, like BYD

Company, aspire to become global leaders in the industry. But many suffer from a talent shortage and inexperience in managing across borders. This may prompt them to acquire all or part of distressed Western automobile companies in the near future or to hire skilled auto executives from established companies and their suppliers.

In short, each of the four BRIC nations has a completely different set of market and industry dynamics. And the same is true for the other developing nations. Meanwhile, the number of autos in use in the developing world is projected to expand almost six-fold by 2018.

## Cultural, Administrative, Geographic, and Economic Distance

Explicitly considering the four dimensions of *distance* introduced in Chapter 1 can dramatically change a company's assessment of the relative attractiveness of foreign markets. In his book *The Mirage of Global Markets*, David Arnold describes the experience of Mary Kay Cosmetics (MKC) in entering Asian markets. MKC is a direct marketing company that distributes its products through independent "beauty consultants" who buy and resell cosmetics and toiletries to contacts either individually or at social gatherings. When considering market expansion in Asia, the company had to choose: enter Japan or China first? Country-level data showed Japan to be the most attractive option by far: it had the highest per capita level of spending on cosmetics and toiletries of any country in the world, disposable income was high, it already had a thriving direct marketing industry, and it had a high proportion of women who did not participate in the work force. MKC learned, however, after participating in both markets, that the market opportunity in China was far greater, mainly because of economic and cultural distance: Chinese women were far more motivated than their Japanese counterparts to boost their income by becoming beauty consultants. Thus, the entrepreneurial opportunity represented by what MKC describes as "the career" (i.e., becoming a beauty consultant) was a far better predictor of the true sales potential than high-level data on incomes and expenditures. As a result of this experience, MKC now employs an additional business-specific indicator of market potential within its market assessment framework: the average wage for a female secretary in a country.Arnold (2004), p. 34.

MKC's experience underscores the importance of analyzing distance. It also highlights the fact that different product markets have different success factors: some are brand-sensitive while pricing or intensive distribution are key to success in others. Country-level economic or demographic data do not provide much help in analyzing such issues; only locally gathered marketing intelligence can provide true indications of a market's potential size and growth rate and its key success factors.

### Minicase: Tata Making Inroads Into China (Chow (2008, April 28)).

Not content with just India, Mumbai-based Tata Group, the maker of the $2,500 Nano small car, is developing a small car for China. The platform is being designed and developed by a joint Indian and Chinese team based in China. The alliance won a new project for the complete design and development of a vehicle platform for a leading original equipment manufacturer for a small car for the China's domestic market. The team is integrating components in automotive modules to radically improve manufacturability and bring down total cost.

Meanwhile, in 2009, Nanjing Tata AutoComp Systems began supplying automotive interior products to Shanghai General Motors and Changan Ford Automobile Company Products, including plastic vents, outlet parts, and cabin air-ventilation grilles. In the same year, Nanjing Tata began supplying General Motors Corporation in Europe. Eventually, the plant will supply global automakers in North America and Europe as well as emerging markets such as China.

Nanjing Auto is a wholly owned subsidiary of Tata AutoComp Systems, which is the automotive part manufacturing arm of India's Tata Motors. The company has 30 manufacturing facilities, mainly in India, and production capabilities in automotive plastics and engineering. It also has 15 joint ventures with Tier 1 supplier companies, mainly in India.

The company has almost completed construction of the 280,000-square-foot Nanjing plant at a cost of approximately $15 million. The first phase included capacity to make parts for air vents, handles, cupholders, ashtrays, glove boxes, and floor consoles. When completed, the plant will have double the current capacity and will also produce instrument panels, door panels, and larger parts. The plant is operated by local Chinese employees; only a few managers are Indian.

In its bid to become a $1 billion global automotive supplier by 2008, Tata AutoComp had to expand into China. Total passenger car sales in India in 2007 were slightly more than 1.4 million units; in China, the number was more than 5.2 million units, according to data from Automotive Resources Asia, a division of J.D. Power and Associates. Tata Motors sold 221,256 passenger cars in India in 2007. In the same year, Shanghai General Motors sold 495,405 cars. "We see huge potential in

> China. To us, China is not just a manufacturing base, but a window to the global market. Our investments are keeping this promising future in mind,'" says the Tata AutoComp's chief executive officer.

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# 7.5: Case Study- Red Bull Wins the "Extreme" Niche

## Background

Red Bull is an Austria-based company started in 1987 by Dietrich Mateschitz that sells one product: an energy drink containing taurine (an amino acid) that's sold in a slim, silver-colored 8.3-ounce can. The drink has been an enormous hit with the company's target youth segment around the globe. In the year 2018, Red Bull boasted sales of $1.06 billion USD in the United States alone[1], and has held the majority of the energy-drink market share for years, with a 35.3% market share in 2019 (Monster Energy, their closest competitor, held 25.4%).[2] From Stanford University in California to the beaches of Australia and Thailand, Red Bull has managed to maintain its hip, cool image, with virtually no mass-market advertising.

## Red Bull's Targeted Approach to Marketing

"Red Bull. It gives you wings." Over the years, Red Bull has organized extreme sports events (like cliff diving in Hawaii and skateboarding in San Francisco), parties, and even music festivals to reinforce the brand's extreme, on-the-edge image. In 2012, they sponsored Felix Baumgartner's record-setting freefall from 128,000 feet:

(Note that the following video has limited narration. Access audio description using the widget below the video.)

A link to an interactive elements can be found at the bottom of this page.

You can view the transcript for "Felix Baumgartner's supersonic freefall from 128k' – Mission Highlights" here (opens in new window) or the text alternative for "Felix Baumgartner's supersonic freefall from 128k' – Mission Highlights" (opens in new window).

Their grass-roots approach to reaching the youth market worked: "In terms of attracting new customers and enhancing consumer loyalty, Red Bull has a more effective branding campaign than Coke or Pepsi," said Nancy F. Koehn, author of *Brand New: How Entrepreneurs Earned Consumers' Trust from Wedgwood to Dell*. Red Bull's success has also gained attention (and concern) among beverage-industry giants, and some have tried to follow its lead: For a time Coke ran a stealth marketing campaign, packaging its cola in a slim can reminiscent of Red Bull and offering it to customers in trendy bars and clubs in New York City.

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1. "Red Bull Energy Drink Sales U.S., 2015–2018." Statista. Accessed September 25, 2019. https://www.statista.com/statistics/558082/us-sales-of-red-bull-energy-drinks/. ↵
2. "Energy Drink Market Share in the US in 2019." Statista. Accessed September 25, 2019. https://www.statista.com/statistics/306864/market-share-of-leading-energy-drink-brands-in-the-us-based-on-case-volume-sales/. ↵

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# CHAPTER OVERVIEW

## 8: Positioning



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# 8.1: Position Your Brand- Why Will They Want It?

## LEARNING OBJECTIVES

After studying this section, students should be able to do the following:

1. *Define* positioning relative to brand differentiation.
2. *Use* three positioning dimensions to relate to a brand's strategic objectives.

**Positioning** means developing a strategy to influence how a particular market segment perceives a good or service in comparison to the competition. Positioning increases potential ad effectiveness by clarifying the message. This step is all about defining a space in the mind of the customer—something that your customer thinks of and associates with your product.

## It's All Relative

Remember that positioning doesn't just mean what your target market thinks about your product. Rather, it's about how she thinks about it relative to competitors' products—your product is less expensive, performs better, or fits better with the customer's lifestyle. Positioning often relates to a brand's strategic objectives. Looking back at our previous discussion of behavioral segmentation, the advertiser might think about potential customers in terms like these:

- *Does not use* the advertised product category—the company wants to convert nonusers to users (grow the market).
- *Uses a competitor's version* of the advertised product category—the company wants to gain market share at the expense of competitors by creating or capturing *brand switchers*.
- *Uses an alternative version* of your product in the advertised product category—the company wants to **upsell** customers (get them to buy a more expensive version of its product) or migrate them to future product variants.
- *Uses the advertised product*—the company wants to increase the frequency or volume of purchases or reinforce brand loyalty.

## Positioning Dimensions

- *Value*: The product reaches price-sensitive customers by being low cost. An example would be Wal-Mart's "Every Day Low Prices." Companies often create *subbrands* to create distinctive positioning for the brand based on price. The Gap, for example, is a mid-price clothing store, while its sister company Banana Republic is a higher-priced clothing store, and Old Navy is the value-priced offering. Similarly, Volkswagen's Skoda brand is known as the low-cost car brand.
- *Performance*: The product is high performing on one or more dimensions that the target audience seeks. For example, if you focus on a **lifestyle or design position**, you appeal to the customer who values the social or aesthetic statement a brand makes—and often what others will think about him or her after the purchase. For example, Chanel is a designer-led luxury brand. The company has identified a new group of customers it wants to target. Chanel calls the group "new wealth"—women who have acquired a significant amount of money at an earlier age than previous generations. These women, with a net worth of over $1 million, have more cutting-edge fashion tastes. When Chanel CEO Maureen Chiquet strategizes about launching a new perfume to appeal to this customer segment, her watchword is exclusivity. "Let's not be thinking about how big we can make this," she tells her team, "but how exclusive and special you can keep it."Robert Berner, "Chanel's American in Paris," *BusinessWeek*, January 21, 2007, 70–71.
- *Functional*: Solves a specific problem or accomplishes a specific goal for the customer. Tide-to-Go®, for example, solves the problem of removing a stain when there's no time to launder the garment.

### Dig Deeper

The average Buick buyer is a man in his midsixties—not the type of consumer inclined to trick out his car with twenty-two-inch wheels, a lowered suspension, and tinted windows. That's why it's a bit of a shock to check out a Buick Lucerne with those modifications on display at a party hosted by General Motors that also featured actress Vivica Fox, known for roles in movies like *Booty Call* and *Soul Food* and hip-hop star Jay-Z. Buick's sales are plummeting, and the brand is trying to boost them by expanding its appeal among young, urban consumers.Gina Chon and Jennifer Saranow, "Bling-Bling Buick: Seeking Younger Buyers, General Motors' Staid Brand Uses Customized Cars, Celebrities to Reach the Hip-Hop Crowd," *Wall Street Journal*, January 11, 2007, B1. How far can a promotional campaign go to radically reposition a well-established brand? What do you predict will be the outcome of Buick's efforts to build some bling into its brand image?

## SS+K Spotlight

SS+K's psychographic research revealed that people have very different motivations for accessing news sites. The account team decided to position msnbc.com's offering for one primary target—the News Explorer, who "enjoys the thrill of the hunt" when it comes to finding news.

## Video Spotlight

*Russell Stevens and the Target Audience*

(click to see video)

*Russell Stevens described how the agency came to this positioning strategy.*

## Final Words from Michelle on the STP Process

-----Original Message-----

From: Michelle Rowley

Sent: Monday, July 09, 2007 8:23 PM

To: Lisa Duke Cornell

Subject: msnbc.com

Hi Dr. Duke!

So much to say and such little time though - so I thought I would send you a quick e-mail.

Some things I wish I had hit on include the importance of listening not just to what people say, but to what they don't say. How with planning you need to use the research to build your case, but ultimately there is a small leap of faith you make in the end when you definitively place your stake in the ground about the strategic direction. How it's so important for planners to be curious about things in life in general, not just in advertising, and how that curiosity comes from getting out there and living life, from talking to people and most importantly by reading, reading, reading.

Michelle

## Key Takaway

Positioning your product or service to appeal to the needs of a specific group can set it apart from competitors that are also vying for the same consumers. A client's product or service can be positioned relative to the competition along such dimensions as lifestyle, reasons for use, or quality/price tradeoffs. SS+K identified a target segment it called the News Explorer as the best prospect for its client. The typical user is a news junkie who enjoys the thrill of hunting for new information and who wants to dive into the information rather than just scan it. The agency will proceed to develop a brand message that emphasizes how msnbc.com delivers what News Explorers want.

## EXERCISE

Marketers must consider three positioning dimensions as they formulate their positioning strategy. List and briefly describe the three positioning dimensions discussed in the chapter.

# 8.2: Why It Matters- Positioning

## Why create a product or service positioning statement that aligns with a value proposition and a target segment?

Ever since you were small, you have loved special occasions and gatherings. It started with sprawling extended-family picnics when you were a child. From there, you graduated to bigger and more elaborate events: attending fairs and grand openings, crashing weddings and voter conventions, wandering through business expositions at the local convention center. In fact, one of your favorite memories is of the time you sneaked into the legendary Consumer Electronics Show when you were visiting your cousin in Las Vegas. As far as you're concerned, the more people, the bigger the party and the better.

Now, as an adult, you've landed a job with Shindiggity, an events management firm that specializes in putting on conferences, trade shows, and events for industry associations and companies. You love getting to meet new people, travel, and work on making fun, memorable events.

Here's the challenge: Shindiggity is relatively small and new on the events management scene. Although events management is a growing area for business services, it's also a fairly crowded field. When you google "events management company," you get 432 million results. Shindiggity is easily lost in the crowd.

At Shindiggity's annual retreat, employees from across the company are divided into several groups, and each group is given the same task: How can we get Shindiggity to stand out from the competition?

You realize that the VP from your division has been assigned to your group and that this is a great chance for you to impress her with your creativity and initiative. You also want to help your company be successful. Right off, you jot down some questions to focus your thinking:

- What makes Shindiggity better than competitors? Is it the quality of events? The creative ideas? The amazing people? The way it uses technology to make things smoother and more efficient? Something else?
- Who do we need to talk to about Shindiggity, and what will make them decide to give us a try?
- How can we make sure they remember Shindiggity and what we stand for?

These are critical questions you need to answer in order to help your company (and, you think, impress the VP). At the core, they are questions about positioning and differentiation: What position do you hold in customers' minds? What position do you *want* to hold? How are you different in positive ways that make you stand out from the pack?

If Shindiggity can't figure out how to make a lasting impact in customers' minds, it won't win enough clients to stay in business. And, if it goes out of business, you'll be job hunting instead of continuing to do the work you love. On the other hand, if you come up with great ideas, you may help Shindiggity *position* itself effectively against competitors, which could lead to new business and —who knows?—to more job responsibility or a promotion for you. It's pretty obvious which scenario you decide to pursue.

## Learning Outcomes

- Define positioning and differentiation, and why they are important to marketing a product or service
- Explain the process of selecting a positioning and differentiation strategy
- Develop and evaluate positioning statements based on defined criteria
- Explain repositioning and the associated risks and complexities of repositioning a product or service
- Describe the process of implementing a positioning strategy

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# 8.3: Why It Matters- Marketing Globally

## Why identify issues that organizations face and approaches they use when marketing to different countries and cultures?

Suppose you're in the marketing department for a highly successful snack food company in the U.S. You're in a brainstorming meeting about expanding into China, and the discussion is starting to get heated. Should you lead with your company's best-selling nacho-cheese-flavored snacks to take China by storm? Or would it be better to start out with the ranch-dressing-flavored snack instead, because it's so quintessentially American and it'd be a great way to introduce the Chinese to the tastes Americans love?

Or would something else be a better fit?

It's time to vote: your manager wants everyone on the team to name the flavor they want to lead with. What are you going to choose?

Set aside your top pick while you watch this short but very interesting video.


You can view the transcript for "Chinese Flavors for American Snacks" (opens in new window) or the text alternative for "Chinese Flavors for American Snacks" (opens in new window).

So . . . how did you do? How close did you come to favorite flavors in the video? Were you in the ballpark? Are you ready for a career developing snack foods for global markets?

If you're like most Americans, your recommendation probably wasn't very close to the mark, and you're probably thinking that many of the flavors that are delicious to Chinese consumers sound a bit odd to you. Well, now you know how a lot of Chinese consumers probably feel when presented with Cheetos Crunchy Flamin' Hot Limon Cheese Flavored Snacks or Zapp's Spicy Cajun Crawtator potato chips. A little queasy.

Hopefully this scenario helps highlight some of the challenges of global marketing, as companies start selling products in other countries. How should you enter a new market? Are you offering products that consumers in other countries will want to buy? What should you do to make sure your product–and the rest of your marketing mix–is a good fit for the global customers you want to attract?

Global marketing is a complex and fascinating business. In this module, we can't cover everything about global marketing–not by a long shot. But we will introduce key challenges, opportunities, and factors to consider when marketing to target audiences outside your home country.

### Learning Outcomes

- Describe globalization and the major benefits and challenges it poses for multinational organizations penetrating global markets
- Describe common approaches used by organizations to compete successfully on a global scale
- Explain the importance of understanding how demographic, cultural and institutional factors shape the global marketing environment

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# 8.4: Global Branding Versus Global Positioning

Johnson & Johnson (J&J) will not sacrifice premium pricing for its well-known brands. It believes that its popular Band-Aid adhesive bandages are superior to competitors' products, and a premium price is a way to signal that. But even in this dimension of its marketing strategy, J&J must allow for some improvisation as it expands around the world and pushes deeper into less-developed countries. Specifically, the company accepts lower margins in a developing market and sometimes delivers a smaller quantity of a product to make it more affordable. For instance, it might sell a four-pack of Band-Aids instead of the larger box it markets in the developed world or a sample-sized bottle of baby shampoo instead of a full-sized one.

Carefully adhering to a particular positioning is both aggregation and adaptation; this creates uniformity in different world markets, but it also serves to define target segments as the company enters new countries or regions. Consider the decision by Diageo, the British beer-and-spirits company, to stick to premium pricing wherever it does business, even when it enters a new market. By projecting a premium positioning for brands such as Johnnie Walker Black, Smirnoff vodka, Captain Morgan rum, Tanqueray gin, and Guinness stout, and foregoing price cutting to grow volume, it identifies loyal consumers who will pay for its well-known products. Rather than sell its products' functional benefits, Diageo successfully markets its drinks as either sophisticated, as it does with Tanqueray, or cool, as it does with Captain Morgan in its recent "Got a Little Captain in You?" ad campaign.Brand managers' high-wire act (2007, October 31).

### Minicase: Global Positioning of a MasterCard (www.leadingglobalbrands.com/)

Back in 1997, the MasterCard "brand" did not stand for any one thing. The parent company—MasterCard International—had run through five different advertising campaigns in 10 years and was losing market share at home and abroad. Fixing the brand was a key element of the turnaround. Working with McCann-Erikson, the company developed the highly successful "priceless" campaign. The positioning created by "priceless" allowed MasterCard to integrate all its other campaigns and marketing practices within the United States, and this became a marketing platform that formed the basis for many globalization decisions.

Up until that time, every country used a different agency, a different campaign, and a different strategy. The success of "priceless" as a platform in the United States helped the company persuade other countries to adopt one, single approach, which, over time, produced a consistent global positioning. The "priceless" campaign now appears in more than 100 countries and more than 50 languages and informs all brand communications.

Starting with a locally developed positioning and then successfully expanding it globally is one way to approach the global branding and positioning challenge. More typically, companies start by identifying a unique consumer insight that is globally applicable in order to create a global positioning platform. No matter which route is selected, successful global branding and positioning requires (a) identifying a globally "robust" positioning platform—MasterCard's new positioning was readily accepted across all markets because of the quality of the insight and its instant recognition across cultural boundaries—and (b) clarity about roles and responsibilities for decision making locally and globally. There was a shared understanding of how the primary customer insight should be used at every stage in the process and which aspects of the branding platform were nonnegotiable; expectations for performance were clearly defined and communicated on a global basis; and a strategic partnership with a single advertising agency allowed for consistent, seamless execution around the world.

By providing a single, unifying consumer insight that "defines" the brand's positioning, MasterCard has created economies of scale and scope and, hence, benefited from aggregation principles. The company uses adaptation and arbitrage strategies in its approach to implementation. It empowers local teams by inviting them to create content for their own markets within a proven, globally robust positioning framework. Additional, ongoing research generates insights that allow local marketers to create a campaign that they truly feel has local resonance while at the same time maintaining the core brand positioning.

# 8.5: Defining Positioning and Differentiation

## What Makes You Different and Better?

**Positioning** is a strategic process that marketers use to determine the place or "niche" an offering should occupy in a given market, relative to other customer alternatives. When you position a product or service, you answer these questions:

- **Place**: What place does the offering occupy in its market?
- **Rank**: How does the product or service fare against its competitors in the areas evaluated by customers deciding what to buy?
- **Attitude**: How do we want customers to think about this offering and the benefits it offers them?
- **Outcomes**: What must we do to ensure the product or service delivers on the positioning we select?

Marketers use the positioning process to identify the distinctive place they want a product or service to hold in the minds of a target market segment. Effective positioning is always aimed at a specific target segment. In fact, positioning tailors the generally focused value proposition to the needs and interests of a particular target segment.

Positioning can be subtle and hard to detect, but it can also be easy to spot when it conforms to your perceptions as a consumer. Perhaps one of the following positions appeals to *you*: Volvo, for example, positions itself as a family of premium vehicles that are well designed for performance, innovation, and safety. Kia strives to position itself as delivering practical, utilitarian vehicles that offer high quality and value for the price. Cadillac is, well, the Cadillac of automobiles: powerful, luxurious, and catering to every need of its well-heeled drivers and passengers.

**Differentiation** is closely related to positioning. Differentiation is the process companies use to make a product or service stand out from its competitors in ways that provide unique value to the customer. Differentiation identifies a set of characteristics and benefits that make a product different and better for a target audience. Ideally these qualities are things that 1) customers value when they are evaluating choices in a purchasing decision, and 2) competitors cannot easily copy. When both conditions exist, the offering is more attractive to target customers.

Differentiation is at work any time you're choosing between two products in the same category. For example, when you're buying a soft drink, why do you choose Coke, Pepsi, Sprite, or Mountain Dew? Is it because of the taste? The cost? The level of sugar or caffeine? Or is it something less tangible, like the way you just want to smile when you drink Coke, or you feel amped up when you drink Mountain Dew? These tangible and intangible qualities are what differentiate one soft drink from another.

### Interconnected Strategies

Positioning and differentiation are connected in important ways. Effective positioning for a product or service is based on the differentiating characteristics or qualities that make the product/service better than the competition in the minds of the target segment. Positioning and differentiation are strategic activities: marketers work to create a desired position for a product or service in the market, rather than waiting for it to be created by customers, the public, or competitors. The end result of positioning is the successful creation of a market-focused value proposition: "This is the compelling reason why the target segment should buy the product." Positioning shapes key elements of the marketing mix: which features matter most in the differentiation of a product or service, what messages to communicate about the offering, how to price it relative to competitors, and the role distribution might play in satisfying the customer.

To illustrate, think about American retail chains targeting American households as a target segment. The table below identifies the ways in which three large retail chains position themselves to attract customers and the key differentiators they use to set themselves apart.

Retail Positioning and Differentiators

| Name | Positioning | Differentiators |
| --- | --- | --- |

| | | |
|---|---|---|
| Wal-Mart | Wide selection of products people want, at the lowest prices | Wide selection; low prices |
| Target | Trendy, fashionable products at reasonable prices | Continually refreshed, on-trend product selection |
| Macy’s | Preferred “go-to” shopping destination for upscale brands and current fashions. | Broad selection of most-wanted, upscale brands; engaging shopping experience |

Note that, in each case, positioning is based on factors that are important to the target segment(s) each retailer focuses on. Wal-Mart customers are very brand-loyal because of the company’s commitment to low prices and huge selection. Loyal Target customers love browsing the latest, on-trend apparel, accessories, and home fashions. Macy’s shoppers appreciate a more elegant, upscale shopping experience and are willing to pay more for upscale brands. Each of these positioning strategies carves out a “niche” of the retail market that defines the particular, differentiating strengths of each chain in the minds of customers.

Positioning is essential for launching a new product or service, because it helps marketers and customers understand how the new offering fits into the set of available choices, and it makes a set of claims about why customers should consider it. Positioning can also be useful at any other stage of the product life cycle to help clarify what makes a product or service different from competitors and why people should prefer it.

### Positioning Is a Statement

Positioning plays an important role for marketers in expressing how they will make an offering attractive to customers. It also helps customers become educated about the options available to them so they can evaluate and select the product or service that’s the best fit.

Positioning is most often articulated as a positioning statement. A **positioning statement** is one sentence that concisely identifies the target market and what you want customers to think about your brand. This statement should include 1) the target market, 2) the brand name, 3) the key points of differentiation, 4) the product/service category or frame of reference in which you are establishing this market position, and 5) the reasons customers should believe the positioning claims.

Positioning statements should also be statements of truth. Effective positioning is credible and convincing, reflecting customers’ actual experiences with the product or service. If a positioning statement does not reflect the customer’s reality, the positioning will fail because it will not take hold in the minds of consumers. Likewise, positioning must be based on qualities that matter to customers as they consider which product/service to purchase. If positioning is based on characteristics or customer benefits that do not matter, customers will opt for other offerings that deliver what they care about. We will discuss positioning statements in more detail later in this module.

### Same Offering, Different Positioning

Because effective positioning is always linked to a specific target segment, it is worth pointing out that the same basic product or service may be positioned differently for different market segments. When this happens, it is because companies recognize that their target segments are looking for different qualities when they make their purchasing decisions. Different positioning strategies for the same product enable marketers to communicate the value of the product or service more effectively to each target audience.

For example, the airline JetBlue caters to two “sweet spot” target segments: 2) “high-value leisure travelers” and 2) “mixed-wallet customers,” who fly for both business and leisure. The airline’s positioning for “high-value leisure travelers” focuses on attractively priced airfare and packages to fun vacation destinations, along with a comfortable flying experience. For “mixed-wallet customers,” JetBlue positions itself as providing a competitively priced and convenient flying experience with features like expedited security and multiple fare options in case travel plans need to change. In both cases, JetBlue is selling air travel, but the positioning for each target segment is built around the differentiating qualities that make JetBlue particularly attractive to those segments.[1]

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1. http://skift.com/2013/03/20/why-jetblue-doesnt-target-road-warriors-and-doesnt-plan-to-anytime-soon/ ↵

## Contributors and Attributions

# 8.6: The Positioning Process

## Getting to the Right Position

Arriving at the best positioning and differentiation strategy involves a process. The goal of the process is to design an identity that both confirms the value of the product, service, or brand in the customer's mind and explains why and how the offering is better than the competition. To reach that goal, marketers typically follow a positioning process comprised of the following five steps:

### Steps of the Positioning Process

1. Confirm your understanding of market dynamics
2. Identify your competitive advantages
3. Choose competitive advantages that define your market "niche"
4. Define your positioning strategy
5. Communicate and deliver on the positioning strategy

### Step 1: Confirm Your Understanding of Market Dynamics

At the start of the positioning process, you need a firm understanding of your target market and answers to the following questions:

- In which product, service, or market category (also called the "frame of reference") do you plan to use this positioning?
- Which target segment is your focus for the positioning you are developing?
- What factors do these buyers evaluate when they make a purchasing decision?
- How do these buyers view your competitors in the category?

If you don't have answers to these questions, you should consider conducting formal or informal marketing research to reach a better understanding of your target market and the market dynamics around it. Some marketers may have the time and resources to conduct extensive research, while others may need to rely on their own experience and anecdotal conversations with target customers. Either way, you'll remember that the customer is at the center of the marketing mix, so knowing whom you're targeting is the only place to start.

### Step 2: Identify Your Competitive Advantages

A **competitive advantage** is some trait, quality, or capability that allows you to outperform the competition. It gives your product, service, or brand an advantage over others in purchasing decisions. Competitive advantage may come from any or all of the following:

- **Price:** Something in your production process or supply chain may make it possible for you to provide comparable value at a lower cost than competitors.
- **Features:** You may provide tangible or intangible features that your competitors do not: for example, more colors, better taste, a more elegant design, quicker delivery, personalized service, etc.
- **Benefits:** You may provide unique benefits to customers that your competitors cannot match. Benefits are intangible strengths or outcomes your customer gets when they use your offering. For example, time savings, convenience, increased control, enjoyment, relaxation, more choices, feeling better about oneself, being more attractive, etc.

Create a list of the things that make you different from competitors in positive ways. Then identify which of these factors are also competitive advantages: the influential factors that help you perform better in the marketplace and cause customers to choose your product, service, or brand over other options.

As a rule, it is relatively easy for competitors to undercut your pricing or match your features, so it is difficult to maintain a consistent competitive advantage in either of these areas. Market-leading products, services, and brands are most likely to differentiate based on benefits—the intangible strengths and outcomes that are harder for competitors to match.

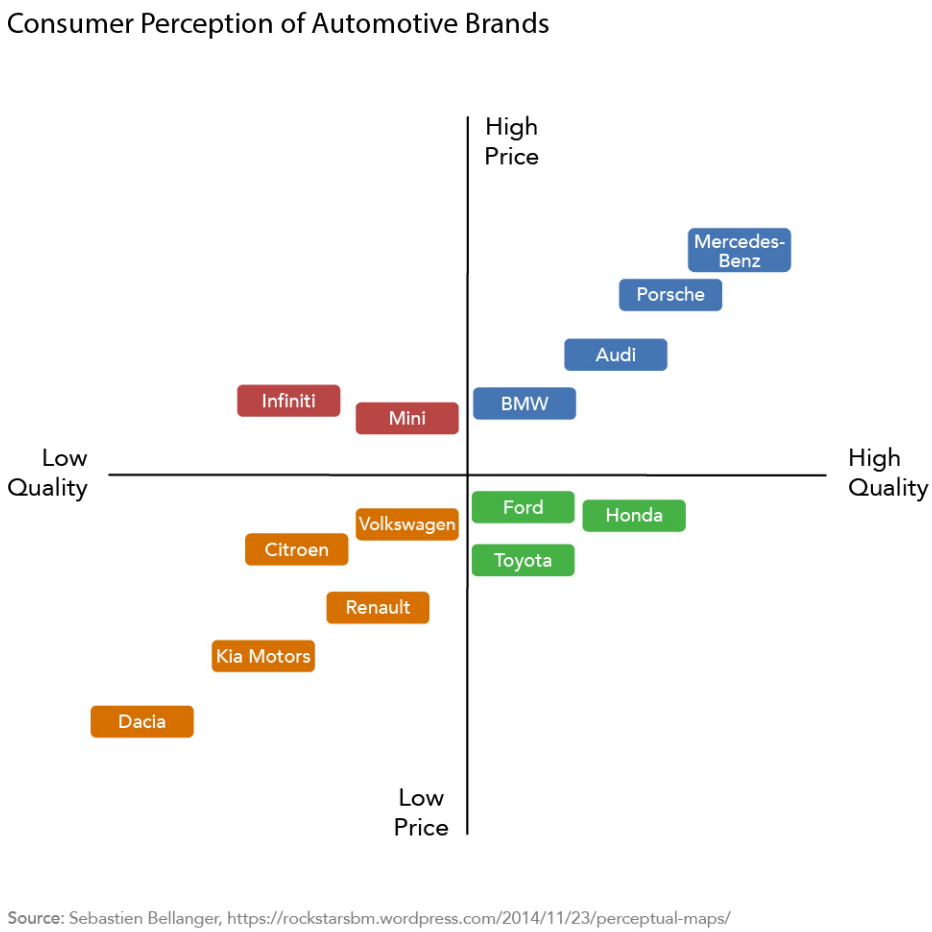
For example, many car companies achieve strong ratings in safety tests, but driving a Volvo provides an extra, intangible benefit for the driver of *feeling* safer because of Volvo's longstanding record and reputation for safety. A variety of theme parks in Southern California offer exciting rides and family fun, but only Disneyland's Magic Kingdom makes people feel like they're in *the happiest place on earth*.

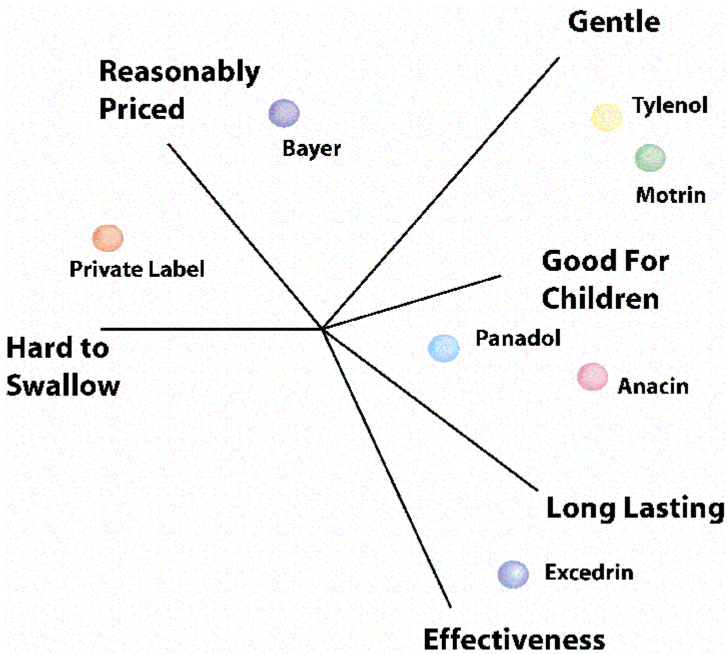
You don't necessarily need a long list of competitive advantages, but your list should be substantive: it should include the things that truly create distance between your offering and competitors. Dig deep to identify the intangible benefits your customers experience–or intangible benefits they *could* experience—from your offering that make it different and better than the alternatives.

### Step 3: Choose Competitive Advantages That Define Your Niche

Your list of competitive advantages represents a set of possible positioning strategies you could pursue for your product, service, or brand. The next step is to examine how these factors fit into customer perceptions of your broader competitive set. Your goal is to pick a positioning approach that gives you a unique and valued position in the market that competitors are not addressing.

A **perceptual map** is a great tool for this step. Perceptual maps create a picture of how different competitors are positioned in the market, based on the key criteria that strongly influence customer decisions. Examples of two different perceptual maps are included below. The first one maps automobile brands based on customer perceptions of price and quality. The second one maps lifestyle programming on cable TV channels, according to whether it is younger/edgier vs. older/mainstream and educational vs. entertainment.





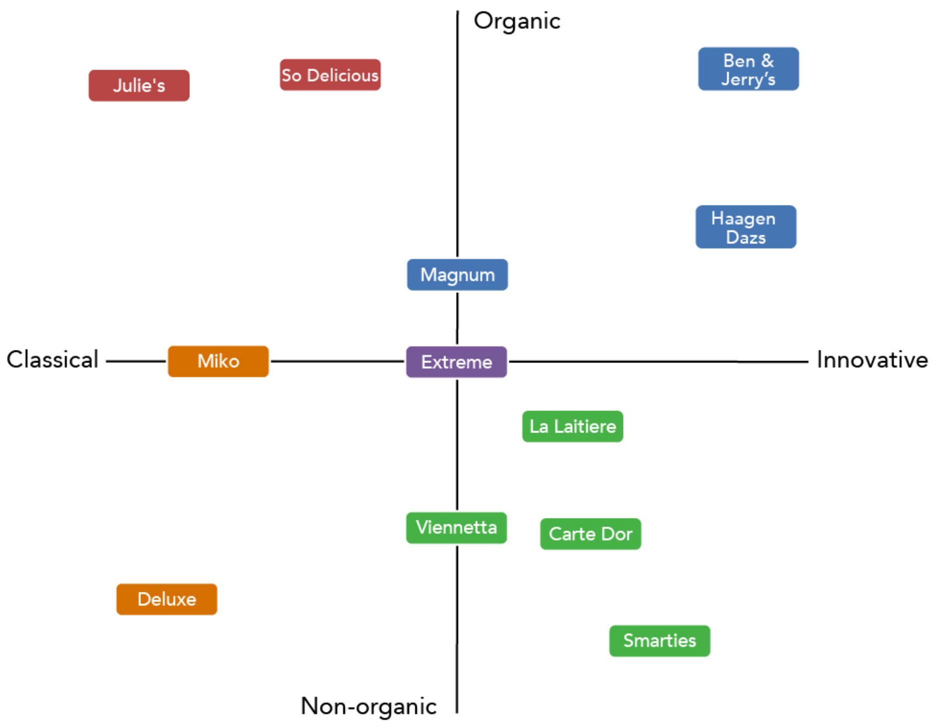

Marketers use these sorts of perceptual maps to identify gaps in the market; these, in turn, represent opportunities to to fill a niche in the market that isn't being addressed. For example, the lifestyle programming map suggests that there are not a lot of choices in the area of younger/edgier AND educational space. This might be a good place to position a new cable channel or programming direction. On the other hand, there are already lots of established players in the younger/edgier/entertaining space, so new entrants would have to beat out more competition to make an impact.

You can create a perceptual map similar to these by identifying the key criteria customers use when deciding what to buy and setting these as the horizontal and vertical axes. Then you can overlay competitors in the perceptual space where they seem to fit. You can even create multiple maps of the same market with different criteria on the horizontal and vertical axes to get a different view of how competitors are positioned. Perceptual maps are most robust when they are based on actual marketing research data, but marketers can also create directional maps based on their experience and anecdotal understanding of market dynamics.

With your maps in hand, look for areas where there are fewer competitors: these are the spaces where you are most likely to be successful creating your own niche. Consider where your competitive advantages would help you fit well into these gaps; this will direct you to the strongest positioning opportunities for your product, service, or brand.

Give this approach a try: Suppose you are exploring whether to introduce your homemade, artisan-style ice cream to a wider audience, which will mean competing with national brands carried in local and regional grocery stores. Looking at the following perceptual map, where are the gaps in which you could create a niche for your product? Who would be your closest competitors?

Consumer Perception of Ice Cream Brands




Source: Alexandre Anne, https://brandauditicecream.wordpress.com/2-customer-insight/

Your competitive advantage around a homemade, artisan-style product puts you on the upper half of the map. You would have to choose between more classic versus interesting and innovative ice cream choices. Based on your strengths and preferences, you can choose where to claim your positioning niche: Perhaps you stake your future on the classical side by introducing the most marvelous, pure, premium vanilla and chocolate ice creams your customers have ever tasted. Alternatively, you might choose to introduce an ice cream line that capitalizes on interesting flavor combinations using local and seasonal ingredients, which would position you squarely in the innovative quadrant. Either approach could be a winning combination in a unique market niche.

If you choose not to create a perceptual map, an alternate approach is to list competitors and their competitive advantages. Then, add your own own offering and competitive advantages to the list. Based on the alternatives available to customers, think about where there are gaps between what customers want and value most and what they can get from the choices available today. Identify where your competitive advantages can help you fit into these gaps, since they will be the most promising positioning approaches for you.

Remember to think creatively as you are defining your competitive advantages and choosing those that will define your positioning and market niche. You have a greater likelihood of success if you are also the first in the market to claim your positioning. You won't have to displace anyone else, and you can generate excitement by fulfilling a previously unmet need.

## Step 4: Define Your Positioning Strategy

With your competitive advantages identified and information about how key competitors are positioned, you're ready to evaluate and select your positioning strategy. This is the decision you make about how, exactly, you plan to position your offering relative to the rest of the field. How will you be different and better?

There are several common positioning strategies you should consider, shown in the following table:

Common Positioning Strategies

| Differentiator | Positioning Strategy | Examples |
| --- | --- | --- |

| | | |
|---|---|---|
| Category Benefit | Position yourself as "owning" an important benefit and delivering it better than anyone else | Volvo = Safety<br>Hallmark = Caring shared<br>Hawaii = Aloha spirit |
| Best fit for the Customer | Position yourself as an ideal fit for the customer's personality, style, and approach | Red Bull = Extreme<br>Guess Jeans = Sexy chic<br>Virgin Atlantic = Ultra cool fun |
| Business Approach | Position yourself with a distinctive approach to doing business | Jimmy John's = Unbelievably fast<br>TurboTax = Easy DIY |
| Anti-Competition | Position yourself as a preferred alternative to the competition | Apple = Think different<br>Seven-Up = The Uncola |
| Price | Position yourself according to pricing: lowest cost, best value for the money, luxury or premium offering, etc. | Wal-Mart = Lowest prices<br>RyanAir = Cheap flights<br>Old Navy = Affordable fashion |
| Quality | Position yourself according to a quality standard: high quality, best-in-class, or else reliably good quality at a reasonable price | Hearts on Fire = Perfect cut<br>Ritz Carlton = Ultimate luxury |

Strong positioning is simple: it focuses on a single, powerful concept that is important to the customer. It uses your most promising competitive advantage to carve out the niche you will fill better than anyone else. Your positioning strategy puts this competitive advantage into the context of your competitive set: it explains what distinguishes you from the competition. Perhaps you deliver an emotional benefit that your target audience doesn't get anywhere else (escape? balance?) Perhaps you are hands down the best choice for a geeky, gear-head audience (bikers, coders). Perhaps you provide great customer service in a category where customer service is unheard of (cable TV, contractors).

Your positioning will become the "special sauce" that sets you apart. Concoct it well.

### Step 5: Communicate and Deliver on Your Positioning Strategy

The next sections of this module will delve deeper into this step, but don't underestimate its importance. Communicating your positioning strategy begins with creating a positioning statement and sharing it internally across the organization to make sure that everyone understands how and where your offering will fit in the market. Your positioning builds on a competitive advantage, and it is essential for you to deliver on the expectations your positioning sets in customers' minds. You should design your positioning strategy to endure over time, while recognizing that it can and should be adjusted from time to time to reflect changes in the competitive set, your target segment, market trends, and so forth.

If your positioning is based on being an ideal "lifestyle" fit for your target audience, for example, you need to demonstrate how your offering is attuned to the needs and experiences of this audience. This includes evolving as your target segment evolves. If your positioning is based on "owning" an important benefit like *security* or *reliability* or *delight*, then you should explore all the ways you can deliver that benefit better than any competitor who might try to imitate you.

The marketing mix provides the set of coordinated tools you use to execute on your positioning strategy. You might think of your positioning strategy as the tune you want your target segment to hear. The marketing mix is how you orchestrate and harmonize that tune, making it a memorable, preferred choice for your target customers.

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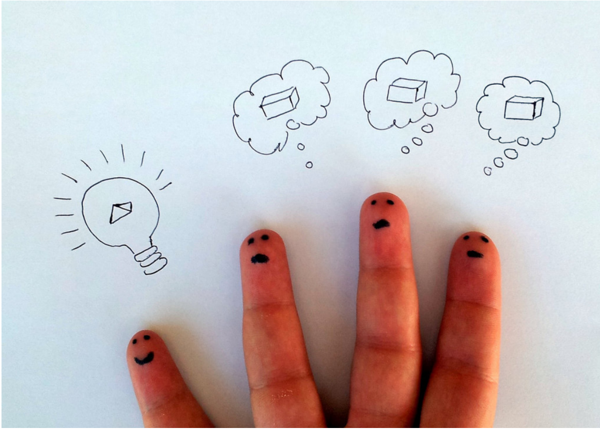
# 8.7: Developing Positioning Statements



## A Simple Formula

A **positioning statement** is one sentence that succinctly identifies the target market and spells out what you want them to think about your brand. This statement should include 1) the target segment, 2) the brand name, 3) the product/service category or frame of reference in which you are establishing this market position, 4) the key points of differentiation, and 5) the reasons customers should believe the positioning claims.

The brand consultancy EquiBrand recommends the following straightforward formula for writing positioning statements:

> To [*target audience*], Product X is the only [*category or frame of reference*] that [*points of differentiation/benefits delivered*] because [*reasons to believe*].[1]

The parts of the formula supplied by you (the marketer) are as follows:

- The "target audience" is a brief description of the segment you're targeting with this positioning strategy. For example: *young urban males*, *managing partners in law firms*, or *small business owners in the Pacific Northwest.*
- "Product X" is your product, service, or brand name.
- The "category or frame of reference" is the category of products or services you're competing in. For instance: *spectator sporting events*, *virtual assistant services*, or *employer 401K benefit plans.*
- The "points of differentiation/benefits delivered" explains both what problem you solve and how you solve it in a different and better way than competitors. It highlights the competitive advantage(s) underpinning your positioning strategy. Be sure to explain not just what is different about you, but why customers care about that difference.
- The "reasons to believe" are any proof points or evidence that show your customers how you live up to your claims about how you are different and better.

Let's look at some examples of well-written positioning statements:

### Example #1: Amazon (circa 2001, when it sold primarily books)

> For World Wide Web users who enjoy books, Amazon is a retail bookseller that provides instant access to over 1.1 million books. Unlike traditional book retailers, Amazon provides a combination of extraordinary convenience, low prices and comprehensive selection.[2]

This clearly worded positioning statement follows the formula closely, even though the "reasons to believe" are added as a second sentence. It presents the competitive advantage ("*instant access to over 1.1 million books*") as a clear differentiator, and with this wording we also understand the problem Amazon solves–convenient access to lots of books. The specific reasons to believe are highly desirable benefits for the target audience. Note that *World Wide Web* refers to the Internet.

### Example #2: Motel 6

> To frugal people, Motel 6 is the alternative to staying with family and friends that provides a welcoming, comfortable night's rest at a reasonable price.[3]

The Motel 6 example is a very concise positioning statement. It's interesting that the frame of reference is "staying with friends and family," rather than "motels" generally. This shows an astute understanding of the target customer's mindset and the recognition that the motel chain's leading competitor is *not* staying in a motel. The point of differentiation also reveals the problem Motel 6 solves: where to get a "welcoming, comfortable night's rest at a reasonable price." Its points of differentiation and reasons to believe blur together, but the statement provides well-focused direction for a marketing mix that targets "frugal people."

### Example #3: Tide Laundry Detergent

> For cost-conscious moms of large blue-collar families with active children, Tide is the brand of laundry detergent that gets clothes their cleanest and keeps them looking new because "improved" Tide formulation powers out stains while keeping clothes from fading and fraying.[4]

This third positioning statement identifies the target audience so specifically that it's easy to create a vivid mental picture of the customer. The problem Tide solves is very clear: getting close clean. This statement emphasizes the product's competitive advantage around cleaning power and superior formulation, while promising valued benefits that customers enjoy when they use this product. The onus here is on the brand to provide these concrete benefits around not "fading and fraying," but these are definite reasons to believe if indeed the product can deliver.

## Evaluating Positioning Statements


How do you know when a positioning statement is going to be effective? Obviously, positioning statements should contain all the elements in the formula above, since that information is needed to translate the positioning strategy into a well-developed marketing mix. There are other criteria you should look for, as well. For example, the following:

- **Is it tailored to the target market?** Too often, positioning statements either leave out the target segment, or else the entire approach isn't really suited to that unique group. If a positioning statement would work just as well if you plugged in a completely different target segment, then you probably haven't thought deeply enough about your target's unique needs and what will make them want your product. Or, you've defined your target segment too narrowly, in which case you should revisit whom you're trying to reach.
- **Is it simple, focused, and memorable?** A positioning statement that is overly complex will be hard to execute against because it isn't focused enough to deliver a clear message to the customer. Make sure it is very clear what problem(s) you solve. Use easy-to-understand words instead of jargon that muddles the meaning. If your statement is running long, consider trimming a few differentiators or benefits. It's actually very good to prune down to the essentials so your meaning is crystal clear. Make every word count!
- **Does it provide an unmistakable picture of your product, service, or brand?** Your positioning statement should work beautifully for you, but not very well for your competitors. If you can substitute any competitor's name for your own in the positioning statement—and it still sounds credible—then you need some additional work on your differentiators and competitive advantages. If you are going to own your market niche, it must be a place that no one else can easily occupy.
- **Can you deliver on the promise you make?** The positioning statement promises some benefits or outcomes to your customers. You must be able to consistently live up to this promise—otherwise you'll lose credibility, and your offering will stand for something that's untrustworthy. If you can't live up to your promise, you need to take another, more realistic look at the offering's benefits and the customers' reasons to believe.

- **Does it provide helpful direction for designing the marketing mix and other decisions?** From the positioning statement, you should have a sense of what types of activities and messages are consistent with that positioning and support the brand you are working to build.

### Practice: Evaluate These Statements

**Read the following statements.** For each one, ask yourself whether it's a strong *positioning statement* based on the formula and criteria outlined in this reading. Why or why not?

1. *Nike brings inspiration and innovation to every athlete in the world.* [5]
2. *To married women over fifty, Victoria's Secret is the brand of alluring lingerie that will reignite the passion in their marriage.* [6]
3. *For taxpayers, H&R Block offers the best tools and tax professionals to examine their lives through taxes and find ways to help them save time and money.* [7]
4. *For shoppers, Macy's is a premier national omnichannel retailer with iconic brands that serve customers through outstanding stores and dynamic online sites.* [8]
5. *To business leaders, Wieden+Kennedy is an independent, creatively driven advertising agency that creates strong and provocative relationships between good companies and their customers.* [9]

**Analysis:** Here is how these examples stack up:

1. **Nike:** This is a powerful mission statement, and it sets a perfect tone for the Nike brand. However, it is not an effective positioning statement because it doesn't really articulate any points of differentiation, problems solved or reasons to believe.
2. **Victoria's Secret:** This example works reasonably well as a positioning statement, since it contains all the key elements. Although the wording of the competitive advantage/benefit does a great job explaining the problem Victoria's Secret solves ("alluring lingerie that reignites the passion in their marriage"), it's unclear whether this positioning truly differentiates this brand from competitors. After all, isn't all lingerie alluring? However, if no one else has claimed this niche and if Victoria's Secret can truly "own" *reigniting passion*, it just might work!
3. **H&R Block:** This is an exemplary positioning statement, including each element of the formula in clear, concise terms. What's memorable and unexpected about this statement is how it humanizes tax preparation services by presenting them as services that "examine your life" and "find ways to help." There is room for improvement: it's arguable whether "taxpayers" is too broad as a target segment. But overall, this is a great example.
4. **Macy's:** This example exhibits a couple of obvious weaknesses as a positioning statement. First, it's got a lot of jargon–terms like *premier*, *omnichannel*, and *dynamic online sales*. Second, as a segment, "shoppers" is too broad. Surely Macy's has more detailed information about its target segments and what they want. Third, this statement discusses features ("outstanding stores," "iconic brands," "dynamic online sites") but it does not mention any customer benefits. Positioning statements definitely need benefits–and reasons to believe. *Full disclosure: This statement is actually taken from an "About Macy's, Inc." page on the company's Web site, so it may be intended as a simple company description, not a positioning statement.*
5. **Wieden+Kennedy:** As we would expect from one of the world's leading advertising agencies, this statement does a reasonably good job positioning the company for a broad business-leader audience. As with example #2 above, the competitive advantages and differentiators blur with the benefits, but "strong and provocative relationships" is a compelling promise for anyone investing in advertising and promotion.

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1. http://equibrandconsulting.com/templates/positioning-templates ↵
2. http://www.fastcompany.com/3034721/hit-the-ground-running/figuring-out-the-delicate-art-of-positioning-your-startup ↵
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# 8.8: Repositioning

## When It's Time to Change Direction

After they are initially introduced to the market, products, services, and brands are constantly being repositioned as a result of changes in competitive and market situations. Repositioning involves changing the market's perceptions of an offering so that it can compete more effectively in its present market or in other target segments.

Generally it is good to consider repositioning when you see the need or opportunity to improve demand for the offering. Perhaps sales have slowed down, your target segment is getting smaller, or you've developed a new innovation you'd like to introduce to the product. Specific factors that can trigger the decision to reposition a product, service, or brand include the following:

- **Competition:** New competitors entering or leaving the market; competitors joining forces; a competitor's innovation that threatens to make your offering obsolete; competitive pricing strategies
- **Market environment:** Economic slow-down or recovery; changes in consumer confidence, the political climate, or social forces like the movement around social responsibility and sustainability
- **Consumer trends:** Changing tastes and preferences; evolving attitudes and behaviors such as how consumers use technology to learn about, acquire, or interact with your offering; new segments emerging as targets for your offering
- **Internal environment:** Changes in organizational leadership and strategy; acquisition or development of new technology; introduction of innovation that offers new competitive advantages and differentiators

The tax preparation service H&R Block provides a useful example. As technology-savvy millennials (people born between 1980 and 2000) began entering the workforce and caring about taxes, H&R Block saw that this sizable young segment overwhelmingly preferred TurboTax and other technology-based, do-it-yourself tools, rather than hiring tax professionals like H&R Block. Even after introducing its own online tax preparation tools, H&R was not able to capture this market segment. With its competitive advantage undermined by technology and its established customer base getting older, H&R Block knew that if it wanted to survive, it had to figure out how to appeal to younger taxpayers.

In 2012 and 2014, the company invested in repositioning campaigns to alter the company's image and appeal to millennials. The campaigns combined satirical humor, social media, and social responsibility (in the form of charitable donations) to get millennials' attention and create buzz around the H&R Block brand.[1] The following H&R Block video ad from the 2012 "Stache Act" campaign makes the case for a fictional Million Mustache March on Washington to alter the tax code to include a $250 deduction for facial hair grooming materials:

A link to an interactive elements can be found at the bottom of this page.

You can view the transcript for "Stache Act Campaign Ad – The Oval Office" here (opens in new window).

### The Repositioning Process

The repositioning process is very similar to the original positioning process, but it has a different starting point. The original positioning process focuses on creating a new position or market niche for an offering that wasn't there previously. The repositioning process, on the other hand, evaluates the established position of a product, service, or brand and focuses on how to alter the positioning–and, with positioning, *market perceptions*–in order to improve competitiveness.

To change market perceptions, repositioning may involve changes in the tangible product or in its selling price, but this is not always required. Often the new positioning and differentiation are accomplished through changes in the promotional message and approach. It is very common to see companies launch marketing campaigns focused on repositioning a product or service, but few, if any changes, made to the product or service itself. These repositioning efforts often focus on trying to get a current target segment to take another look at a product or service and see it with a new perspective. Repositioning often aims to shift market perceptions in ways that make an offering more appealing to a broader swath of the market.

An important ongoing part of repositioning is to monitor the position of a product, service, or brand over time. This is necessary in order to evaluate what is working or not working about the current position and generate feedback to inform future positioning strategies. A product position, like the score in a ball game, may change readily; keeping track and making necessary adjustments is very important.

## Repositioning Risks and Pitfalls

While repositioning is quite common, it carries risks and complexities that marketers must consider. Repositioning happens after initial market perceptions have already been established. Effective repositioning isn't just creating something new. Instead, it is trying to preserve what is good from the existing market positions and build or shift thinking toward something new. Repositioning offers the opportunity to make something new and better than what you had previously, but it also has the potential to undermine or weaken market perceptions.

Repositioning must always consider carefully what has come before, as well as what's ahead. In the repositioning process there's inevitably baggage: residual issues left over from earlier positioning work, which is what led you to the point of needing to reposition. Your product, service, or brand has a history, and people have memories: some people remember what the offering used to stand for, and they will try to figure out how the new positioning fits with their perceptions. Customers, employees, and other stakeholders will have opinions–sometimes very vocal ones–about whether the new positioning is better or worse, effective or ineffective. All of this represents a potential minefield for marketers. Despite these challenges, repositioning can also be very rewarding if you are successful at reshaping perceptions and creating a more powerful, meaningful product, service, or brand.

As you consider repositioning opportunities, try to avoid the following common pitfalls:

- **Insufficient research:** Marketing research should inform your choices about how to shift positioning in order to improve market perceptions of your product, service, or brand. You should also conduct research to help you understand how your target segment will react to the repositioning, so you're not caught off guard by adverse reactions.
- **A bridge too far:** It can be tempting to get wild and crazy with repositioning, especially if you're trying to freshen things up. While this strategy can work, sometimes marketers go so far in the new direction that customers no longer believe the claims. Their perceptions of the offering can't accommodate the new message or image, and the offering loses credibility.
- **Underestimating "back to basics":** Sometimes repositioning is undertaken because the target segment isn't sure what a product, service, or brand stands for. Instead of trying to infuse more new ideas and new meaning, marketers are sometimes better served by stripping positioning down to its bare essentials of competitive advantage, benefit, and message. Reinforcing the simple "basics" can be very powerful: this is what customers usually care about most.
- **Overpromising:** When faced with strong competitive threats, it can be easy for repositioning to overpromise benefits that a product, service, or brand is really ready to deliver. This can be disastrous because it creates customer expectations that the organization cannot live up to. Rarely does this end well.
- **Confusing positioning:** Repositioning can introduce confusion between the old positioning and the new, especially if they seem to contradict each other. Repositioning needs to offer a clear message for customers; otherwise they are not sure what to believe.

The risks and pitfalls of repositioning are evident in the example of United Airlines and its “Rising” campaign. For decades, United positioned itself as a passenger-center carrier providing great service embodied in the iconic tagline “Fly the Friendly Skies.” Seeking a change in the late 1990s, United introduced a new positioning approach it called “Rising.” Their strategy was to to highlight common frustrations with air travel and make bold promises about how United Airlines provided a different, better level of service. However, the airline was unable to operationalize the changes needed to live up to these promises. The company abandoned the campaign after just two years because the positioning–and the airline–had lost credibility with the customer.[2]

### Repositioning Success

Despite the risks, repositioning can be wildly successful when it is handled effectively. A good case in point is the American Red Cross. In 2009, the U.S. had sunk into the Great Recession, and the American Red Cross (ARC) was also feeling the pain. With its budget relying heavily on charitable donations, and with Americans giving less due to the recession, the nonprofit organization faced a budget deficit going into the fourth quarter.

For many nonprofit organizations, the last quarter of the year is prime fundraising season, since people open their wallets for holiday giving. Up until 2009, this was not the case for the Red Cross. Americans gave generously to the organization during disasters, but the ARC wasn’t people’s top choice for holiday giving. Seeing an opportunity in this apparent disconnect, the ARC engaged a creative agency to help repositioning the organization in the minds of potential donors.

Research confirmed that the competitive advantage of the American Red Cross, in consumers’ minds, was providing help in times of disaster. The organization’s then-current positioning of “Change a Life, Starting with Your Own“ shared a powerful emotional message, but it did not reinforce the competitive advantage or create a sense of urgency around giving to the ARC. The repositioning effort developed a new positioning direction expressed in the tag line “Give the gift that saves the day.”

This message reinforced the powerful role that the Red Cross plays in times of disaster and invited Americans to be part of that important work. With words like “give the gift,” it also implanted the idea of the ARC as a great recipient for holiday giving. The following video was created as part of the 2009 integrated marketing campaign that introduced this new positioning.

A link to an interactive elements can be found at the bottom of this page.

You can view the transcript for “American Red Cross – Holiday 2009 Campaign” here (opens in new window).

The repositioning was a resounding success. Income increased more than 5 percent compared to prior years. People who saw ads associated with the repositioning campaign were twice as likely to donate as people who didn’t see them. The fourth quarter of 2009 was one of the strongest since 2000. Brand awareness increased by 6 percentage points. The benefits didn’t stop in 2009, either. Building on their success, the ARC expanded the repositioning campaign in 2010. By the end of the year, income had increased 26 percent over 2009, and the average gift size increased 43 percent.[3]

These impressive results reveal the power of repositioning when it is handled well.

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1. http://www.theguardian.com/money/us-money-blog/2014/mar/05/hipsters-taxes-brooklyn-ads-hrblock ↵
2. http://www.wsj.com/articles/SB94719666565398524 ↵
3. russreid.com/2013/02/american-red-cross-integrated-marketing-campaign/ ↵

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# 8.9: Implementing Positioning Strategy

## Putting Positioning into Practice

The positioning strategy, embodied in a strong positioning statement, is a touchstone for marketing and brand-building activities as marketers work to align everything they do in support of this core idea. In simple terms this means aligning the positioning strategy


with the marketing mix.

Positioning statements provide a relatively easy way to check whether some aspect of the marketing mix is on target or off target: if a particular marketing message or activity reinforces the positioning statement, it's probably consistent with your goals for reaching a target segment. If a marketing activity doesn't reinforce the positioning statement, it will probably create some confusion among customers about what your product, service, or brand stands for.

What does this mean in practice?

As you consider what you're doing in each area of the marketing mix, think about what your positioning statement is communicating to customers. Then ask yourself how each part of the marketing mix is helping you deliver on the expectations you are setting with those customers.

- **Product:** Is your product, service, or brand capable of delivering everything your positioning statement claims? Are any competitors doing it better than you? How should you adjust your offering to ensure that it lives up to the promises?
- **Price:** When it comes to pricing, how are you positioning your offering relative to competitors? If pricing is part of your positioning strategy, is your offering well aligned with the price you're asking customers to pay? What pricing strategies should you consider in order to compete more effectively? (More on this in the Pricing module.)
- **Place (Distribution):** Are any distribution-related themes like convenience or availability part of your positioning strategy or competitive advantage? If so, what are you doing to ensure that you can live up to what you promise? How are you communicating your new positioning approach to distribution and channel partners, and how does it impact them? (More on this in the Place module)
- **Promotion:** How are you translating your positioning strategy into messaging and actual communications with your target audiences? What behavioral shift are you trying to create as you launch your new positioning? Where and how do you need to alter existing materials to make them consistent with the new positioning (e.g., Web site, print, ads, social media, marketing content, sponsorships, events, etc.)? What types of campaigns will you use to introduce the new positioning? Which communication tools will be most effective at reaching target audiences, and what are you doing to coordinate marketing messages and activities across different channels? (Much much more to come in this area in the Promotion: Integrated Marketing Communications module.)

## Persistence Pays

Implementing a new positioning or repositioning strategy is not a simple task. It takes time and effort to bring all the pieces together, to update the old and create the new. Implementing a positioning strategy resembles turning a ship: At first the maneuver is slow and deliberate. But once you've turned and charted the new direction, momentum picks up.

To be sure your positioning activities are having the effect you want, look for ways to measure the impact of your efforts. Depending on your goals and implementation activities, what you measure can vary, but may include one or more of the following:

- Sales/revenue
- Number of new/returning customers
- Average spending per transaction
- Brand/product awareness or perceptions

- Favorability toward product/service/brand
- New leads or inquiries from inside and outside your target segments
- Web site traffic
- Social media “buzz”
- Media attention
- Customer satisfaction
- Return on investment for marketing campaigns and other activities

Above all, don’t forget to check in with customers directly to monitor how they are responding to the new positioning efforts. In all likelihood, there are things that will work and things that won’t work as you introduce the new direction. Having a direct line to customers for constructive feedback and recommendations can help you identify potential improvements and adjust course early to strengthen your impact and results.

Before leaving the topic of implementing positioning, another application of positioning strategy deserves attention. For large, complex organizations that have many products and serve many different markets and customer types, effective positioning is crucial. It’s the only way to ensure that the organization can deliver a coherent message and unique value to each target segment.

### Example: Tyco Integrated Security

What does this look like in practice? Let’s examine how the electronic security company Tyco Integrated Security (TycoIS) uses positioning.

Tyco Integrated Security is a B2B company that sells electronic security products, installation, and services in the U.S. and Canada. They recently merged with Johnson Controls. TycoIS produces a variety of security-related products and services that can be used across many different industries and sizes of companies. When you think about the security-related needs of different kinds of businesses, you realize that their needs vary widely. A small business needs systems and processes that are affordable and manageable by a single person or a small team. Large companies have extremely complex needs around physical, financial, personnel, supply chain, and information security. Needs also differ by industry. For instance, companies in the food business are concerned about food safety, handling, protection, and complying with regulations and inspections in order to stay in business. Most other industries have similarly specialized needs.

#### Company-Level Positioning

TycoIS must communicate at several different levels in order to convince people that it’s the right partner for their business. Operating at the highest level, company-to-company, the following statement explains TycoIS’s company-level positioning:

> We help companies protect their employees, customers, facilities, and operations from internal and external threats, and allow business to work smarter through enhanced security management and information management solutions.[1]

This positioning statement from the company’s Web site fits our positioning formula quite nicely, except for one thing: the defined target segment is “companies.” Is it possible to market anything effectively to all companies everywhere? No. This target is too broad. But it is a great starting point for businesspeople looking for security systems; it encourages them to delve deeper.

#### Two-Tiered Segmentation

To divide up “all companies” into manageable chunks for marketing purposes, TycoIS uses two different segmentation schema at the same time: segmentation by 1) organization size and 2) industry. Figure 1, below, illustrates how Tyco mixes these schema together:

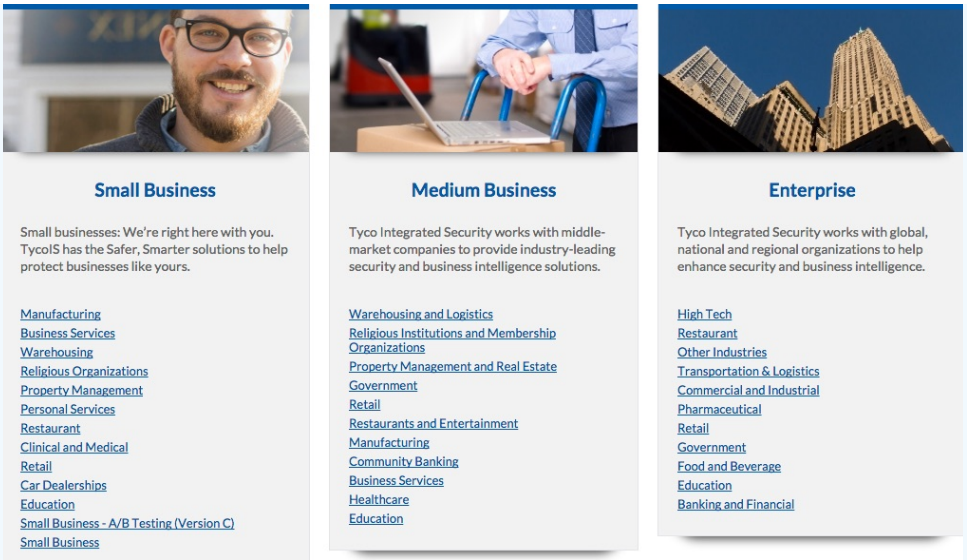


Figure 1. Source: www.tycois.com/solutions-by-industry

Given the separate messaging for each business size, it's clear that TycoIS has developed positioning around three unique market segments: small businesses, medium-sized businesses, and large enterprises.

The "Small Business" positioning uses a tone of personal reassurance: "We're right here with you." And, going a level deeper, "We offer affordable products and services to help you, as a small business owner, protect your investment."

The "Medium Business" positioning mentions "industry-leading" solutions—a term that resonates with these organizations, which are striving to grow and become leaders. The "Enterprise" positioning emphasizes TycoIS expertise working at the global, national, and regional level. It also offers to "help enhance" security and business intelligence, rather than "provide" them. This subtle wording is wise: large, enterprise organizations tend to have a lot of legacy infrastructure and processes already in place, as well as in-house security expertise. With this positioning, TycoIS suggests that it will be an expert, helpful partner to complement and strengthen the security large companies already have.

### Industry-Specific Positioning

Within each business-size segment, TycoIS has identified the common types of industries it works with. For each of these industries, TycoIS has unique positioning to convey that 1) we speak your language, 2) we understand your needs, and 3) we have a great combination of solutions just for you.


Figure 2. Source: www.tycois.com/solutions-by-industry/medium-business/restaurants-and-entertainment

Figure 2, above, illustrates how TycoIS positions its offering for medium-sized businesses in the restaurant and entertainment industry. For this target segment, the company clarifies the category of security solutions it offers: physical security, theft protection, food inventory and protection for restaurants, nightclubs, and other entertainment venues. The messaging highlights TycoIS's competitive advantage of offering industry-specific security specialists and business insights—on top of all the systems and gadgets it provides.

This detailed, industry-specific positioning flows across each of the company-size segments, and it effectively communicates the following: "Regardless of your company size or industry, TycoIS has relevant experience and familiarity with your security challenges and needs." On the company's Web site, it is easy to browse the matrix of company types and industries to find the area that matches your business. Then, as you dig deeper, TycoIS's attention to target-segment positioning ensures that you will find information that speaks to your unique needs.

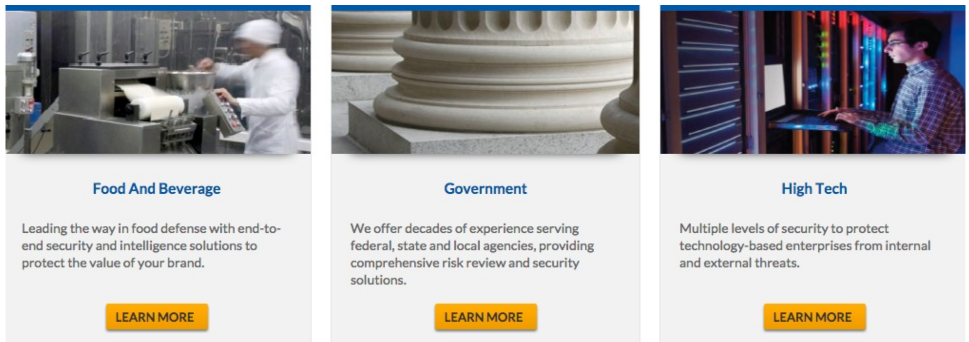


Figure 3. Source: www.tycois.com/solutions-by-industry/enterprise

It's mind-boggling to imagine all the positioning-strategy and messaging work that has gone into this type of marketing effort. In all, TycoIS actively targets 35+ different business segments! Not every organization needs this kind of detailed targeting and positioning schema. But many organizations, ones smaller and larger than TycoIS, find that this highly targeted use of positioning strategy is an effective way to do business and support their ongoing focus on customer needs.

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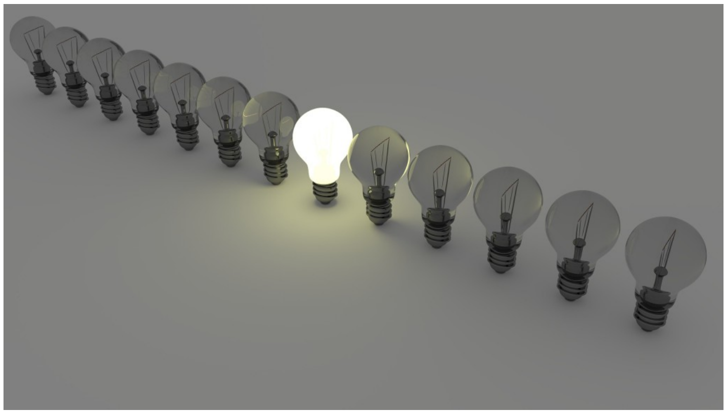
1. www.tycois.com/ ↵

## Contributors and Attributions

# 8.10: Putting It Together- Positioning



## Positioning Your Way Out of Obscurity

Let’s get back to the challenge that started this module: how to position and differentiate a company in a crowded field of competitors.

You’ll recall that you have a swell job at a newish events management company called Shindiggity. The company is struggling to find ways of setting itself apart in a crowded and growing field. At the company retreat, you have an opportunity to suggest some strategies that can help Shindiggity stand out from the competition. You also have a chance to impress your divisional VP, who is assigned to the same brainstorming and breakout group as you.

Now that you know something about positioning and differentiation, you step forward to lead your group through the positioning process.

### Step 1: Confirm Your Understanding of Market Dynamics

Once your breakout group gets going, you start with a discussion about what you’re all seeing in the market generally. You ask Kara, your VP, to share perspectives from the executive team about where it plans to target growth for the company in the coming year, and whether there are particular industries or segments it plans to focus on. Kara says that the company has seen particular growth potential in the health care and pharmaceutical industries. Shindiggity has several clients in these segments already, and you know from your experience with these events that they can be quite technical and specialized.

In fact, recently Shindiggity won three proposals for health-care-related events that you helped write. You recall from the selection process that two factors helped push your proposals over the finish line: 1) knowledge and experience required to produce and manage an event with significant industry-specific technical needs; and 2) strong, established relationships with industry thought leaders whom Shindiggity could bring into the program at relatively short notice. As you share these insights, you realize the conversation is already moving on to the next step in the positioning strategy.

### Step 2: Identify Your Competitive Advantages

You ask your colleagues to share what other factors are helping Shindiggity win new business. They agree that industry-specific technical knowledge and strong relationships with thought leaders are important distinguishing factors. While many other event management companies seem perfectly competent, there is an extra level of confidence customers express when they know Shindiggity has the expertise and connections to pull off highly technical, industry-specific events.

Someone mentions that since Shindiggity is a smaller firm than many others, it has lower overhead costs. This generally translates into somewhat lower pricing, which customers like. Kara expresses concern: “I don’t think we want to compete on lowest price. That just doesn’t feel like the right path.”

This is a perfect opportunity for you to jump in. You back her up and say, “Positioning as the low price alternative would be a mistake, since our customers don’t make their decisions based on price alone. But what about positioning Shindiggity as offering more value for the money?” Kara and the others seem to like this approach. It acknowledges the reality that pricing exercises important influence in technology decisions, but it doesn’t force the company into uncomfortably low budgets or profit margins.

### Step 3: Choose Competitive Advantages That Define Your “Niche”

The group rounds out the discussion of Shindiggity’s strengths and advantages: creativity, caring people, strong partnership with clients to achieve all their goals for the event. Next you suggest listing out the company’s key competitors and their competitive advantages, to give everyone a common picture of the competitive landscape.

The list on the whiteboard runs long—nearly twenty companies are on it. As the team begins to enumerate the competitors’ strengths, a pattern emerges. At least half of the competitors have noted competitive advantages related to the industries where they do the most work: media, sports and recreation, finance, apparel, and automotive, to name a few. If this survey of key players is any indicator, industry expertise is a great way to establish a place for yourself in events management.

While Shindiggity is not the only company with particular expertise in health care and pharmaceuticals, it is the only smallish company that has established this expertise as a competitive advantage. The handful of others tends to be larger firms with higher overhead, and, according to client feedback you heard recently, they tend to be more “cookie cutter” in their approach to events, rather than going the extra mile to give clients exactly what they want. All this talk of relative strengths and weaknesses is exciting: you’re starting to see a positioning strategy come together.

### Step 4: Define Your Positioning Strategy

After a short break, your group gets to work again. Kara observes, “We’ve got a great list of Shindiggity’s strengths here, but what do we want customers to remember about us? What’s going to make them seek us out and choose us over all these other companies they could work with?”

This is the moment you’ve been waiting for. “For our positioning strategy,” you say, “I think we should focus on owning a distinctive benefit, something we do better than anyone else, linked to Shindiggity’s strengths and competitive advantages. I’m not sure of the wording yet, but I think it’s a combination of our health care and pharma expertise, and the way we partner with clients creatively to make events feel unique and visionary. How does that sound?”

Your proposal generates excitement because it taps into what makes people at Shindiggity so enthusiastic about their jobs: creativity, vision, and the challenge of designing events that are out of the ordinary. Kara remarks that it’s a good sign when employees get this excited about a positioning strategy.

### Step 5: Communicate and Deliver on the Positioning Strategy

Your breakout group needs to consolidate its thinking to share back with the rest of the company. You suggest translating the positioning strategy into a positioning statement, using the tried-and-true formula you learned in your marketing class:

> To [*target audience*], Product X is the only [*category or frame of reference*] that [*points of differentiation/benefits delivered*] because [*reasons to believe*].[1]

After a few minutes’ work, the group hammers out a positioning statement worth sharing:

> *To health care and pharmaceutical companies, Shindiggity is the only visionary partner that produces top-notch events health care professionals love to attend because they bring together great minds, enriching activities, and a dose of the extraordinary.*

Heading back into the main meeting room, Kara compliments you on your great ideas and suggests that you be the spokesperson to share your group’s work with the rest of the company. “You should be proud,” she adds. “I think we’re really on to something here.”

1. http://equibrandconsulting.com/templates/positioning-templates ↵

## Contributors and Attributions

# CHAPTER OVERVIEW

## 9: Evaluating Value Propositions

# 9.1: Chapter Introduction

Before the SS+K team could set off to develop their marketing recommendations, Catherine Captain had to set a budget for their efforts. It was important for Russell and Amit to understand the parameters of the work at hand; creative, media, and promotional recommendations would be vastly different for a $2 million effort versus a $20 million effort.


Figure 7.1 Nine Months to Launch!

Once they were informed of the blanket budget to cover all SS+K related initiatives, it was up to them to work with Catherine to recommend the best way to make every dollar sing. But before the budget is split up, the client has to determine the total. As the VP of Marketing, Catherine had to request a certain amount of money from the board of msnbc.com—and justify why she wanted it. In the ad biz, there's no such thing as a free lunch.

# 9.2: Budgeting Methods

**Learning Objectives**

After studying this section, students should be able to do the following:

1. *Recognize* the two primary top-down budgeting methods.
2. *Identify* the pros and cons of the top-down budgeting methods.
3. *Recognize* the two primary bottom-up budgeting methods.
4. *Discuss* budget allocation and the importance of timing in budgeting.

Budget decisions are affected by conditions both internal and external to the client. One key external influence is the overall economic condition of the country and how this affects the client's industry. Even the most inspired advertising may not motivate consumers to open their wallets in troubled times like now. We see this situation now quite clearly, for example, in the automotive industry, as the stock market and credit crises have made money scarce, and consumers are pressed to pay higher prices for gasoline, home heating, groceries, and other necessities. It's not surprising, then, that automotive advertising spending in the United States dropped to $1.99 billion in the first quarter of 2008. That sounds like a lot of money (and it is!)—but it's down more than 14 percent compared with the same time a year before. As one industry executive observed, ad spending is "sinking as fast as new car sales." When times are tough, nothing is sacred: Even Tiger Woods' nine-year relationship as a fixture in General Motors' advertising got the axe as the industry tries to slash its costs.Quoted in "Auto Ad Spending Down, Except Digital," *eMarketer*, July 23, 2008, http://www.emarketer.com/Article.aspx?id=1006426&src=article1_newsltr (accessed July 23, 2008); Rich Thomaselli, "GM Ending Tiger Woods Endorsement Deal," *Advertising Age*, November 24, 2008, adage.com/article?article_id=132810 (accessed November 28, 2008); adage.com/article?article_id=46288& search_phrase=shona%20seifert.

## Top-Down Budgeting

In **top-down budgeting**, top management sets the overall amount the company will spend on promotional activities for the year. This total amount is then allocated among all of the advertising, PR, and other promotional programs. How does top management arrive at the annual promotional budget? Typically, they use a *percentage-of-sales method*, in which the budget is based on the amount the company spent on advertising in the previous year and the sales in that year.

## Percentage-of-Sales Method

The **percentage-of-sales** method is the ratio of the firm's past annual promotional budget divided by past sales to arrive at the percentage of sales. That percentage of sales is then applied to the expected sales in the coming year to arrive at the budget for that year. For example, if the company spent $20 million on advertising last year and had $100 million in sales, the percentage of sales would be 20 percent. If the company expects to achieve $120 million in sales the following year, then 20 percent of $120 million is $24 million, which would be the budget for advertising that year.

Wall Street analysts sometimes look at changes in the **ad-to-sales ratio** as a sign of the health of a company. For example, Procter & Gamble's ad-to-sales-ratio slipped from 10.7 percent in 2004 to 9.9 percent in 2006. Those declines came as P&G faced growing margin pressure from rising commodity costs. Some analysts see strong ad spending as an investment in growth or a sign that a company is having no trouble meeting its earnings targets, so they want to see an ad-to-sales ratio that is consistent or increasing.Jack Neff, "P&G Rewrites its Definition of 'Ad Spend,'" *Advertising Age*, September 3, 2007, 3.

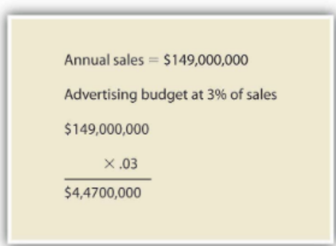



Figure 7.2 Percentage-of-Sales Method

## Industry Averages Method

Some companies use **industry averages** (published by trade associations) as a guide to set their promotional budget. Ad-to-sales ratios vary widely depending on the industry. For example, health services companies had one of the highest ad-to-sales ratios for 2006, at 18.7 percent. Other industries with high ad-to-sales ratios are transportation services (14.2 percent), motion pictures and videotape productions (13.7 percent), food (11.9 percent), newspapers (11.1 percent), and broadcast television stations (10.7 percent). In contrast, computer and office equipment had an ad-to-sales ratio of 1.2 percent, while computers and software wholesale had only a 0.2 percent ad-to-sales ratio.Kate Maddox, "Ad Spending Up in '05, '06," *B to B*, August 8, 2005, 17.

Sometimes a dramatic increase in ad spending by one competitor in an industry spurs others to follow suit. For example, in 2007 German insurance giant Allianz more than quadrupled its annual global advertising budget to 225 million euros after competitor Zurich Financial Services launched a large-scale global awareness campaign."Allianz Plans €225m Global Branding Blitz," *Marketing Week*, May 3, 2007, goliath.ecnext.com/coms2/gi_0199-6503373/Allianz-plans-225m-global-branding.html (accessed February 1, 2009). Similarly, the auto insurance industry saw overall ad spending jump more than 32 percent in just two years when GEICO increased its ad spending 75 percent in 2004; this spurred competitors to increase their ad budgets as well. Progressive Insurance spent $265 million in 2006, up from $201 million in 2004, and State Farm likewise plans to increase spending, which topped $270 million in measured media in 2006.Mya Frazier, "Geico's $500M Outlay Pays Off," *Advertising Age*, July 9, 2007, 8.

Spending on certain segments of the promotional budget, such as on coupons, is very much driven by competitor spending levels. Consumer packaged goods companies like P&G and Unilever claim not to like couponing schemes as a promotional activity. Indeed, P&G looked into eliminating coupons in 1997 due to declining newspaper circulation and usage. But companies are tied to using coupon promotions. If one company alone decides to forgo couponing, they face losing cost-conscious consumers to the competition. If companies try to work together to scale back on couponing, they might be accused of violating antitrust regulations. As a result, spending on the media side of couponing was up 26 percent in 2006, reaching $1.8 billion, even though consumer use of coupons was down 13 percent during the same time period.Jack Neff, "Package-Goods Players Just Can't Quit Coupons," *Advertising Age*, May 14, 2007, 8.

## Pros and Cons of Top-Down Methods

The advantages of top-down approaches are their speed and straightforwardness. The disadvantage is that the methods look to the past as a guide, rather than to future goals. Just because a company spent $40 million on advertising the previous year doesn't mean that figure is right for next year. Also, budgets tied to sales figures mean that a company's promotional budget will decrease if sales decrease—but in fact increasing the promotional budget may be precisely what is needed in order to remedy declining sales.

## Bottom-Up Techniques

Alternatively, some companies begin the budgeting process each year with a clean slate. They use **bottom-up budgeting** techniques, in which they first identify promotional goals (regardless of past performance) and allocate enough money to achieve those goals.

## Objective-Task Method

The **objective-task method** is the most common technique of bottom-up budgeting. Companies that use this method first set the objective or task they want the promotion to achieve. Next, they estimate the budget they will need to accomplish that objective or task. Finally, top management reviews and approves the budget recommendation.

For example, champagne maker Moët & Chandon set its objective "to grow the whole market" in the United States.Jeremy Mullman, "Moët, Rivals Pour More Ad Bucks into Bubbly: Champagne Makers Try to Create Year-Round Demand," *Advertising Age*, September 3, 2007, 4. That is, Moët will use advertising to increase consumption of champagne throughout the year, not just over the holidays. Moët based its objective on research that compared champagne consumption in the United States to that in other countries. "The average U.S consumer drinks half a glass of champagne a year, the average British consumer drinks half a bottle and the average French consumer drinks three bottles. There's clearly room for growth," said Stuart Foster, director of business development at Moët-Hennessy USA.Jeremy Mullman, "Moët, Rivals Pour More Ad Bucks into Bubbly: Champagne Makers Try to Create Year-Round Demand," *Advertising Age*, September 3, 2007, 4. Moët more than tripled its U.S. ad spending in 2006 to $9.5 million from $2.8 million. Reflecting the objective, the company ran its advertising in the summer rather than just around the holidays.

Similarly, Danone Waters is increasing its ad spending in the United Kingdom in 2008 in an effort to increase bottled water consumption among British consumers. Danone Waters is increasing its spending by 15 percent, compared to Moët's tripling of ad expenditures, which shows that there is no hard-and-fast rule about how much budget is needed to reach a given objective.Jeremy Mullman, "Moët, Rivals Pour More Ad Bucks into Bubbly: Champagne Makers Try to Create Year-Round Demand," *Advertising Age*, September 3, 2007, 4; "Danone Waters Plans to Increase Spend by 15%," *Marketing*, July 25, 2007, 4.

Other objectives advertisers can set include acquiring new customers, retaining existing customers, or building the brand. The objective to acquire new customers often requires a bigger budget than the advertising the firm needs to retain existing customers.

## Stage-Based Spending

Some companies use the **product life cycle method**, in which they allocate more money during the introduction stage of a new product than in later stages when the product is established. For example, Procter & Gamble allocated $15 million to advertising Dawn Simple Pleasures, a new liquid detergent product that comes with a separate air freshener attached to the base of the bottle. It allocated less money ($10–12 million) for Dawn Direct Foam, a product it launched two years prior.Vanessa L. Facenda, "Procter Dishes out 3-Tiered Dawn Attack," *Brandweek*, September 24, 2007, 4. The need to spend heavily to promote new products is especially strong for pharmaceutical companies when they introduce new drugs. Pharmaceutical companies need to get physicians to talk about their drugs and prescribe them.

In contrast, companies such as baby food manufacturers need to invest in strong promotion on a continual basis, because they get a new set of customers every year. "We provide strong consumer promotion support to drive trial, particularly in our baby segments, where we have a new group of consumers entering the market each year," said Randy Sloan, executive vice president and general manager at Del Pharmaceuticals, which is the number one advertiser in teething pain relief, children's toothpaste, and adult oral pain products.Quoted in "A Targeted Approach Creates a Powerhouse," *Chain Drug Review*, June 4, 2007, 34.

### SS+K Spotlight

Since msnbc.com's fiscal year runs from July to June, Catherine Captain and all other department heads must start submitting their budget requests in March so that the board can determine their budgets before the next fiscal year starts. They use a bottom-up strategy based on objectives, but sales are also a vital part of determining what the final spend will be.

### Video Spotlight

*Catherine Captain*

(click to see video)

*Catherine Captain talks about the relativity of budget sizes.*

## Budget Allocation and Timing

In addition to deciding how much to spend, companies need to know when they will be spending the money.

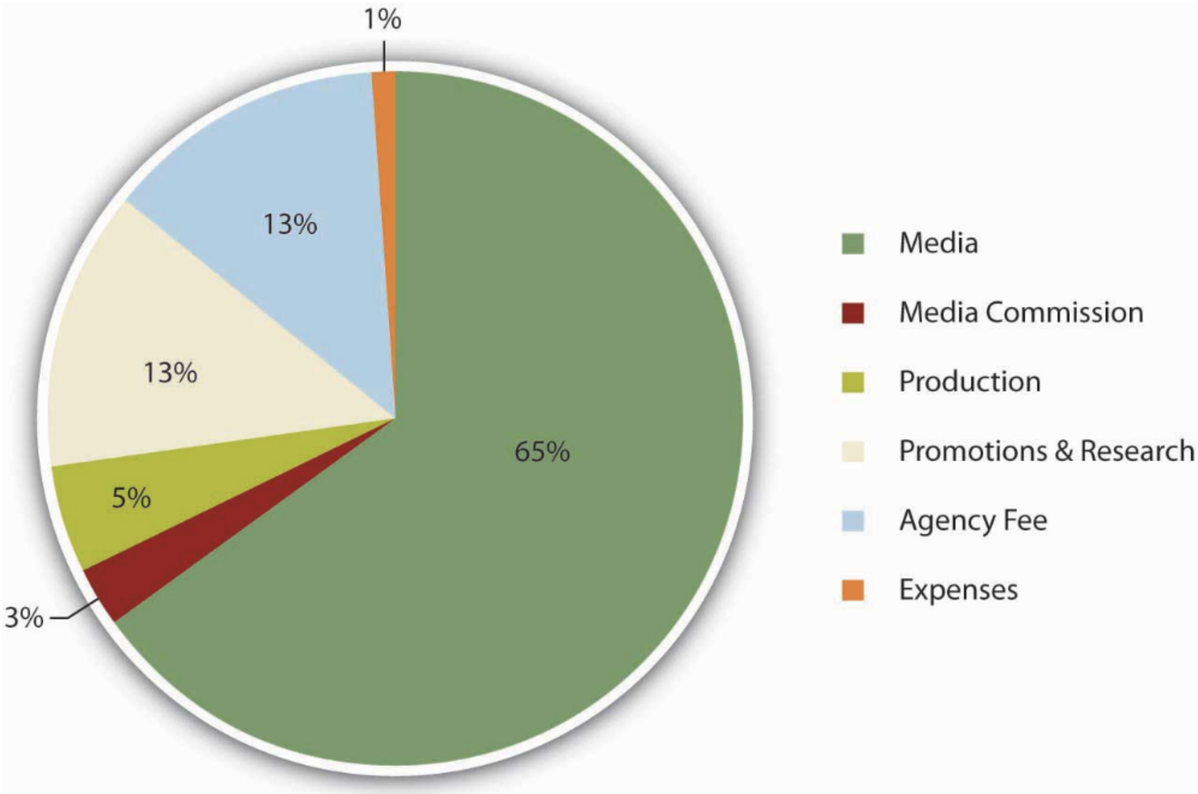



Figure 7.3 msnbc.com Budget Allocation

For some companies, the timing is smooth. As we saw with the Moët champagne example, the company will spend its budget throughout the year. Many other businesses step up their advertising in the weeks leading up to the Christmas holiday season. Others, such as beach apparel makers or home improvement companies whose work is done in warm weather, may concentrate their spending during a particular time of year.

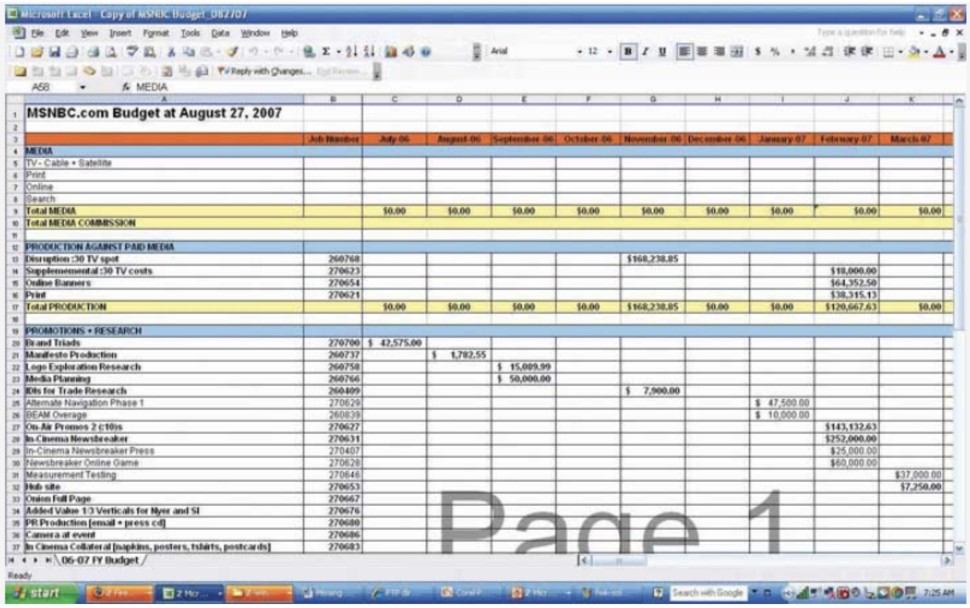
Keep in mind that the budget needs to pay for more than just creating the ads and buying the media to run them. Consider a beachwear campaign for an apparel maker as an example. Although most of the campaign budget is spent in the second quarter on media buys to hit consumers with swimsuit ads as they gear up for summer, the ad agency has to allocate some of the money to laying the groundwork for this campaign. It will need to spend some money in the earlier part of the year to pay for market research, ad development, and testing. After the ads run, the last of the budget might go to assess the campaign's effectiveness.

Other factors that contribute to budgeting:

- Media costs: For retailers, the holiday season is a popular time, so like all things supply and demand, media costs tend to go up during that time.
- Production costs: An incredible number of components contribute to making an ad, whether it's TV, Web banner, or print, and the cost can vary widely, which is important to consider when you build a bottom-up budget.

### SS+K Spotlight

While a lump sum budget had been approved for SS+K to spend, Catherine Captain and msnbc.com had to be responsive to their internal revenue situations. In other words, if they weren't hitting other advertising sales objectives, they were not going to be ready to pull the trigger on the disbursement of millions of dollars.



| MSNBC.com Budget at August 27, 2007 | Job Number | July 06 | August 06 | September 06 | October 06 | November 06 | December 06 | January 07 | February 07 | March 07 |
|---|---|---|---|---|---|---|---|---|---|---|
| MEDIA | | | | | | | | | | |
| TV - Cable + Satellite | | | | | | | | | | |
| Print | | | | | | | | | | |
| Online | | | | | | | | | | |
| Search | | | | | | | | | | |
| Total MEDIA | | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 |
| Total MEDIA COMMISSION | | | | | | | | | | |
| | | | | | | | | | | |
| PRODUCTION AGAINST PAID MEDIA | | | | | | | | | | |
| Disruption :30 TV spot | 260768 | | | | | $168,238.85 | | | | |
| Supplemememental :30 TV costs | 270623 | | | | | | | | $18,000.00 | |
| Online Banners | 270654 | | | | | | | | $64,352.50 | |
| Print | 270621 | | | | | | | | $38,315.13 | |
| Total PRODUCTION | | $0.00 | $0.00 | $0.00 | $0.00 | $168,238.85 | $0.00 | $0.00 | $120,667.63 | $0.00 |
| | | | | | | | | | | |
| PROMOTIONS + RESEARCH | | | | | | | | | | |
| Brand Triads | 270700 | $ 42,575.00 | | | | | | | | |
| Manifesto Production | 260737 | | $ 1,782.55 | | | | | | | |
| Logo Exploration Research | 260758 | | | $ 15,009.99 | | | | | | |
| Media Planning | 260766 | | | $ 50,000.00 | | | | | | |
| IDIs for Trade Research | 260409 | | | | | $ 7,900.00 | | | | |
| Alternate Navigation Phase 1 | 270629 | | | | | | | $ 47,500.00 | | |
| BEAM Overage | 260839 | | | | | | | $ 10,000.00 | | |
| On-Air Promos 2 (:10)s | 270627 | | | | | | | | $143,132.63 | |
| In-Cinema Newsbreaker | 270631 | | | | | | | | $252,000.00 | |
| In-Cinema Newsbreaker Press | 270407 | | | | | | | | $25,000.00 | |
| Newsbreaker Online Game | 270628 | | | | | | | | $60,000.00 | |
| Measurement Testing | 270646 | | | | | | | | | $37,000.00 |
| Hub site | 270653 | | | | | | | | | $7,250.00 |
| Onion Full Page | 270667 | | | | | | | | | |
| Added Value 1/3 Verticals for Nyer and SI | 270676 | | | | | | | | | |
| PR Production [email + press cd] | 270680 | | | | | | | | | |
| Camera at event | 270686 | | | | | | | | | |
| In Cinema Collateral [napkins, posters, tshirts, postcards] | 270683 | | | | | | | | | |

Figure 7.4Budget Snapshot of the Elements and Timing for the msnbc.com Campaign

SS+K outlined each element of the production and when the agency would have to have the client's money fully committed and available to spend. Part of the account management team's responsibility is to manage the schedule by which everyone gets paid for her part in a production.

## Video Spotlight

*Catherine Captain*

(click to see video)

*Catherine Captain explains the importance of the first marketing budget and what would happen if it didn't go well.*

## Key Takaway

Clients use a variety of methods to determine their advertising budgets. One basic distinction is between top-down and bottom-up methods. Top-down approaches are easier; they basically use last year's expenditures as a starting point. However, they also are more simplistic and may be self-defeating because they wind up allocating more money to promote products that are doing well at the expense of products that are doing poorly—when just the opposite adjustment may make more sense. Bottom-up approaches start by specifying the particular objectives a firm has for a brand and then estimating how much it will cost to meet those objectives. Budget-setting is more complicated than just tallying up what it costs to make and place advertising; the client also has to consider the resources an agency will need to conduct research, develop an advertising strategy, and measure how well the strategy worked so it can tweak the approach in the future if necessary.

## EXERCISES

1. Compare and contrast top-down budgeting with bottom-up budgeting.
2. Describe when advertisers should use the percentage of sales and industry averages methods for budgeting.
3. Describe when advertisers should use the objective-and-task and stage-based spending methods for budgeting.
4. Describe and explain the factors that contribute to proper budget allocation and timing.

# 9.3: Share of Voice (SOV)

**Learning Objectives**

After studying this section, students should be able to:

1. *Describe* share of voice (SOV) and its role in creating budget objectives.

## How Loud Are You?

**Share of voice (SOV)** is the relative fraction of ad inventory a single advertiser uses within a defined market over a specified time period. It measures how you are doing relative to competitors and relative to all the ads within your given space. It tells you the total percentage that you possess of the particular niche, market, or audience that you are targeting. The obvious way for a client to attain high SOV is to buy a lot of ad space. Another way is to have competitors that don't advertise very much; remember SOV is a measure of relative activity.

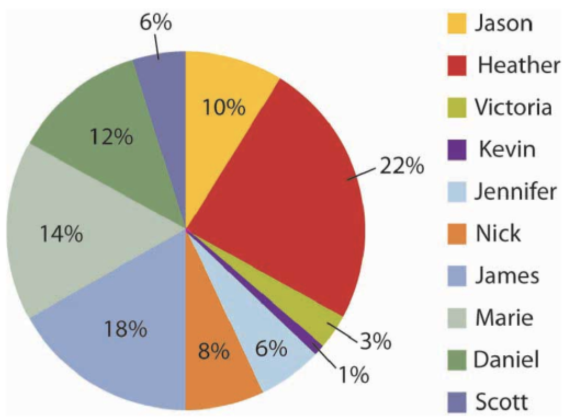



Figure 7.5 Share of Voice The share of voice concept can be demonstrated by the participation in a class. The students who participate the most relative to other students have a larger share of voice in the class. The same happens in advertising.

Online, Google uses a similar metric it calls **Impression Share** to represent the percentage of times your ads were actually shown in relation to the total number of chances your ads could have been shown, based on your keyword and campaign settings."Discover your Share of Voice with Impression Share Reporting," *Google AdWords*, http://adwords.blogspot.com/2007/07/discover-your-share-of-voice-with.html, (accessed July 23, 2008).

## SS+K Spotlight

As msnbc.com's marketing budget is nowhere near those of its largest rivals like CNN or the New York Times, SS+K didn't even think about attaining competitive SOV share in this campaign. However, since a major objective for the campaign was to increase awareness and impressions, the agency deliberately used tactics that resulted in large SOV on a particular day. For example, when they placed their ads on Web sites they would try to engineer a "homepage takeover" or a "roadblock," meaning that all the available ad units on the homepage are dedicated to one advertiser.

In situations where big clients compete on a fairly even playing field (unlike SS+K's "David and Goliath" situation with msnbc.com), share of voice is an important indicator of competitiveness. It reflects the extent to which your customers are being influenced by your ads versus those of rivals who also try to get their attention with similar messages. Long-term analysis shows that brands that increase their share of voice with powerful advertising stand a better chance of increasing their market share.

High SOV helps provide top-of-mind awareness and provides a company with a competitive advantage because this awareness allows it to dictate what criteria consumers use to evaluate products."Pepsi introduces freshness dating," *Chain Drug Review* (April, 1994), http://findarticles.com/p/articles/mi_hb3007/is_199404/ai_n7964159, (accessed July 23, 2008). For example, in the last century (1994, to be exact) the heavy advertiser Pepsi introduced "freshness dating" on its products and convinced many consumers that it's important to buy cans of soda that are less than a year old."Research Ensures Rewards," *Marketing Week* (July 5, 2007), p33. This campaign was pretty successful—even though in reality a very small percentage of soft drink inventory in a grocery store would linger on the shelves for that long. In the ad biz, it's often true that "he who has the bucks, makes the rules."

## Using SOV

How much share of voice can you afford? How much would it cost to buy every minute of commercial time in the Super Bowl? You can't afford to buy it all, but you can buy some fraction of it.

Attaining high SOV usually means spending more than your competitors. If your analysis suggests that your competitors spend $5 million on media buys, then you need to spend $5 million just to match them and achieve a 50% SOV. If the competition has cut back on spending (such as during an economic downturn like we're now experiencing), then you might maintain your current level of ad spending and still garner a high SOV. If your company has many competitors or bigger competitors, you may find it impossible to outspend them to achieve a high SOV.

### Dig Deeper

To promote its DVD of *Hollow Man*, movie studio Columbia Tri-Star asked its ad agency, Universal McCann Los Angeles, to reach as many consumers as possible with a relatively low budget. Like SS+K did for msnbc.com, the agency created a "roadblock" campaign on the top online portals, entertainment properties, and sci-fi sites over a few hours in one specific day. During a **roadblock**, the only ads that appear are those for that company. Thus, on one Friday during the lunch hour and during 6:00 p.m. to 9:00 p.m., the only ads shown on these sites were for *Hollow Man*, achieving 100% SOV for those hours.

Did this saturation strategy work? Several online vendors reported huge sales spikes of *Hollow Man*, and one vendor reported a 25% sales increase during the time the campaign was live. In addition, the DVD debuted in the number one position for sales and remained in the Top-Twenty Chart for three months.Joseph Jaffe, "Dominate Online Share of Voice," *iMedia Connection* (February 24, 2003), http://www.imediaconnection.com/content/1050.asp, (accessed July 23, 2008).

## SOV for Small Companies

For small companies, share of voice is often not an appropriate metric because there are so many bigger competitors who will outspend the smaller company. The online roadblock tactic might be one way of achieving share of voice that is less expensive. Perhaps a better way to set budgets, however, might be to use the return on investment approach, as we'll see next.

### Key TakawayS

Share of voice is a way to think about the impact one brand's advertising has on its audience—relative to what its competitors are doing. Clients with reasonably equal resources can compare how active they are (i.e., how many messages the campaign sends out). Clients who are at a financial disadvantage have to be a bit more creative. Sometimes they prefer to concentrate their limited resources to get a bigger bang for the buck during a limited time period and forgo the opportunity to send out their messages at other times.

### EXERCISES

1. Explain the concept of share of voice (SOV) and its importance to the budgeting process.
2. Discuss roadblocks and how they may be used to enhance share of voice (SOV).

# 9.4: Return on Investment (ROI)

## Learning Objectives

After studying this section, students should be able to do the following:

1. *Define* and *evaluate* return on investment (ROI).
2. *Explain* why return on investment (ROI) can make advertising accountable.
3. *List* and *discuss* the keys to using return on investment (ROI) successfully in the pursuit of profit and channel effectiveness.

## Did You Get What You Paid For?

**Return on investment** is the amount of profit an investment generates. In other words, did your action result in more (or less) than what it cost to implement? The ROI approach to budgeting looks at advertisement as an investment, not a cost. And like any investment, the company expects a good financial return on that investment. By making the investment in advertising, the company expects to see profits from that investment.

The idea behind ROI is that for every dollar you spend on advertising, you get a dollar-plus-something of profit in return. The challenge with ROI is that it's difficult to interpret and analyze the contribution of a specific ad, media channel, or campaign to overall profit. Is the profit coming from a short-term sales blip or is it contributing to longer-term profits?

$$\frac{(\text{gross profit generated by advertising} - \text{cost of advertising})}{\text{Cost of advertising}} = \text{ROI}$$

$$\frac{(\$3{,}000{,}000 - \$800{,}000)}{\$800{,}000} = 275\%$$

Figure 7.6 ROI is a way to determine the sales generated from advertising relative to the cost of the advertising.

## Why ROI Is Important

ROI is the language of business. Although many marketing people traditionally evaluate a campaign's success in terms of intangibles like brand awareness, top management insists on more tangible results: ka-ching! Advertisers face increasing pressure to translate the results of what they do into ROI terms. If they succeed, they can assure the bean counters that if they're given a certain amount of budget, they will earn the company *x* percent more. But it's not so easy to quantify the effects of ad messages, and it never has been. One well-known quote (so well known it's practically a cliché) that has at times been attributed to Henry Ford, retailing executive John Wanamaker, and others sums up this dilemma: "I know that half of my advertising works—I just don't know which half."

### Dig Deeper

How many people watch TV commercials, and how effective are these spots in influencing actual purchases? These are vitally important questions—especially because the networks set their rates for advertising based upon how many people see their shows. To date there still is no foolproof way to deliver these **metrics**, and it's the source of a lot of controversy in the advertising industry.

The dominant measurement system is the Nielsen Television Ratings that the networks have relied upon since the earliest days of television. The Nielsen Company collects these measures by recruiting a panel of consumers who keep a diary of what they watch and by so-called set meters that it connects to members' TV sets to transmit data about which channels get selected. These methods suffer from obvious problems—for example, our memories about what we watch often are distorted and biased, and just because a set is tuned to a channel doesn't mean anyone is actually watching. Nielsen is working hard to update its technology with People Meters that individual members of the household use to record their viewing behaviors. GfK AG's Mediamark Research Inc. also is developing a pager-size media-measurement device. And, to keep pace with consumers' changing habits, Nielsen has started to measure out-of-home viewing (in bars, dorms, and other locations) as well as the usage of digital video recordings like TiVo. Nielsen is also working on a new measurement system it calls Anytime Anywhere Media Measurement. This system will track a group of sample viewers—but it will monitor their usage of several different media including the Internet, mobile devices like iPods, and traditional television.Emily Steel, "Who's Watching Those Webisodes? As TV Programs Fan Out to Cellphones and Beyond, a Race to Measure Audience," *Wall Street Journal*, October 11, 2006, B4.

The company that comes up with a truly reliable system to measure how consumers interact with media (and the advertising they contain) will be worth its weight in gold. One new research firm called TRA (True ROI Accountability for Media) is trying another strategy: it merges data from people's cable set-top boxes with consumer-purchase databases, such as the information stores gather from frequent-shopper cards. For instance, a company could see whether households that watched an ad for its toothpaste later bought that brand of toothpaste. In a test of its system, TRA is using data from cable boxes to measure second-by-second viewership of TV programs and commercials in three hundred thousand households in Southern California, and it aims to sign up more than one million U.S. households across the country in the near future.Stephanie Kang, "Couch to Supermarket: Connecting Dots," *Wall Street Journal*, February 11, 2008, B7.

A different approach hopes to use cell phones to measure what consumers listen to and see. The startup firm Integrated Media Measurement Inc. has developed software that enables specially adapted cell phones to take samples of nearby sounds, which it then identifies by comparing these to a large database. The company claims that this technology can track exposure to television, radio, CDs, DVDs, video games, sporting events, audio and video on portable gadgets, and movies in theaters. These are some of the questions the company hopes to answer:Don Clark, "Ad Measurement Is Going High Tech: Explosion of Media Offerings Complicates Finding whether Message is Getting Through," *Wall Street Journal*, April 6, 2006, B4.

- How often are TV shows watched outside the home?
- Which songs prompt listeners to change radio stations?
- Which movie trailers get viewers to go to the theater?
- Which technology will prevail?

Stay tuned…

## ROI Is the Real Goal (SOV Is Only the Means to an End)

At the end of the day, then, share of voice is only a means to the end. Ultimately, advertisers want consumers to purchase what they make, not just think their ads are awesome. If the money spent on advertising never generates any returns, then what is the point—other than to improve the bottom lines of ad agencies and enrich the portfolios of creative directors? As Gavin Ailes, business director at The Search Works in the United Kingdom, explained, if a company gets two dollars back for each dollar they invest, "that's great, they shouldn't really worry too much whether they have 'share of voice' or whatever among a particular group."Quoted in Sean Hargraves, "Made to Measure," *New Media Age*, June 21, 2007, 21.

## ROI Makes Advertising Accountable

An Institute of Practitioners (IPA) report entitled *Marketing in the Era of Accountability* is based on the IPA's database of effectiveness awards case studies. The report found that advertising campaigns that set hard objectives, such as to "improve profits," are more effective than those that focus on intermediate goals, such as degree of brand awareness. Fewer than 20 percent of companies evaluate their communications campaigns on the basis of their effect on profits, however, because it is easier to measure an intermediate metric than an ROI metric."Marketing Theory: Everything You Know Is Wrong," *Marketing*, June 13, 2007, 28.

### SS+K Spotlight

As msnbc.com set its goals for the branding campaign, the client had to identify what metrics (measures of effectiveness) would be most meaningful to their mission. All marketers ultimately aim to increase revenue for their business as a result of marketing efforts. Every element of a campaign has accountability to perform or meet that goal; otherwise it's not likely to appear again.

With the first round, msnbc.com decided to invest in some short-term vehicles—Web ads and click-through rates—to determine ROI. They also invested in some long-term vehicles such as the screensaver and the NewsBreaker online game we'll check out later.

## Keys to Using ROI

Using ROI effectively depends on several factors, including visibility, the difference between revenue and profit, channel effectiveness, and taking a long-term perspective.

## Visibility: Can You See the ROI?

Some firms are in the enviable position of seeing a return on their investment more directly than others. For example, Domino's Pizza can see the results of its advertising almost immediately—a TV ad immediately spurs calls to its outlets as people order the ExtravaganZZa Feast the spot featured. As the chain's marketing director explained, "The time it takes from initial consideration to consumption can be less than an hour. We can see the impact of a TV ad almost immediately."Quoted in "The Marketing Society Forum—Is a Focus on ROI Hindering Marketing's Effectiveness?" *Marketing*, June 20, 2007, 24.

Online advertising is also amenable to rigorous ROI measures. Watching impressions, counting click-throughs, and using cookies let advertising managers know how many people saw an ad, clicked on the ad, and bought from the ad. Web traffic can be tracked, and advertising spending can be aligned to sales."The Self-Assured Industry," *Marketing Week*, June 14, 2007, 28.

### Dig Deeper

As difficult as the ROI of traditional advertising vehicles is to measure, word of mouth is even harder to measure. As online content chatter on blogs and Web sites continues to mushroom, advertisers need to measure just what consumers are saying about their products and how active they are in spreading the word about viral marketing campaigns or other online promotions. Buzz Metrics, a subsidiary of the Nielsen Company, offers marketers research services to help advertisers understand how CGM (consumer-generated media) affects their brands. Nielsen's Buzz Metrics search engines identify online word-of-mouth commentary and conversations to closely examine phrases, opinions, keywords, sentences, and images people use when they talk about a client's products. The company's processing programs then analyze vocabulary, language patterns, and phrasing to determine whether the comments are positive or negative and whether the authors are men, women, young, or old to more accurately measure buzz. BuzzMetrics' *BrandPulse* and *BrandPulse Insight* reports tell advertisers who is talking about their products online and what they say about the ads they're seeing.Keith Schneider, "Brands for the Chattering Masses," *New York Times Online*, December 17, 2006, http://www.nytimes.com/2006/12/17/business/yourmoney/17buzz.html (accessed December 17, 2006); Nielsen Buzzmetrics, www.nielsenbuzzmetrics.com/products (accessed April 14, 2008).

## ROI Requires More Profit, Not Just More Revenue

Ideally, payback should be about profit, but many companies confuse added profit with added revenue. To avoid these mistakes, clothing manufacturer VF Corp (whose brands include Lee, Wrangler, Nautica, and The North Face, among others) spent two years and millions of dollars studying consumer responses to its marketing efforts while seeking to determine which of its brands have gotten the best ROI from advertising. "We are convinced we can be more effective by having a better understanding of marketing return on investment and will get paid back on our investment several times over," said Eric Wiseman, president/COO at VF.

In 2006, VF spent about $325 million on advertising across all its brands. The Nautica brand is already reaping the benefits of VF's ROI research. The company increased Nautica's marketing budget the next year. "Our budget is up and we are moving the mix around," said Chris Fuentes, vice president of marketing at Nautica. "We've looked at each element of our marketing—magazines, newspaper, outdoor, sponsorship, public relations—[and] we can isolate what is working. We're understanding now what is driving consumption and building brand equity."

The research helped the company decide that Nautica's advertising budget should be increased because the advertising was providing a good return on investment. What's more, the research helped Nautica pinpoint which of its campaigns were most effective in bringing that return. Nautica is using that information to decide how to allocate its advertising budget. Nautica uses an integrated marketing program of print, outdoor, and Internet advertising. The research showed that newspaper ads generated underachieving results, so Nautica will spend less on them, but it will boost its Internet presence to target young men for its new N series jeans. Nautica spent $20 million on ads in 2006.Quoted in Sandra O'Loughlin, "VF Designs Dynamic Future for Lee, Wrangler, Nautica: ROI Study Spurs Aggressive Marketing Plans at $7B Company," *Brandweek* April 9, 2007, 16.

## ROI for Channel Effectiveness

ROI can also help manage an advertising campaign as effectiveness measures help identify which specific media platforms deliver the best bang for the buck. Nautica relies on its ROI research to drive budget allocation among different campaigns, allocating more to those that have provided the best return in the past. For example, Nautica's sponsorship of the AVP Pro Beach Volleyball Tour produced good results. So, in 2007, Nautica increased its presence there, adding on-court billboards and a scoreboard bug on the TV screen, and having announcers and pro Misty May outfitted in Nautica apparel.

### Dig Deeper

One promotional channel that's been getting a lot more attention in recent years is **POP (point-of-purchase) advertising**—ad messages that shoppers see when they are physically located in a purchasing environment. Like traditional advertising, it's hard to determine how effective these messages are—though we know that in some categories (e.g., grocery) many shoppers don't make their final decisions until they're wheeling their carts through the aisles (never go food shopping when you're hungry!).

A major new initiative called P.R.I.S.M. (Pioneering Research for an In-Store Metric) is attempting to quantify the impact of these messages. Participating companies include Procter & Gamble, Coca-Cola, ConAgra, General Mills, Kroger, Walgreens, Wal-Mart, 3M, Walt Disney, Kellogg, Miller Brewing, and even Nintendo. Ad agencies OMD and Starcom MediaVest Group, as well as multiple retailers, are also involved. The measurement model predicts consumer reach by category or area of the store, by retail format, and by day of the week, delivering unprecedented insight into the store as a marketing channel.

The consortium's research team began working on the theory that, by predicting in-store traffic, then determining what marketing communications are in the store, it could calculate the "opportunities to see" a specific communication. By using existing statistical models that factor out duplicate impressions (accounting for multiple "visits" to the area by the same people) a measurement for consumer reach could be calculated for specific locations in the store. Initial tests have been promising. The CEO of Procter & Gamble recently predicted, "P.R.I.S.M. will transform how we think about in-store consumer communications and behavior."Quoted in David Goetzl, "P&G CEO Endorses In-Store Marketing Measurement," *Marketing Daily*, February 25, 2008, www.mediapost.com/publications/index.cfm?fa=Articles.showArticle&art_aid=77117 (accessed February 25, 2008); "The P.R.I.S.M. Project: Measuring In-Store Reach," In-Store Marketing Institute, September 2006, http://www.instoremarketer.org/?q=node/5779 (accessed July 23, 2008).

## Avoid Overemphasis on Short-Term ROI

Most advertising ROI metrics tend to focus on short-term profits from the immediate response to an ad. This emphasis is appropriate in some contexts; for example, that's one of the big advantages of direct marketing, because the firm can immediately trace the impact of a mailing or e-mail blast and decide right away if it boosted orders.

On the other hand, brand-building campaigns produce a low ROI in terms of short-term profits, but they are crucial for the long term. In these cases managers may need to adopt a broader field of vision and be patient, even if they are bleeding red right now. For example, one company discovered that every dollar the company spent on TV advertising yielded only eighty cents back in short-term sales. Executives were thinking of chopping the TV budget, but the general manager said, "Just because print and promotion activities have the highest ROI, doesn't mean they should get the majority of the money. Print only accounts for a small fraction of total sales, and while TV has a lower ROI, it's responsible for a huge amount of ongoing sales."Quoted in Randy Stone, "When Good Returns Mean Anything But," *Brandweek*, April 9, 2007, 20. This reasoning shows that the bigger picture must be taken into account when managers make budget decisions. Making this case can be a daunting task for advertising agencies, especially when their clients are under pressure to show profitable returns to their shareholders.

### Key Takaway

At the end of the day, it's all about ROI. Ad agencies and other promotional companies are coming under increasing pressure to show specifically how their activities deliver value to the client—by quantifying how much financial return the client receives in exchange for the money it spends to advertise. Showing ROI is difficult when many campaigns are more about building long-term awareness and loyalty than prompting immediate purchases (sales promotions, online advertising, and direct marketing are better able to link specific messages to specific results). However, there is a silver lining: this greater discipline forces advertising agencies to be more accountable—and in the process perhaps change the mindset of managers who tend to view advertising as a cost they need to minimize rather than as an investment in the brand's performance.

### EXERCISES

1. Explain the concept of return on investment (ROI) and its importance to the budgeting process.
2. Give two examples of how industry uses return on investment (ROI) to measure how consumers interact with media.
3. Explain how return on investment (ROI) makes advertising accountable.
4. List and describe four keys to using return on investment (ROI) successfully.

# 9.5: Managing a Budget

Now that you understand the importance and implications of marketing investments, it's important to set up your budget specific to the needs of the campaign and the client. From Figure 7.3 "msnbc.com Budget Allocation" we know that msnbc.com had to monitor its spending by month and by category (agency fee, production, media, promotions, etc.). This budget was set up to reflect the contract between SS+K and msnbc.com that spelled out the categories and the amounts of the client's money that the agency was entitled to spend.

The open collaboration and understanding of financials is key to the success of any business partnership. Both sides are responsible for staying in budget, and the agency is specifically responsible for justifying anything it spends for any purpose to a client. Former Ogilvy and Mather executives Shona Seifert and Thomas Early learned this lesson the hard way. In 2005, both were convicted and sentenced to prison for their roles in overbilling one of the agency's clients, the Office of National Drug Policy. Seifert also was ordered to write a code of ethics for the entire ad industry as part of her sentence.Matthew Creamer, "Shona Seifert Sentenced to 18 Months in Prison," *Advertising Age*, July 14, 2005, adage.com/abstract.php?article_id=46288 (accessed February 1, 2009).

There are a few key pieces to managing the budget: *bids, estimates, invoices,* and *actuals*. A **bid** is the estimated cost that a vendor will charge for a service. In some cases, the agency will have an exclusive partnership, and only one bid is needed. In other cases, a producer will take bids from multiple potential vendors or partners in order to understand the scope and price of that service.

Once the agency collects the bids, it will recommend the partner to the client. The formal acceptance of costs is the **estimate**. It is generated from the producer or accounting department. The agency outlines the job, a description, and the costs associated with the job. A job number is assigned to every estimate, and this job number and cost are inserted into the budget.

The agency *invoices* the client, and the client then pays the agency on the agreed-upon schedule. Sometimes jobs are billed at 100 percent of an invoice. Another common practice is to bill 50 percent of an invoice up front and 50 percent upon completion. It is important for the account manager to establish a system that works both for the agency and for the client when it comes to billing.

**Actuals** are the final cost of a job upon completion. In the SS+K/msnbc.com budget tracker that Figure 7.3 "msnbc.com Budget Allocation" shows, the bid is indicated in *italics*, the estimate is indicated with no treatment, and actuals are indicated in **bold**. This helps the agency and the client understand the money flow and make future spending decisions accordingly.

## Key Takaway

The open collaboration and understanding of financials is critical to the success of any business partnership. Both agency and client are responsible for establishing and maintaining the budget. The agency is specifically responsible for justifying anything it spends for any purpose to a client. The key components that an agency must manage are *bids*, *estimates*, *invoices*, and *actuals*.

## 9.6: Putting It Together- Segmentation and Targeting

Remember Chumber, your new employer from the beginning of this module?

Now that you've learned something about segmentation and targeting strategy, let's return to the request your boss made for recommendations about whom Chumber ought to target and why.

Remember that Chumber's product is an automated, fully online system for checking the references of job candidates. Chumber's customers are other companies. After learning about market segmentation, you know that "all companies" is too broad to be a useful target market. Even on your first day of work, you can guess that marketing to every company you can find isn't going to be a smart strategy.

Instead, you do a little research. It stands to reason that Chumber will be most valuable to companies that do a lot of hiring. A Google search for "employment by industry" brings up U.S. Bureau of Labor statistics data to help you identify which industries are expected to post the biggest gains in employment in the coming years.

Table 1: Employment by major industry sector

| Industry Sector | Thousands of Jobs | | | Change | | Percent Distribution | | | Compound Annual Rate of Change | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2018 | 2028 | 2008–2018 | 2018–2028 | 2008 | 2018 | 2028 | 2008–2018 | 2018–2028 |
| Total[1][2] | 149,276.0 | 161,037.7 | 169,435.9 | 11,761.7 | 8,398.2 | 100.0 | 100.0 | 100.0 | 0.8 | 0.5 |
| | | | | | | | | | | |
| Nonagriculture wage and salary[3] | 137,991.0 | 149,803.7 | 157,662.0 | 11,812.7 | 7,858.3 | 92.4 | 93.0 | 93.1 | 0.8 | 0.5 |
| | | | | | | | | | | |
| Goods-producing, excluding agriculture | 21,277.9 | 20,661.3 | 20,872.7 | −616.6 | 211.4 | 14.3 | 12.8 | 12.3 | −0.3 | 0.1 |
| Mining | 709.9 | 683.3 | 727.9 | −26.6 | 44.6 | 0.5 | 0.4 | 0.4 | −0.4 | 0.6 |
| Construction | 7,162.5 | 7,289.3 | 8,096.8 | 126.8 | 807.5 | 4.8 | 4.5 | 4.8 | 0.2 | 1.1 |
| Manufacturing | 13,405.5 | 12,688.7 | 12,048.0 | −716.8 | −640.7 | 9.0 | 7.9 | 7.1 | −0.5 | −0.5 |
| | | | | | | | | | | |
| Services-providing excluding special industries | 116,713.1 | 129,142.4 | 136,789.3 | 12,429.3 | 7,646.9 | 78.2 | 80.2 | 80.7 | 1.0 | 0.6 |
| Utilities | 558.8 | 554.6 | 537.2 | −4.2 | −17.4 | 0.4 | 0.3 | 0.3 | −0.1 | −0.3 |
| Wholesale trade | 5,875.0 | 5,852.5 | 5,754.0 | −22.5 | −98.5 | 3.9 | 3.6 | 3.4 | 0.0 | -0.2 |
| Retail trade | 15,289.1 | 15,833.1 | 15,679.4 | 544.0 | −153.7 | 10.2 | 9.8 | 9.3 | 0.4 | -0.1 |

| Industry Sector | Thousands of Jobs | | | Change | | Percent Distribution | | | Compound Annual Rate of Change | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2018 | 2028 | 2008–2018 | 2018–2028 | 2008 | 2018 | 2028 | 2008–2018 | 2018–2028 |
| Transportation and warehousing | 4,513.6 | 5,419.1 | 5,741.4 | 905.5 | 322.3 | 3.0 | 3.4 | 3.4 | 1.8 | 0.6 |
| Information | 2,983.8 | 2,828.1 | 2,833.7 | −155.7 | 5.6 | 2.0 | 1.8 | 1.7 | −0.5 | 0.0 |
| Financial activities | 8,206.1 | 8,568.8 | 8,849.4 | 362.7 | 280.6 | 5.5 | 5.3 | 5.2 | 0.4 | 0.3 |
| Professional and business services | 17,792.3 | 20,999.5 | 22,661.9 | 3,207.2 | 1,662.4 | 11.9 | 13.0 | 13.4 | 1.7 | 0.8 |
| Educational services | 3,039.8 | 3,727.5 | 4,201.0 | 687.7 | 473.5 | 2.0 | 2.3 | 2.5 | 2.1 | 1.2 |
| Health care and social assistance | 16,188.6 | 19,939.3 | 23,335.4 | 3,750.7 | 3,396.1 | 10.8 | 12.4 | 13.8 | 2.1 | 1.6 |
| Leisure and hospitality | 13,436.2 | 16,348.5 | 17,904.9 | 2,912.3 | 1,556.4 | 9.0 | 10.2 | 10.6 | 2.0 | 0.9 |
| Other services | 6,320.5 | 6,622.4 | 6,716.7 | 301.9 | 94.3 | 4.2 | 4.1 | 4.0 | 0.5 | 0.1 |
| Federal government | 2,762.0 | 2,796.0 | 2,670.2 | 34.0 | −125.8 | 1.9 | 1.7 | 1.6 | 0.1 | -0.5 |
| State and local government | 19,747.3 | 19,653.0 | 19,904.0 | −94.3 | 251.0 | 13.2 | 12.2 | 11.7 | 0.0 | 0.1 |
| | | | | | | | | | | |
| Agriculture, forestry, fishing, and hunting[4] | 2,071.4 | 2,310.0 | 2,320.6 | 238.6 | 10.6 | 1.4 | 1.4 | 1.4 | 1.1 | 0.0 |
| Agriculture wage and salary | 1,208.6 | 1,547.2 | 1,587.2 | 338.6 | 40.0 | 0.8 | 1.0 | 0.9 | 2.5 | 0.3 |
| Agriculture self-employed | 862.8 | 762.8 | 733.4 | −100.0 | −29.4 | 0.6 | 0.5 | 0.4 | −1.2 | −0.4 |
| | | | | | | | | | | |
| Nonagriculture self-employed | 9,213.6 | 8,924.0 | 9,453.4 | −289.6 | 529.4 | 6.2 | 5.5 | 5.6 | −0.3 | 0.6 |

Segmenting by industry makes a lot of sense in this case because some industries clearly do more hiring than others. You decide that Chumber should focus on industries with the highest projected hiring increases in the next decade: health care; professional and business services; construction; leisure and hospitality; and retail. Companies in growth industries will definitely get the most value from Chumber.

Next you want to understand more about which decision makers in these companies will be the best targets for Chumber. Having just come through the hiring process, you know who is interested in reference checking: human resources professionals, job recruiters, and hiring managers. You email Ken, the Chumber HR person who handled your hiring process, to see if he can answer a few questions about how decisions are made in HR departments.

Ken is very helpful. Prior to Chumber, he worked in HR for a health care company and a consulting firm. He confirms that an HR manager or director of recruiting oversees the reference-checking process for new hires. This person would also be the primary decision maker for a product like Chumber.

Ken explains that the requirements for reference checking differ by industry. In health care, for instance, where people routinely handle life-and-death situations, reference checks are essential and thorough. Ken mentions a couple of features Chumber could add to fit the specific requirements of the health care industry. You take notes about product improvements that could be part of the marketing mix for this segment.

When you're back at your desk, Ken sends you a list of Web sites, publications, and conferences where many HR recruiters go for professional information. This will be really useful when your boss wants to talk about promotion and place!

You invite Ken out for lunch to thank him for his valuable input.

You still have a lot to learn about Chumber and product marketing. But applying your knowledge about segmentation and targeting is giving you a good feel for how you might help the company succeed.

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1. Employment data for wage and salary workers are from the BLS Current Employment Statistics survey, which counts jobs, whereas self-employed and agriculture, forestry, fishing, and hunting are from the Current Population Survey (household survey), which counts workers. ↵
2. ndividual sectors do not necessarily add to major sectors due to rounding. ↵
3. Includes wage and salary data from the Current Employment Statistics survey, except private households, which is from the Current Populations Survey. Logging workers are excluded. ↵
4. Includes agriculture, forestry, fishing, and hunting data from the Current Population Survey, except logging, which is from Current Employment Statistics survey. Government wage and salary workers are excluded. ↵

## Contributors and Attributions

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- Employment by major industry sector. **Provided by**: Bureau of Labor Statistics. **Located at**: https://www.bls.gov/emp/tables/employment-by-major-industry-sector.htm. **License**: *Public Domain: No Known Copyright*

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# 9.7: Measuring success

Success should primarily be measured against your objectives. Gathering an idea of the total economic value of your online efforts can be difficult, but you can do it by examining the following, among others:

## Site measures

- Audience behaviour statistics (measuring new against returning customers)
- Audience (unique users, page impressions, bounce rates, and visit duration)
- Frequency and engagement
- Conversions across all channels.

## Sales

- Net sales
- Average order value
- Gross or median order value
- Customer acquisition rate
- Customer retention rate (remember, a retained customer is worth three to five times more than a once-off customer, and it is cheaper to retain existing customers than to acquire new ones)
- Offline sales as a result of online drivers (if someone visits the website or sees an ad online and then walks into the physical store, think about how you can measure this).

## Services

- Retention
- Acquisitions.

## Technical performance

Measuring your technical performance is important to ensure that your customer has a good experience on your online properties and will return. You should always have goals for how you want the user to experience the website, considering elements such as:

- Site maintenance, speed and performance
  - Time per page load (average should be 3 seconds)
- Capacity and reach
- IT services support
- SEO.

Remember, your user will give you three to four seconds of engagement time on a landing page and seven seconds on a homepage before they leave if you haven't answered their question, so make sure you know what the user wants and how to give it to them.

## Operations

- Order processing time (an improvement on this based on digital technology is a contribution of online to the business, and it should be counted as a success)
- Fulfilment rates
- Substitution (if a product isn't available, how successful are you at substituting a different one?).

## Marketing

- Campaign results against set objectives
- Customer loyalty NPS.
- Channel optimisation
- Customer surveys.

The idea of benchmarking can cause some confusion for brands wanting to measure their success. While industry benchmarks for things like marketing campaigns can be useful for seeing your standing in your industry, you should really be benchmarking against your own previous performance to ensure that you are always improving as a brand.

On the other hand, harder, more technical aspects of your digital performance should absolutely be measured against universal standards. Page load times have a measurable effect on SEO and customer engagement, so although decreasing your time from twelve to eight seconds is a good effort, you would still be well above the expected three seconds, and this will impact your site's overall performance in multiple areas (Hobo, 2017).

> **Note**
>
> Uncertain how to measure customer loyalty? Take a look at this article on the net promoter score (NPS), which is the KPI used to measure this: blog. emolytics.com/kpi/ net-promoter-scorecustomer-loyalty.


Figure 9.7.1: Longer load times increase page abandonment *Adapted from Hobo, 2017.*

The time you take to respond to consumers or to make a sale should be measured against universal benchmarks for similar reasons. That is, consumers have come to expect a certain standard in some areas, and anything not meeting this standard will result in a negative customer experience.

Each chapter in this book will give you an indication of the kind of metrics you should look at to determine success in particular areas.

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CHAPTER OVERVIEW

# 10: Implementing Target Market Strategies

# 10.1: Entry Strategies - Modes of Entry

What is the best way to enter a new market? Should a company first establish an export base or license its products to gain experience in a newly targeted country or region? Or does the potential associated with first-mover status justify a bolder move such as entering an alliance, making an acquisition, or even starting a new subsidiary? Many companies move from exporting to licensing to a higher investment strategy, in effect treating these choices as a learning curve. Each has distinct advantages and disadvantages.

Exporting is the marketing and direct sale of domestically produced goods in another country. Exporting is a traditional and well-established method of reaching foreign markets. Since it does not require that the goods be produced in the target country, no investment in foreign production facilities is required. Most of the costs associated with exporting take the form of marketing expenses.

While relatively low risk, exporting entails substantial costs and limited control. Exporters typically have little control over the marketing and distribution of their products, face high transportation charges and possible tariffs, and must pay distributors for a variety of services. What is more, exporting does not give a company firsthand experience in staking out a competitive position abroad, and it makes it difficult to customize products and services to local tastes and preferences.

Licensing essentially permits a company in the target country to use the property of the licensor. Such property is usually intangible, such as trademarks, patents, and production techniques. The licensee pays a fee in exchange for the rights to use the intangible property and possibly for technical assistance as well.

Because little investment on the part of the licensor is required, licensing has the potential to provide a very large return on investment. However, because the licensee produces and markets the product, potential returns from manufacturing and marketing activities may be lost. Thus, licensing reduces cost and involves limited risk. However, it does not mitigate the substantial disadvantages associated with operating from a distance. As a rule, licensing strategies inhibit control and produce only moderate returns.

Strategic alliances and joint ventures have become increasingly popular in recent years. They allow companies to share the risks and resources required to enter international markets. And although returns also may have to be shared, they give a company a degree of flexibility not afforded by going it alone through direct investment.

There are several motivations for companies to consider a partnership as they expand globally, including (a) facilitating market entry, (b) risk and reward sharing, (c) technology sharing, (d) joint product development, and (e) conforming to government regulations. Other benefits include political connections and distribution channel access that may depend on relationships.

Such alliances often are favorable when (a) the partners' strategic goals converge while their competitive goals diverge; (b) the partners' size, market power, and resources are small compared to the industry leaders; and (c) partners are able to learn from one another while limiting access to their own proprietary skills.

The key issues to consider in a joint venture are ownership, control, length of agreement, pricing, technology transfer, local firm capabilities and resources, and government intentions. Potential problems include (a) conflict over asymmetric new investments, (b) mistrust over proprietary knowledge, (c) performance ambiguity, that is, how to "split the pie," (d) lack of parent firm support, (e) cultural clashes, and (f) if, how, and when to terminate the relationship.

Ultimately, most companies will aim at building their own presence through company-owned facilities in important international markets. Acquisitions or greenfield start-ups represent this ultimate commitment. *Acquisition* is faster, but starting a new, wholly owned subsidiary might be the preferred option if no suitable acquisition candidates can be found.

Also known as foreign direct investment (FDI), acquisitions and greenfield start-ups involve the direct ownership of facilities in the target country and, therefore, the transfer of resources including capital, technology, and personnel. Direct ownership provides a high degree of control in the operations and the ability to better know the consumers and competitive environment. However, it requires a high level of resources and a high degree of commitment.

**Minicase: Cola-Cola and Illycaffé (www/thecocacolacompany.com/; http://www.illy.com/)**

In March 2008, the Coca-Cola company and Illycaffé Spa finalized a joint venture and launched a premium ready-to-drink espresso-based coffee beverage. The joint venture, Ilko Coffee International, was created to bring three ready-to-drink coffee products—Caffè, an Italian chilled espresso-based coffee; Cappuccino, an intense espresso, blended with milk and dark cacao;

and Latte Macchiato, a smooth espresso, swirled with milk—to consumers in 10 European countries. The products will be available in stylish, premium cans (150 ml for Caffè and 200 ml for the milk variants). All three offerings will be available in 10 European Coca-Cola Hellenic markets including Austria, Croatia, Greece, and Ukraine. Additional countries in Europe, Asia, North America, Eurasia, and the Pacific were slated for expansion into 2009.

The Coca-Cola Company is the world's largest beverage company. Along with Coca-Cola, recognized as the world's most valuable brand, the company markets four of the world's top five nonalcoholic sparkling brands, including Diet Coke, Fanta, Sprite, and a wide range of other beverages, including diet and light beverages, waters, juices and juice drinks, teas, coffees, and energy and sports drinks. Through the world's largest beverage distribution system, consumers in more than 200 countries enjoy the company's beverages at a rate of 1.5 billion servings each day.

Based in Trieste, Italy, Illycaffé produces and markets a unique blend of espresso coffee under a single brand leader in quality. Over 6 million cups of Illy espresso coffee are enjoyed every day. Illy is sold in over 140 countries around the world and is available in more than 50,000 of the best restaurants and coffee bars. Illy buys green coffee directly from the growers of the highest quality Arabica through partnerships based on the mutual creation of value. The Trieste-based company fosters long-term collaborations with the world's best coffee growers—in Brazil, Central America, India, and Africa—providing know-how and technology and offering above-market prices.

# 10.2: Entry Strategies - Timing

In addition to selecting the right mode of entry, the timing of entry is critical. Just as many companies have overestimated market potential abroad and underestimated the time and effort needed to create a real market presence, so have they justified their overseas' expansion on the grounds of an urgent need to participate in the market early. Arguing that there existed a limited window of opportunity in which to act, which would reward only those players bold enough to move early, many companies made sizable commitments to foreign markets even though their own financial projections showed they would not be profitable for years to come. This dogmatic belief in the concept of a first-mover advantage (sometimes referred to as "pioneer advantage") became one of the most widely established theories of business. It holds that the first entrant in a new market enjoys a unique advantage that later competitors cannot overcome (i.e., that the competitive advantage so obtained is structural and therefore sustainable).

Some companies have found this to be true. Procter & Gamble (P&G), for example, has always trailed rivals such as Unilever in certain large markets, including India and some Latin American countries, and the most obvious explanation is that its European rivals were participating in these countries long before P&G entered. Given that history, it is understandable that P&G erred on the side of urgency in reacting to the opening of large markets such as Russia and China. For many other companies, however, the concept of pioneer advantage was little more than an article of faith and was applied indiscriminately and with disastrous results to country-market entry, to product-market entry, and, in particular, to the "new economy" opportunities created by the Internet.

The "get in early" philosophy of pioneer advantage remains popular. And while there are clear examples of its successful application—the advantages gained by European companies from being early in "colonial" markets provide some evidence of pioneer advantage—first-mover advantage is overrated as a strategic principle. In fact, in many instances, there are disadvantages to being first. First, if there is no real first-mover advantage, being first often results in poor business performance, as the large number of companies that rushed into Russia and China attests to. Second, pioneers may not always be able to recoup their investment in marketing required to "kick start" the new market. When that happens, a "fast follower" can benefit from the market development funded by the pioneer and leapfrog into earlier profitability.For a more detailed discussion, see Tellis, Golder, and Christensen (2001).

This ability of later entrants to free-ride on the pioneer's market development investment is the most common source of first-mover disadvantage and suggests two critical conditions necessary for real first-mover advantage to exist. First, there must be a scarce resource in the market that the first entrant can acquire. Second, the first mover must be able to lock up that scarce resource in such a way that it creates a barrier to entry for potential competitors. A good example is provided by markets in which it is necessary for foreign firms to obtain a government permit or license to sell their products. In such cases, the license, and perhaps government approval, more generally, may be a scarce resource that will not be granted to all comers. The second condition is also necessary for first-mover advantage to develop. Many companies believed that brand preference created by being first constituted a valid source of first-mover advantage, only to find that, in most cases, consumers consider the alternatives available at the time of their first purchase, not which came first.

**Minicase: Starbucks' Global Expansion (Starbucks: A Global Work-in-Process (2006); http://www.starbucks.com)**

Starbucks' decision to expand abroad came after an extended period of exclusive focus on the North American market. From its founding in 1971, it grew to almost 700 stores by 1995, all within the United States and Vancouver, Canada. It was not until the next decade that Starbucks made its first entry into international markets. By 2006, Starbucks operated approximately 11,000 stores, with 70% in the United States and 30% in international markets, and international revenue had grown to almost 20% of Starbucks' total revenue. Starbucks offered the same basic coffee menu internationally as it did in the United States; however, the range of food products and other items, such as coffee mugs stocked, varied somewhat according to local customs and tastes.

Along with many other companies that pursue global expansion, Starbucks continually faces questions about where and how to further increase its global presence. Should the emphasis be on growth in existing countries or on increasing the number of countries in which it has a presence? How important is the fact that international markets so far have proven less profitable than the U.S. and Canadian markets?

*Starbucks in Japan.* Interestingly, Starbucks' first foreign move (i.e., outside the United States and Canada) was a joint venture in Japan. At the time, Japan had the second largest economy in the world and was consistently among the top five coffee importers in the world.

The decision to use a joint venture to enter Japan followed intense internal debate. Concerns among senior executives centered on Starbucks' lack of local knowledge, and questions were raised about the company's ability to attract the local talent necessary to grow the Japanese business quickly enough. Starbucks was acutely aware that there were significant differences between doing business in Japan and in the United States and that it might not have enough experience to be successful on its own.

Among other factors, operating costs were predicted to be double those of North America, and Starbucks would have to pay to ship coffee to Japan from its roasting facility in Kent, Washington (near Seattle). In addition, retail space in Tokyo was 2 to 3 times as expensive as in Seattle. Just finding rental space in such a populous city might prove to be a tremendous challenge. Starbucks concluded it needed to form an alliance with a local group that had experience with complex operations and real estate.

Starbucks executives worried that a licensing deal would not be the right solution. Specifically, they were concerned about possible loss of control and insufficient knowledge transfer to learn from the experience. A joint venture was thought to be a better answer, and, after a long search, Starbucks approached Sazaby, Inc., operators of upscale retail and restaurant chains, whose president had approached Starbucks years earlier about the potential of opening Starbucks stores in Japan. Similarity in values, culture, and community-development goals between Starbucks and Sazaby were important considerations in concluding the 50-50 deal. The two companies were equally represented on the board of directors of the newly created Starbucks Coffee Japan. Starbucks was the sole decision-making power in matters relating to brand, product line advertising, and corporate communications, while decisions regarding real-estate operational issues and human resources were handled by Sazaby. Despite strong local competition, the venture was successful from the start. By fiscal year 2000, Starbucks Coffee Japan became profitable more than 2 years ahead of plan.

*Starbucks in the United Kingdom*. Unlike its expansion into Asia and (later) the Middle East, Starbucks chose to enter the United Kingdom through acquisition rather than partnerships. Speed was a major factor in Starbucks' decision to enter the fast-growing UK market by acquisition. In addition, the culture, language, legal environment, management practices, and labor economics in the United Kingdom were considered sufficiently similar to those that Starbucks' management already knew. This meant that a 100%-owned UK subsidiary could be successfully established from the outset. In May 1998, Starbucks acquired the Seattle Coffee Company, which had a presence in the United Kingdom for some time. This fast-growing chain was modeled on its own style of operations and, at the time of the purchase, had 56 retail units. The Seattle Coffee Company was an attractive acquisition target because of its focus: relatively small market capitalization and established retail units. By 2005, Starbucks had 469 stores in the United Kingdom, which made it the third largest country, after the United States and Japan, to serve Starbucks coffee.

*Licensing in China*. In a number of developing markets, including China, Starbucks chose to enter into minority share licensing agreements with high-quality, experienced local partners in order to minimize market-entry risks. Under these agreements, the local partners absorbed the capital costs (real estate, store construction) of bringing the Starbucks brand abroad. This eliminated the need for substantial general and administrative expenses by Starbucks and enabled it to establish a presence in foreign markets much more quickly than it would have if it had to invest its own capital and absorb start-up losses.

Risk was also a major consideration when Starbucks looked to enter China. While offering high-volume opportunities in an untapped coffee market, the prevailing culture and politics in China potentially posed significant problems. In April 2000, Beijing city authorities ordered Kentucky Fried Chicken to close its store near the Forbidden City when its lease expired in 2002. Similarly, under pressure from local authorities, McDonald's removed its golden arches from outlets near Tiananmen Square. These incidents demonstrated China's ambiguous attitude toward a growing Western economic and cultural influence.

Another major concern with starting operations in China was recruiting the right staff. Uniformity of customer experience and coffee quality was the key driver behind the Starbucks brand; failure to recruit the staff to ensure these key criteria not only would mean failure for the Chinese retail outlets but also could harm the company's image globally.

Although these factors made licensing an attractive entry model, with growing experience in the Chinese market, Starbucks is steadily reducing its reliance on the licensing model and switching to its core company-operated business model to increase control and reap greater rewards.

Starbucks' globalization history shows that while it was a "first mover" in the United States, it was forced to push harder in international markets to compete with existing players. In Japan, Starbucks was initially a huge success and became profitable 2 years earlier than anticipated. However, just 2 years after Starbucks Japan had become profitable, the company announced a loss of $3.9 million in Japan, its second largest market at the time, reflecting a major increase in local competition. Additional international challenges were a result of Starbucks' chosen entry mode. Although joint ventures provided Starbucks with local knowledge about the market and a low-risk entry into unproven territory, joint ventures did not always reap the rewards that the partners had anticipated. One key factor was that it was often difficult for Starbucks to control the costs in a joint venture, resulting in lower profitability.

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# 10.3: Points to Remember

1. Selecting global target markets, entry modes, and deciding how much to adapt the company's basic value proposition are intimately related. The choice of customers to serve in a particular country or region with a particular culture determines how and how much a company must adapt its basic value proposition. Conversely, the extent of a company's capabilities in tailoring its offerings around the globe limits or broadens its options to successfully enter new markets or cultures.
2. Few companies can afford to enter all markets open to them. The track record shows that picking the most attractive foreign markets, determining the best time to enter them, and selecting the right partners and level of investment has proven difficult for many companies, especially when it involves large emerging markets such as China.
3. Research shows there is a pervasive the-grass-is-always-greener effect that infects global strategic decision making in many, especially globally inexperienced, companies and causes them to overestimate the attractiveness of foreign markets.
4. Four key factors in selecting global markets are (a) a market's size and growth rate, (b) a particular country or region's institutional contexts, (c) a region's competitive environment, and (d) a market's cultural, administrative, geographic, and economic distance from other markets the company serves.
5. There is a wide menu of options regarding market entry, from conservative strategies such as first establishing an export base or licensing products to gain experience in a newly targeted country to more aggressive options such as entering an alliance, making an acquisition, or even starting a new subsidiary.
6. Selecting the right timing of entry is equally critical. And just as many companies have overestimated market potential abroad, and underestimated the time and effort needed to create a real market presence, so have they justified their overseas' expansion on the grounds of an urgent need to participate in the market early.

# 10.5: Chapter Introduction


Figure 14.1 Three Months after Launch!

"Cool ad! *But did it work*?"

That's the million dollar question (or often even more). Advertising serves many roles, from building awareness of a new acid jazz group to informing us of an asthma drug's side effects. But at the end of the day, *advertising is a call to action*: it can be pretty, funny, sexy, or cute—but if an ad doesn't sell the client's product or service, or create the behavioral change a nonprofit hopes to achieve, it's nothing more than an entry on an art director's "reel" that may land him another juicy assignment.

SS+K is keenly aware of the need to show results. Its client msnbc.com is counting on the new brand-building campaign to start to move the brand building, awareness, and traffic needle. Did the agency succeed in this quest? Let's find out.

## Video Spotlight

*Amit Nizan and Michelle Rowley*

(click to see video)

*Amit Nizan and Michelle Rowley discuss the results of the campaign, and some outside influences that affected the results.*

# 10.6: ROI - Show Me the Money

## LEARNING OBJECTIVES

After studying this section, students should be able to do the following:

1. *Define* return on investment (ROI).
2. *Describe* the value of using metrics to gauge the direct impact of a marketing communication.
3. *Define* brand equity.
4. *Demonstrate* how msnbc.com measured the ROI of the campaign using five parameters.

Advertising is "sexy," no doubt. Especially in the "golden years" of the ad biz in the 1960s, as the hit TV series *Mad Men* depicts, it seems like the executives smoke and drink their way through the day while the poor souls in manufacturing or accounting do the heavy lifting. Anyone who actually works in advertising will readily tell you that the halo of glamour is a myth—but nonetheless that's the stereotype many people (including some advertising and marketing majors) hold.

The reality is that advertising is hard work—and it's an essential part of doing business. It's also expensive. There's no question (at least in our minds) that advertising returns considerable value to the client. But how do you prove that to the bean counters? Unlike most other areas of business, alas, it's not always so easy to assess the value of advertising and marketing activities. How does the "warm and fuzzy" feeling an ad creates translate into cold hard cash on the bottom line?

As competition for sales, eyeballs, souls, or whatever unit is in play continues to escalate in virtually every category (both profit and nonprofit), advertisers are under pressure as never before to justify their existence. This challenge is compounded by the way a firm traditionally states its objectives: a marketing strategy typically uses vague goals like "increase awareness of our product" or "encourage people to eat healthier snacks." These objectives are important, but their lack of specificity makes it virtually impossible for senior management to determine marketing's true impact.

## Return on Investment

Because management may view these efforts as *costs* rather than *investments*, advertising is often the first item to be cut out of a firm's budget when money is tight (like today). To win continued support for what they do (and sometimes to keep their jobs), advertisers are scrambling to prove to management that they generate measurable value by aligning what their work achieves with the firm's overall business objectives.Jeff Lowe, "*The Marketing Dashboard: Measuring Marketing Effectiveness,*" *Venture Communications*, February 2003, www.brandchannel.com/images/papers/dashboard.pdf (accessed February 9, 2009); G. A. Wyner, "Scorecards and More: The Value Is in How You Use Them," *Marketing Research*, Summer, 6–7; C. F. Lunbdy and C. Rasinowich, "The Missing Link: Cause and Effect Linkages Make Marketing Scorecards More Valuable," *Marketing Research*, Winter 2003, 14–19. The watchword in business today is **return on investment (ROI)**. In cold, hard terms: *what did I spend, and what did I get in return*?

(Gross Profit generated by advertising − Cost of advertising) / Cost of advertising = ROI

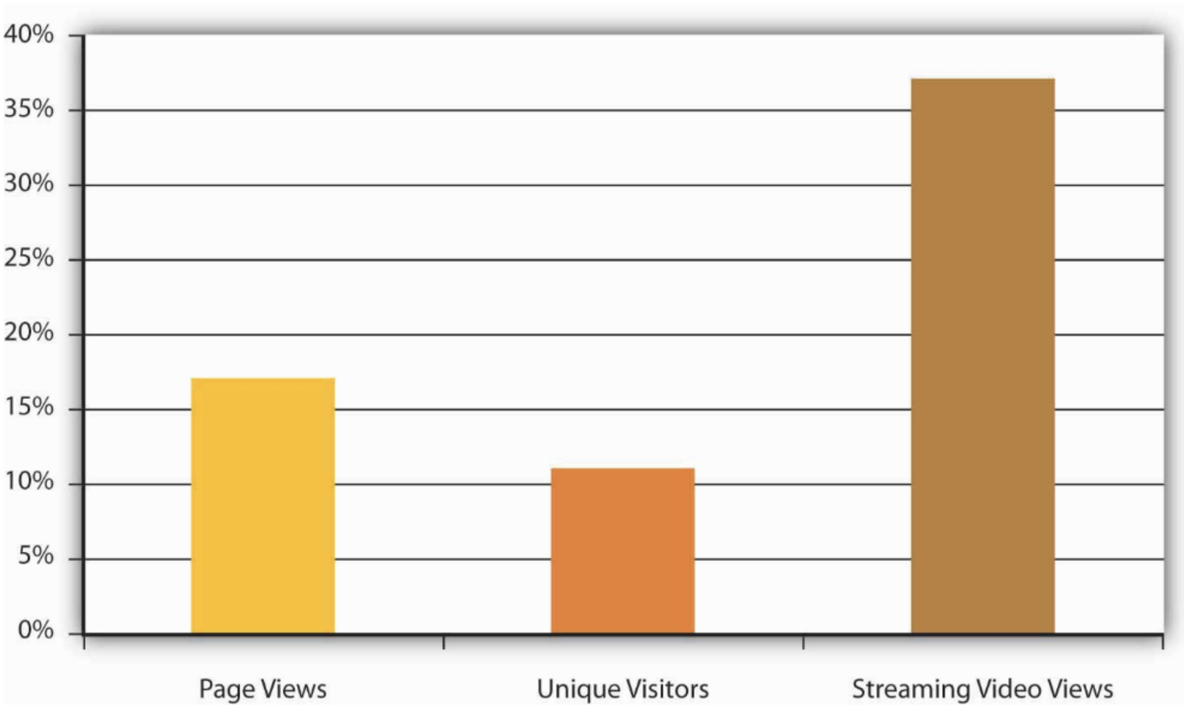



Figure 14.2 msnbc.com measured the metrics of page views, unique visitors, and streaming video views; all increased significantly as a result of the campaign.

The race is on to generate **metrics**—quantifiable measures that gauge the direct impact of a marketing communication. Businesses increasingly mandate that their divisions create **scorecards** (or “dashboards”) that allow senior management to monitor what actions they’re taking and to see how these efforts affect the bottom line. And they’re not just asking for proof that advertising moves products—increasingly they demand to see a link between tactical actions, such as specific promotions, on a firm’s market share and even on a firm’s overall financial value (as measured by market capitalization).Cf. Roland T. Rust, Tim Ambler, Gregory S. Carpenter, V. Kumar, & Rajendra K. Srivastava, “Measuring Marketing Productivity: Current Knowledge and Future Directions,” *Journal of Marketing* 68 (October 2004): 76–89.

This is no small task for advertisers, whose goals are often intangible and whose results may not be readily apparent in the next quarter. Another problem they face is the skepticism of many who hold the purse strings in companies; executives in other parts of the business may believe (rightly or wrongly) that a marketer never met a budget item she didn’t want. According to one study, six in ten financial executives believe their companies’ marketing departments have an inadequate understanding of financial controls, and seven in ten said their companies don’t use marketing inputs and forecasts in financial guidance to Wall Street or in public disclosures.

Marketers echo this pessimism; many acknowledge they have some distance to go before they understand (and quantify) the impact of what they do. In the same study, only one in ten marketer respondents said they could forecast the effect of a 10 percent cut in spending. Just 14 percent of marketing executives said senior management in their companies had confidence in their firms’ marketing forecasts. One of the analysts who conducted the study commented, “The thing that scared me most is that marketers don’t believe their numbers either.”Quoted in Bradley Johnson, “Survey Finds CFOs Skeptical of Their Own Firms’ ROI Claims: ANA Confronts Lack of Confidence at Marketing Accountability Conference,” *Advertising Age*, July 15, 2008, adage.com/article?article_id=129629 (accessed July 16, 2008).

The difficulties in quantifying marketing’s contribution to the bottom line—and the growing pressure from CEOs to do so—helps to explain why a recent *BusinessWeek* survey of the shelf life of top-level functional executives revealed that the average job tenure of a **chief marketing officer (CMO)** is the lowest among the areas—26 months, compared with 44 months for CEOs, 39 months for chief financial officers (CFOs), and 36 months for chief information officers (CIOs). The pressure to provide tangible results is intense.Ian Ayers, *Super Crunchers: Why Thinking-by-Numbers Is the New Way To Be Smart* (New York: Bantam, 2007); Jerry Adler, “Era of the Super Cruncher,” *Newsweek*, September 3, 2007, 42; “The Short Life of the Chief Marketing Officer,” *BusinessWeek*, December 10, 2007, 63–65.

So when a company looks to shave costs to improve its return to stockholders, advertising is a particularly easy target for cost cutting because few companies have developed reliable ways to track or predict the ROI for such spending. Lacking such measures, management often computes an advertising budget strictly as a percentage of revenues, or they base it on the previous year's budget. As any fan of advertising's impact (those who remain) can attest, this logic is seriously flawed: if revenues are falling, it may be because you're not advertising enough! The last thing you want to do is reduce your investment to inform the market about your product or service.

## Metrics

How can advertisers make that case credibly? As we'll see, it depends on the type of advertising they do and how they measure its results. Typical metrics for traditional advertising (i.e., magazine ads, TV, etc.) include these:

- *Advertising awareness*: How many people saw your ad and recognized the brand?
- *Trial*: Did more people try the product after they saw your ads?
- *Qualitative evidence*: Working mothers in four focus groups absolutely loved the ads.
- *Sales volume*: Did sales increase from the time period before the ad campaign to the time period after it? Warning: While it's tempting to conclude that this is the only metric you need, this measure can be deceiving. You need to consider other factors:
  1. What else was going on in the external environment that might have influenced this activity? The best ad campaign ever devised probably couldn't move a lot of gas-guzzling Hummers today.
  2. How much did you have to spend to get the results? You could sell a record number of Hummers (even today) if you priced them at $49.99—but do you want to?

A single best all-around ROI formula is the Holy Grail today, but in reality companies vary widely in the way they tackle this issue (the notable thing is that many are tackling it at all). Some rely on sophisticated statistical analyses while others are content to track general changes in sales trends or brand awareness. General Mills decides how much to invest in marketing and advertising by examining the historical performance of the brand as well as market research metrics on previous advertising effectiveness, growth versus competition, and other changes in the marketplace.

Another approach is to use the statistical technique called **regression analysis**, which identifies the amount of an effect we can attribute to each of several variables that operate simultaneously. One analyst calculates the percent of total sales attributable just to a brand's existing sales momentum and **brand equity** (the value of a brand name over and above the value of a generic product in the same category). He determines brand equity by identifying the financial value the brand contributes compared to product value, distribution, pricing, services, and other factors. He calculates the short-term incremental impact of advertising on sales by looking at several years of sales data and creating a sales trend line. Waving his statistical magic wand, he then looks at whether a specific promotion results in incremental sales, or sales over what would we expect based on normal conditions.

Indeed, consulting firms such as Corporate Branding LLC and Interbrand, as well as a few big ad agencies like Young & Rubicam (Y&R), develop their own proprietary methods to arrive at a brand's financial value. They track these values over time to help clients see whether their investments are paying off. Y&R's Brand Asset Valuator is based on field research of consumers on thousands of brands. When the agency studied just what builds brand equity, it identified one crucial element: does the consumer believe the product is different in a relevant way—does the message offer a clear, memorable reason to buy the product, also known as a **unique selling proposition (USP)**? Y&R tracks how well various advertising campaigns differentiate brands and the degree to which they increase brand value as a result.Kris Frieswick, "New Brand Day: Attempts to Gauge the ROI of Advertising Hinge on Determining a Brand's Overall Value," *CFO.com*, November 1, 2001, http://www.cfo.com/article.cfm/3001802/1/c_3046511 (accessed August 15, 2008).

### SS+K Spotlight

The ROI for any campaign must relate to its original strategy. Every action the agency takes needs to tie back to the results it produced. As msnbc.com and SS+K planned out the elements of the campaign, the team aligned each element to one of the goals:

- Increase overall traffic to the site
- Increase awareness of the brand
- Establish a unique identity for the site

Then msnbc.com measured the ROI of the launch campaign with the following parameters:

*Paid Media + Added Value*: Media bought and negotiated **added-value**.

*Earned Media*: Any coverage or impressions that are not paid for but are earned through commentary, press, and so forth.

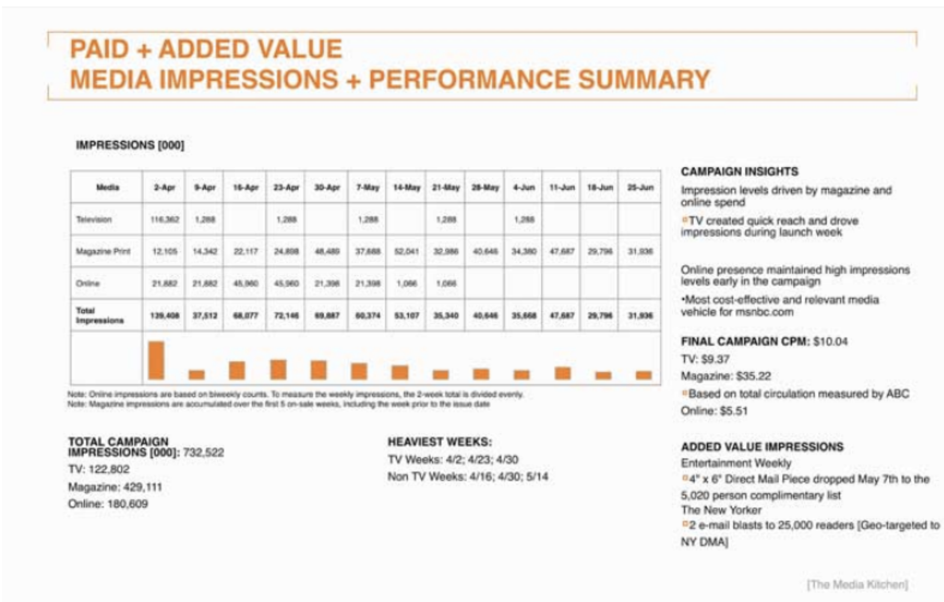
*Engagement*: Measures of engagement include time spent on the site and number of clicks to show how the consumer interacted with the brand message.

*Awareness*: Measure of consumers' knowledge of a brand, or of a particular communication. As we saw in Chapter 11 "Execute on All Platforms: SS+K Goes into Production Overdrive", when a consumer remembers a brand or message, this is **recall**. If a consumer recognizes a brand or message from a list, this is **recognition**.

*Traffic*: Using sophisticated tracking software and code, analysts can track the number of people who visit a certain site or page on a site. Thanks to **cookies** that get inserted into computers when we visit Web sites, repeat visits and other behavioral patterns can be uncovered as well.

These were the specific goals for the msnbc.com campaign and how they were measured:

- Increase in unique users: comparing April, May, June unique users in 2006 to 2007
- Increase in engagement with the brand:
  - An increase in use of features on the site, like page views and video streams
  - Creation of new tools and experiences that would engage users
  - Buzz generated by earned media
- Internal buy-in of the brand: in-depth interviews with key msnbc.com stakeholders before and after the campaign




| Media | 2-Apr | 9-Apr | 16-Apr | 23-Apr | 30-Apr | 7-May | 14-May | 21-May | 28-May | 4-Jun | 11-Jun | 18-Jun | 25-Jun |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Television | 116,362 | 1,288 | | 1,288 | | 1,288 | | 1,288 | | 1,288 | | | |
| Magazine Print | 12,105 | 14,342 | 22,117 | 24,898 | 48,480 | 37,888 | 52,041 | 32,986 | 40,646 | 34,380 | 47,687 | 29,796 | 31,936 |
| Online | 21,882 | 21,882 | 45,960 | 45,960 | 21,398 | 21,398 | 1,066 | 1,066 | | | | | |
| Total Impressions | 139,408 | 37,512 | 68,077 | 72,146 | 69,887 | 60,374 | 53,107 | 35,340 | 40,646 | 35,668 | 47,687 | 29,796 | 31,936 |



Figure 14.3Total Impressions for Paid Media for the msnbc.com Campaign

## Key Takaway

Return on investment (ROI) is the Holy Grail for advertisers, who face increasing pressure to demonstrate that their efforts contribute tangibly to a client's bottom line. Demonstrating this financial value is a challenge, especially in cases where a firm's objectives are long term or hard to quantify—for example when the goal is to build a favorable image for a brand over the long haul. Firms employ a variety of metrics to gauge ROI, but there is as yet no single magic formula that works to everyone's satisfaction.

## EXERCISES

1. Explain why it is important to measure ROI (return on investment) in advertising.
2. Discuss the metrics marketers use to measure the effectiveness of traditional advertising (e.g., magazine ads).
3. List the five parameters msnbc.com used to measure the ROI of the launch campaign. Discuss the "new" metrics that some companies apply to advertising today.

# 10.7: ROI for Broadcast and Print Media

## LEARNING OBJECTIVES

After studying this section, students should be able to do the following:

1. *Discuss* the usefulness of the metric CPM (cost per thousand).
2. *Characterize* the usefulness of network TV metrics for providing evidence of message usefulness.
3. *Recall* the various radio day-parts.
4. *Distinguish* among the three primary Starch scores.
5. *List* and *discuss* the basic principles that increase a print ad's likely impact on the reader.

Traditional (broadcast) media struggle to demonstrate a direct impact on the bottom line. These advertising messages reach many consumers at the same time, and these receivers also get bombarded by a multitude of competing ads and other stimuli that vie for their attention. It's not easy to connect the dots between a single commercial (or even an entire ad campaign) and the purchases of thousands of people who may or may not have noticed the message in the first place.

As we've seen, it's fairly easy for media planners to compute a metric that lets them compare the relative *cost-effectiveness* of different media and of spots run on different vehicles in the same medium. This metric is **cost per thousand (CPM)**; it reflects the cost to deliver a message to one thousand people. Because it provides an apples-to-apples perspective, it's very helpful to have this information in hand.

Unfortunately, CPM alone is not a great indicator of ROI: it tells us how good we are at getting our message *to* an audience but nothing about the impact that message has when it reaches the target. Let's briefly review some of the other ways advertisers try to provide evidence that the messages they create actually generate value for the client and its stockholders.

## Network TV

For some time now network television has been in a defensive posture as the industry struggles to justify its existence. Some skeptics predict the demise of this medium as an advertising platform because our society is too fragmented for it to be effective. Note: this criticism certainly doesn't apply to **direct-response TV (DRTV)**, where sales are directly linked to on-air programming or "call now" ads. When a shopping channel like QVC puts that unique cubic zirconium ring on the air, the network knows within minutes whether it's a winner.

While an advertiser in the 1960s could be confident that he could reach a hefty proportion of the American public with a commercial on one of the three networks in existence at the time, today the (TV) picture is much different. Consumers can choose from hundreds of channels—when they're not surfing the Web or listening to podcasts and MP3 files. Young people in particular are migrating away from TV and spending more time online—especially as programming that used to appear exclusively on TV becomes available as streaming video. To rub salt into the wound, viewers today can exercise control over what they see as they gleefully TiVo or DVR their way into commercial-free entertainment on their big flat-screen TVs.

For now, estimates vary widely—one study found that the average ROI of TV advertising is 0.54 to 1 for packaged goods and 0.87 to 1 for nonpackaged goods. According to this research, these media on average actually *lose* money for the advertiser!Bill Harvey, "ARF Engagement Recipe: Surprise, Utility and Emotion," *Next Century Media*, www.nextcenturymedia.com/2006/03/arf-engagement-recipe- surprise-utility.htm, March 3, 2006 (accessed August 16, 2008). Another estimate, by well-known media analyst Kevin Clancy, is a bit more sunny: he states that the average ROI of TV advertising campaigns ranges from 1 to 4 percent —still a small number, but at least it's in the positive column."How to Improve Marketing ROI: Free Kevin Clancy Web Seminar Offers Five Ways to Improve Marketing Performance," *The Copernicus MZine*, November 2003, www.copernicusmarketing.com/about/mzine/monthlyeds/nov03.shtml (accessed August 16, 2008); www.copernicusmarketing.com/about/mzine/monthlyeds/nov03.shtml (accessed August 16, 2008).

Traditionally the metric this industry uses is **viewership ratings**, particularly those Nielsen compiles. Again, these data have questionable relevance to ROI because they only show whether people watch the shows and not necessarily whether they use the commercial breaks to hit the bathroom or make a sandwich. And these ratings often get collected in a finite period of time—**sweeps week**—so networks pump up their schedules to attract as many viewers as they can during this window. There is widespread consensus among advertisers that the TV industry will need new audience metrics—other than reach and frequency information it uses to calculate CPM—to report commercial ratings.

To get a sense of the pessimism surrounding this industry, consider some results from a recent study by the Association of National Advertisers (ANA) and Forrester Research:

- Almost 70 percent of advertisers think that DVRs and video-on-demand will reduce or destroy the effectiveness of traditional thirty-second commercials.
- When DVRs spread to thirty million homes, close to 60 percent of advertisers report they will spend less on conventional TV advertising; of those, 24 percent will cut their TV budgets by at least 25 percent.
- Eighty percent of advertisers plan to spend more of their advertising budget on Web advertising and 68 percent of advertisers will consider (Web-based) search engine marketing.
- Advertisers are also looking at alternatives to traditional TV advertising, and almost half plan to spend more of their advertising budgets on emerging platforms (which we'll address later) such as TV program sponsorships, online video ads, and product placement.ANA / Forrester, "Beyond the 30 Second Spot: Marketers Adding Alternatives to Television Advertising," *Marketing Today*, March 22, 2006, www.marketingtoday.com/research/0306/tv_advertising_less_effective.htm (accessed February 9, 2009).

With all that negativity, is network television dead? Don't write its obituary yet. Although it's undeniable that our world is a lot more fragmented than it used to be, there still are large-scale events that unite us and continue to command a huge mass television audience. These include the *Super Bowl*, the *Olympics* (with an estimated four billion viewers) and, of course, *American Idol*.

Advertisers also are getting more creative as they search for ways to draw in audiences—and entice them to stay for the commercials. For example, some are experimenting with **bitcoms** that try to boost viewers' retention of a set of ads inserted within a TV show (we call this a *commercial pod*). In a typical bitcom, when the pod starts a stand-up comedian (perhaps an actor in the show itself) performs a small set that leads into the actual ads.David Goetzl, "Turner: We'll Get Your Brand into Our Programming," *Marketing Daily*, http://www.mediapost.com (accessed March 14, 2007).

Finally, the networks are taking baby steps toward getting more credit for viewership that occurs in places other than people's living rooms. Our mobile society exposes us to television programming in bars, stores, hospital waiting areas, and dorm rooms—current ratings systems don't reflect this. In early 2008 Nielsen fielded a new service it calls *The Nielsen Out-of-Home Report*; this is a cell-phone based service that provides metrics for television viewing that occurs outside of the home in bars, hotels, airports, and other locations. CNN has already started to use this service. In addition, the *Nielsen Online VideoCensus* will measure the amount of television and other video programming people view over the Internet.Anthony Crupi, "CNN Orders Out-of-Home Study on TV Viewership," *Mediaweek*, August 11, 2008 (accessed August 16, 2008).

## SS+K Spotlight

**NATIONAL CABLE**

| April 2 – April 9 | A25-54 [000] Equivalized | | | A25-54 CPM Equivalized | | A25-54 GRP's | | | |
|---|---|---|---|---|---|---|---|---|---|
| Networks | Purch | Actual | +/- | Purch | Actual | Purch | Actual | +/- | Index |
| BBC America | 2,986 | 2,197 | -789 | $14.23 | $19.34 | 2.4 | 1.8 | -0.6 | 74% |
| Comedy | 5,065 | 4,982 | -83 | $22.47 | $22.84 | 4.1 | 4.1 | -0.1 | 98% |
| Discovery | 5,003 | 4,648 | -355 | $23.79 | $25.60 | 4.1 | 3.8 | -0.3 | 93% |
| ESPN | 3,445 | 2,919 | -526 | $25.12 | $29.64 | 2.8 | 2.4 | -0.4 | 85% |
| ESPN2 | 4,130 | 4,783 | 653 | $20.04 | $17.31 | 3.4 | 3.9 | 0.5 | 116% |
| Food Network | 8,415 | 6,954 | -1,461 | $12.42 | $15.03 | 6.9 | 5.7 | -1.2 | 83% |
| History Channel | 12,673 | 12,693 | 20 | $15.09 | $15.07 | 10.3 | 10.4 | 0.0 | 100% |
| National Geographic | 14,598 | 12,877 | -1,721 | $8.73 | $9.90 | 11.9 | 10.5 | -1.4 | 88% |
| **Sub Total** | **56,315** | **52,053** | **-4,262** | **$15.41** | **$16.67** | **46.0** | **42.5** | **-3.5** | **92%** |

Figure 14.4 National cable metrics from the msnbc.com campaign show the planned CPM versus the actual CPM. ESPN2 and History Channel met or exceeded purchased impressions.

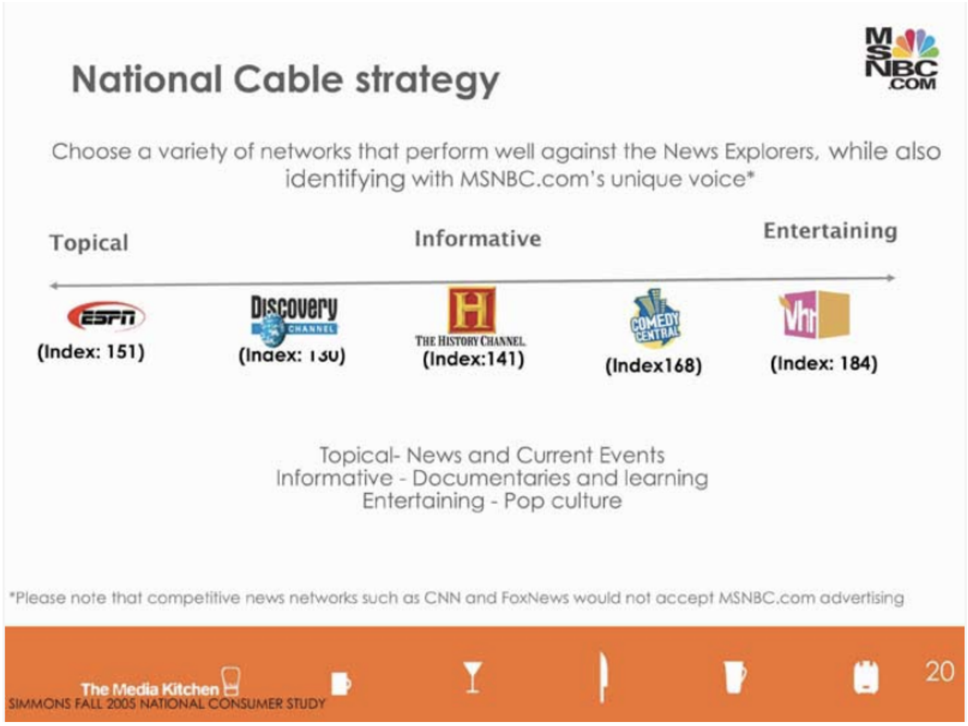



Figure 14.5 The channels SS+K chose for the msnbc.com campaign covered the range and interest of the msnbc.com News Explorer.

There was a unique advantage for msnbc.com; as part of the NBC and Microsoft families it could tap into these resources. The client was able to request **in-kind media**, which is placement on their properties at no media cost. The TV spots ran during launch week of the campaign.

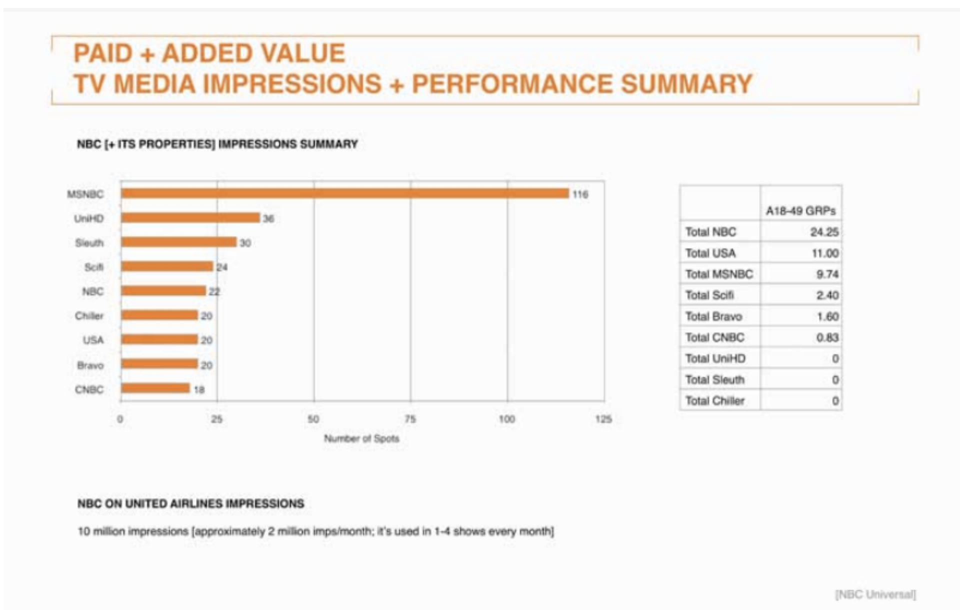



Figure 14.6 In-Kind Media Results from TV United Airlines ran the thirty-second msnbc.com spot on its in-flight television programs.

**SATELLITE**

| [April – June] 5 Weeks | A25-54 [000] Equivalized | | | A25-54 CPM Equivalized | | A25-54 GRP's | | | |
|---|---|---|---|---|---|---|---|---|---|
| Networks | Guar | Actual | +/- | Guar | Actual | Guar | Actual | +/- | Index |
| Direct TV | 9,746 | 8,422 | -1,324 | $19.25 | $18.95 | 8.0 | 6.9 | -1.1 | 86% |
| Dish Network | 5,168 | 6,460 | 1,292 | $26.97 | $18.34 | 4.2 | 5.3 | 1.1 | 125% |
| Sub Total | 14,914 | 14,882 | -32 | $18.65 | $18.69 | 12.2 | 12.1 | 0.0 | 100% |
| **Grand Total** | **71,229** | **66,935** | **-4,294** | **$17.03** | **$17.68** | **58.2** | **54.6** | **-3.5** | **96%** |

Figure 14.7 Satellite purchase was a strategic way for msnbc.com messaging to air on competitors' networks. Dish Network exceeded purchased impressions.


Figure 14.8 msnbc.com purchased a "news cluster" on the satellite networks, which allowed its brand messaging to appear on competitor channels. With cable, those networks would have likely declined to accept competitors' advertising.

### Dig Deeper

Cable television has prospered at networks' expense because it is much more targeted—and a lot cheaper. Travel, cooking, science, history, weight loss: it's all available to a well-defined audience that's self-selected to be interested in ads that relate to these categories. Still, like its older brother, network TV, cable lacks precise metrics. In some cases an advertiser will take advantage of cable's targeting capabilities to conduct an **A-B test** of a commercial. This means that it will show one execution to a select group of viewers who live in one part of a city and a different version to another group—and then examine the product's sales in each region to identify any results. But this is still an indirect metric and is not routinely used.

MTV Networks—one of the biggest cable success stories—is trying to remedy that problem now. The network has contracted with a firm called Marketing Evolution to develop a system for its advertisers based on meeting benchmarks including awareness, relevancy, new purchase intent, purchase loyalty, and advocacy. Advertisers may still pay on a CPM basis, but also have the option to contract with Marketing Evolution to measure the success of their buys.Steve Miller, "MTV Networks Puts New Advertising ROI Metrics into Rotation," *Brandweek*, June 29, 2008, www.brandweek.com/bw/content_display/news-and-features/direct/e3i3a6a726c3dd89a140cfb16d45053c8ec (accessed August 15, 2008). Time will tell if this new project will rock the metrics world.

## Radio

Radio stations design their programming to attract certain listeners and then sell those listeners to advertisers in tiny increments. As with TV, advertisers look carefully at listener ratings to determine who and how many listeners their ad will reach on a given station—the leading industry ratings are provided by Arbitron. The company used to collect these data by asking listeners to keep a diary of the stations they listen to, but now it uses a Portable People Meter to automate the process and deliver more reliable results.http://www.arbitron.com/downloads/arbitron2008mediaplan.pdf (accessed August 16, 2008).

A radio station has an ad time inventory of about eighteen minutes per hour, which it sells in increments of fifteen seconds, thirty seconds, and sixty seconds (:15s, :30s, and :60s). But not all minutes are valued equally. Audience size shifts dramatically throughout the day, and radio rates vary to reflect the change in the estimated number of listeners your ad will reach.

The radio industry divides up the time it sells in terms of **day-parts**:

- *A.M. drive time*, 6 a.m. to 10 a.m., has the most listeners. They tend to be highly receptive to learning about products (perhaps because they're wired on their morning coffee!).

- *Midday*, 10 a.m. to 3 p.m.: This day-part offers fewer listeners, but they tend to be very loyal to a station. A good way to build brand awareness is to advertise at the same time each day with the same message.
- *P.M. drive time*, 3 p.m. to 7 p.m., also has a large number of listeners. They may be more inclined to buy what you're selling than in the morning when they're rushing to get to work.
- *Evening*, 7 p.m. to midnight, has fewer listeners but they tend to be highly loyal—they've made the conscious decision to switch on the radio rather than veg out in front of the TV.
- *Late night* lasts from midnight to 6 a.m. As you might expect, you'll reach far fewer people at this time. But they may be more receptive to creative executions that capture their attention during those long, lonely hours."Radio Advertising," www.businesstown.com/advertising/radio-buying.asp (accessed August 15, 2008).

## Print

The Starch test, as you learned in Chapter 11 "Execute on All Platforms: SS+K Goes into Production Overdrive", is a widely used metric that measures the performance of print advertising. Starch Research conducts quantitative research with magazine readers to identify what type of impact an ad had on them.http://www.starchresearch.com/services.html (accessed August 16, 2008). The service calculates these scores:

- *Noted*: The percentage of readers of the specific issue of a magazine who remember having previously seen the ad. This metric indicates whether the ad made an initial impact.
- *Associated*: The percentage of readers who can correctly associate the ad with the brand or product name.
- *Read Most*: The percentage of readers of the specific issue of the magazine who read 50 percent or more of the copy contained in the ad. This score shows how well the ad impacted the reader by engaging them with the copy.

Another metric that can be useful is **pass-along readership**. A magazine that readers share with others most likely displays a higher level of engagement, so it's probably a good environment in which to place a relevant message. Research shows that readers have positive feelings about pass-along copies. Those who receive a magazine from others exhibit the same levels of recall and brand association for the issue's ads as those who initially received the copy (plus, they get a "freebie," so perhaps that puts them in a good mood)."Reader Dynamics and Ad Impact on Readers of Pass-Along Copies," *magazine.org*, 2006, www.magazine.org/content/Files/valReadershipPassAlong.pdf (accessed August 15, 2008).

**PRINT SUMMARY**

U.S. News and World Report: Avg. Rating = 2.55
- Best Position: May 28th issue Cover 4

The New Yorker: Avg. Rating = 2.5
- Best Position: April 23rd Issue Goal Posts surrounding Movie Reviews

Sports Illustrated: Avg. Rating = 2.44
- Best Position: June 11th issue Goal Posts surrounding National Spelling Bee Edit

Entertainment Weekly: Avg. Rating = 2.25
- Best Position: June 4th issue Goal Posts surrounding special American Idol Edit

Time: Avg. Rating = 2.25 [With Make Good]
- Best Position: May 14th Issue first RHP within the Global Business Section [GB reaches a subset of Time's total subscribers]

Newsweek: Avg. Rating = N/A [In Kind insertions]
- Best Position: June 11th & June 25th Issues Cover 3

Print publications allowed for msnbc.com to reach the News Explorer in multiple mindsets due to the editorial diversity
- Important to highlight msnbc.com's 'Fuller Spectrum of News'

Targeted editions gave msnbc.com access to category leaders with limited out-of-pocket investment
- Reached subset of consumers more susceptible to msnbc.com messaging

Figure 14.10 The Media Kitchen used this ratings system to measure placement levels for the print campaign.

What makes a print ad effective? One recent study reported that we are far more likely to remember spectacular magazine ads, including multipage spreads, three-dimensional pop-ups, scented ads, and ads with audio components. For example, a Pepsi Jazz two-page spread with a three-dimensional pop-up of the opened bottle and a small audio chip that played jazz music from the bottle's opening as well as a scratch-and-sniff tab that let readers smell its black cherry vanilla flavor scored an amazing 100 percent in reader recall.Erik Sass, "Study Finds Spectacular Print Ads Get Spectacular Recall," http://www.mediapost.com (accessed February 23, 2007).

| Ratings System | | |
|---|---|---|
| Excellent | Premium positioning | 3 |
| Very Good | Well read edit, far forward; Editorial/ Creative synergy | 2 |
| Acceptable | Negotiated position | 1 |
| Not Acceptable | Incorrect positioning; No editorial synergy | 0 |

Figure 14.11 This is a summary of the ratings and positioning.

What makes a print ad effective? One recent study reported that we are far more likely to remember spectacular magazine ads, including multipage spreads, three-dimensional pop-ups, scented ads, and ads with audio components. For example, a Pepsi Jazz two-page spread with a three-dimensional pop-up of the opened bottle and a small audio chip that played jazz music from the bottle's opening as well as a scratch-and-sniff tab that let readers smell its black cherry vanilla flavor scored an amazing 100 percent in reader recall.Erik Sass, "Study Finds Spectacular Print Ads Get Spectacular Recall," http://www.mediapost.com (accessed February 23, 2007).

Unfortunately, that kind of multimedia treatment is very expensive; not every ad can mimic a Broadway production! Still, there are basic principles that increase a print ad's likely impact on the reader:

- One popular dimension is the ad's position in the magazine or newspaper. The industry refers to the ideal placement with the acronym **FHRHP: first half, right hand page**.

- Ads that appear in key cover positions (inside front cover, inside back cover, outside back cover) on average receive a Starch Noted score that is more than 10 percent higher than those that appear inside the magazine.
- Double-page spreads and bound multiple page inserts have significantly greater impact than full-page ads. Readers also are more likely to remember the brand name associated with the ad and to actually read the copy.
- A scent strip increases both the immediate impact of the advertisement and also the brand name association.
- Color has a significantly greater impact than monotone.
- Large advertisements on average have greater immediate impact than smaller ads.
- Sampling opportunities engage a reader with the product for a longer period of time. This strategy also shows that you are prepared to support your advertising claims.
- Placing an ad near editorial content that is relevant to the product enhances the ad's impact."Starch Research," edsites2.itechne.com/Acp3Images/edDesk/0b531cdd- eaf7-4c3e-82a7-1980552a775c/AboutStarch.pdf (accessed August 15, 2008).

## Key Takaway

Traditional broadcast media platforms are under great pressure to demonstrate that they contribute to a client's bottom line. Unfortunately, there's no consensus regarding the single best way to do this—especially because these messages often intend to shape opinions or slowly evolve or reinforce a brand's image over time rather than motivating an immediate purchase. For now, most metrics estimate the number and characteristics of consumers who get exposed to the message, while in some cases focus group or survey data based upon a sample of these people can suggest that these messages are likely to result in the desired action. Media companies in the television, radio, magazine, and newspaper industries continue to work on innovations that will allow them to show more direct results to advertisers who need to decide where to place their dollars.

## EXERCISES

1. Explain the metric cost per thousand (CPM) and how it's used in advertising.
2. Explain how network TV measures advertising effectiveness.
3. Characterize radio day-parts and the different markets that match these day-parts.
4. Describe how Starch scores are used to measure advertising performance.
5. Identify the basic principles that increase a print ad's likely impact on the reader.

# 10.8: ROI for Alternative Media

## LEARNING OBJECTIVES

After studying this section, students should be able to do the following:

1. *List* and *discuss* ROI for alternative media.
2. *Define* media impressions.

It's no secret that traditional advertising venues no longer provide the punch they used to. Advertising clutter makes it more difficult to get noticed in a crowded media environment, and even if people see or hear your ad, they are so busy multitasking that they may not react to it as you'd like. For this reason many advertisers look to alternative media either to replace or, more likely, to supplement their broadcast efforts. These options can be especially powerful for the client who needs short-term results (*buy something now*) rather than a longer-term brand building effort.

## Point-of-Purchase

As the effectiveness of traditional media platforms continues to come under scrutiny, a lot of companies are allocating a greater proportion of their advertising dollars to **point-of-purchase advertising** (POP, also called *marketing-at-retail*). U.S. companies spend more than $13 billion each year in this category. A POP can be an elaborate product display or demonstration, a coupon-dispensing machine, or even someone giving out free samples of a new cookie in the grocery aisle.

Coupons and other short-term sales promotions (e.g., "buy one, get one free") are forms of POP that are extremely trackable—it's fairly easy to monitor redemption rates to the *n*th degree so an advertiser knows exactly which offers resulted in purchases. The eventual impact on the bottom line? Not always so obvious—a rush of purchases in the short-term to take advantage of a big price reduction ironically might decrease the brand's long-term value if these cuts cheapen its image! And you thought this was going to be easy.…

As we all know, the experiences we have in a retail environment exert a big impact on the likelihood we'll purchase—though, again, these can be hard to quantify. However, POP industry experts claim that a well-designed in-store display can boost impulse purchases by as much as 10 percent. One study that compared short-term sales increases among a number of different media across three hundred campaigns reported that in-store fixtures yield an average of 160 percent, and in-store posters delivered a 136 percent return."In-Store Marketing Gives Highest Return," November 2003, www.popai.com/AM/Template.cfm?Section=Search&section=June&template=/CM/ContentDisplay.cfm&ContentFileID=897 (accessed August 16, 2008).

Due to the high stakes involved, several initiatives are under way to employ high-tech methods that more precisely measure just what happens in the store when consumers encounter advertising messages. The industry trade association POPAI (Point-of-Purchase Advertising Institute) is spearheading a major initiative with the Association of National Advertisers (ANA) to establish measurement standards for the industry."The Association of National Advertisers and POPAI Lead Global Marketing at-Retail Initiative (MARI)," http://www.popai.com, October 7, 2005 (accessed August 16, 2008).

In addition, an alliance of major marketers including Procter & Gamble, Coca-Cola, 3M, Kellogg, Miller Brewing, and Wal-Mart is using infrared sensors to measure the reach of in-store marketing efforts. Retailers have long counted the number of shoppers who enter and exit their stores, and they use product barcode data to track what shoppers buy. But big consumer-products companies also need to know how many people actually walk by their promotional displays so they can evaluate how effective these are. Although it's possible to fool these sensors (they still can't tell if someone is simply cutting through to reach the other end of the store), this sophisticated measurement system is a valuable first step that many advertisers eagerly await.Ellen Byron and Suzanne Vranica, "Scanners Check Out Who's Browsing Marketers, Retailers Test Sensors to Weigh Reach of In-Store Promotions," *Wall Street Journal*, September 27, 2006, B2.

Finally, the marketing research company TNS is about to launch a new system to measure POP in grocery stores. The *TNS Insight Dashboard* will be a syndicated service that provides a report each quarter on the effectiveness of in-store marketing strategies. The Dashboard monitors where shoppers are in a grocery store at any given time, tracks the number of seconds they spend at any display and the amount of time they spend with other products, and then overlays these results with sales information so TNS can determine which displays actually lead to purchases. As a TNS executive observed, "A display's stopping power is a good thing when it generates a lot of purchasing, but if people are spending many seconds there and not buying, something isn't speaking to customers properly."Quoted in Sarah Mahoney, "TNS Unveils New In-Store Metrics For Grocers," *Marketing Daily*, July 14, 2008, http://www.mediapost.com (accessed August 16, 2008).

## Out-of-Home Media

Surprise—there is no standard metric for traditional billboard advertising. However, common sense suggests that these messages are more useful in some contexts than in others. Because passing motorists only see a billboard for a few seconds, this medium is more effective to convey a quick visual message than substantial information. Billboard messages need to be kept to five or six words at the most. In this case a picture truly is worth a thousand words. Again, it's awfully hard to quantify the impact a vivid picture can make, though this could be substantial if it's sufficiently interesting and differentiates the product (especially when people see it repeatedly).

Outdoor advertising is quickly moving to more sophisticated digital technology that people can see at a greater distance and that can present more detailed verbal information. In research conducted by OTX, a global consumer research and consulting firm, 63 percent of adults said that advertising on digital signage "catches their attention." Respondents consider advertising in this media to be more unique and entertaining and less annoying than both traditional and online media. The study also reports that awareness of digital out-of-home media is high—62 percent of adults have seen digital signage in the past twelve months—and is at levels comparable to billboards, magazines, and newspapers. On average, people notice digital signage in six different kinds of locations during their week, giving advertisers the opportunity to intercept people with their brand message at various touchpoints during their weekly routines as they work, play, and socialize. It's even more effective at reaching eighteen- to thirty-four-year-olds, who rate this medium higher than the general population."Report: Digital Signage More Effective than Traditional Media," October 24, 2007, www.digitalsignagetoday.com/article.php?id=18696&prc=407&page=190 (accessed August 16, 2008).

**Cinema advertising** is one form of out-of-home media that is gaining in popularity—as SS+K discovered when they launched the in-cinema NewsBreaker Live game. An organization called The Out-of-Home Video Advertising Bureau (OVAB) is developing guidelines to allow potential advertisers to measure the effectiveness of this new medium. At this point twenty-five companies belong to this group."Out-of-Home Video Advertising Bureau (OVAB) Expands Adding Screenvision and Target…," *Reuters*, January 14, 2008, www.reuters.com/article/pressRelease/idUS108048+14-Jan-2008+PRN20080114 (accessed August 16, 2008).

### SS+K Spotlight

In order to measure the effectiveness of their innovative in-cinema effort, msnbc.com and SS+K considered all the possibilities to show impact and impressions.


Figure 14.13 Audience members in Los Angeles play at the premiere of NewsBreaker Live, the first ever in-cinema game.

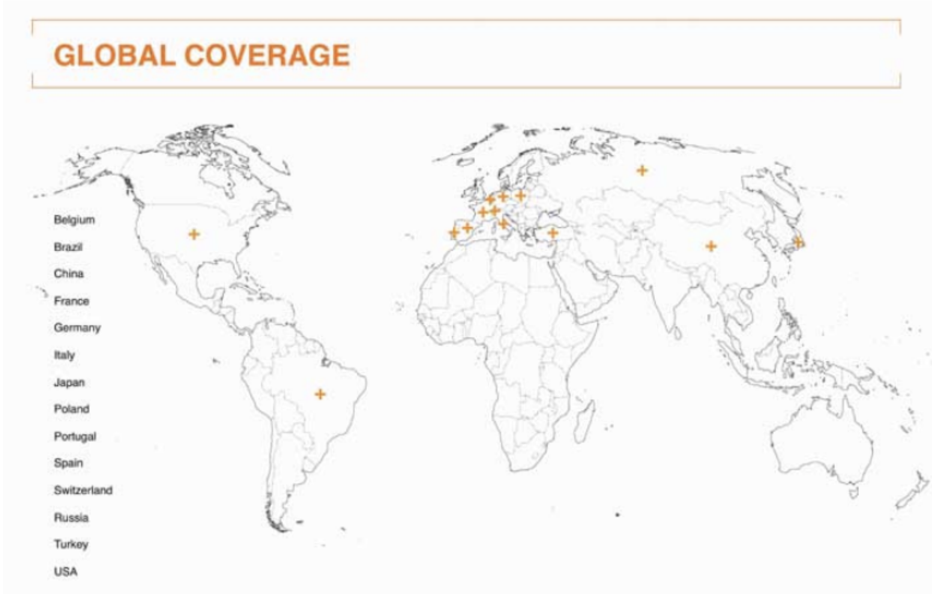



Figure 14.14 The game garnered significant press coverage worldwide. These are the countries where stories about NewsBreaker Live appeared in local media.

NewsBreaker Live yielded incredible results in terms of players' recall of msnbc.com and enjoyment of the new innovative messaging. The team also aimed to measure impressions by counting tickets sold for the showtimes and films in which NewsBreaker Live played. The game ran in summer blockbusters such as *Spider-Man 3*, *Shrek the Third*, *Ocean's 13*, and *Ratatouille*, so a large number of people were exposed to it.

## Product Placement

In 2008 advertisers spent $3.6 billion to place their products in TV shows and movies. Until fairly recently, product placement was a casual operation where prop masters made informal arrangements to procure products they needed to dress a set. Today, it's big business—but the effectiveness of these placements is anyone's guess.

Nielsen, the company that compiles TV program viewership ratings, is working on a process with another company, IAG, to quantify when products appear in shows. IAG currently produces product placement ratings that are based on viewer recall; it asks 2.5 million people to respond to surveys online after they watch their favorite shows. These ask whether viewers remember the brand, think more positively about it, or want to purchase it, and whether the placement disrupted their viewing experience. Another firm called ITVX uses a system that measures up to sixty variables to determine a placement's effectiveness, including whether a product appears in the foreground or background, whether a viewer is aware that a brand is on screen, and whether the show's commercials are coordinated with the product placements.Alana Semuels, "Research Firm Nielsen Tallying Product Placement Ads," *Los Angeles Times*, July 21, 2008, http://www.latimes.com (accessed August 16, 2008).

## Video Advertising

Odds are you've watched a clip on YouTube recently. Advertisers want more access to viewers like you as online video advertising comes into its own. Some companies including CBS and Electronic Arts have reversed their positions about prosecuting users who post unauthorized clips of their content and have instead started to sell advertising on these spots. Interestingly, CBS is doing this even though its sister company Viacom is involved in a billion-dollar copyright lawsuit against Google, which owns YouTube.Brian Stelter, "Some Media Companies Choose to Profit from Pirated YouTube Clips," *New York Times Online*, August 15, 2008 (accessed August 16, 2008).

Reflecting the newness of this media platform, in 2006 the Interactive Advertising Bureau (IAB) developed a set of guidelines to help the industry determine at what point a piece even qualifies as a video commercial. It defines a **video ad** as a commercial that may appear before, during, and after a variety of content including streaming video, animation, gaming, and music video content in a player environment. For now, the industry still uses CPM as its primary metric. The majority of video ads are repurposed fifteen- and thirty-second television commercials, but as yet there is little data about how these translate to the online environment, which length is most effective, and so on.

## Advergaming

Advergames, as you learned in Chapter 10 "Plan and Buy Media: SS+K Chooses the Right Media for the Client's New Branding Message", are custom-made videogames specifically designed around a product or service, such as Sneak King by Burger King. Many advertisers are intrigued by the possibilities they see here, especially since the elements within an online game can be changed over time. Videogames also can show digital video ads before play, during breaks in a game, or following completion of the game. A client can introduce its products directly into the game in the form of beverages, mobile phones, cars, and so on.

The Interactive Advertising Bureau (IAB) is at work to define standard metrics for this new medium. The videogame platform shares some characteristics of online ads because when people play online, clients can track which specific elements in a game yield a response (e.g., when a player clicks on a sponsored link). The IAB has identified basic metrics that include:

- *Cost per thousand (CPM)*—Advertising inventory is sold on the basis of "number of impressions delivered." But just what constitutes an "impression" has yet to be agreed upon. For example, it may be defined as ten seconds of cumulative exposure to an ad format or element within a game session. In order for each one second to be counted, the scene the gamer sees must meet defined parameters for the angle of view to the ad in addition to the size of the ad unit on the screen. Other measurement methods count "interactive impressions" once there is an interaction between the gamer and the interactive ad unit.
- *Cost per click (CPC)*—A media company or search provider is paid only when the user or visitor clicks on an ad.
- *Cost per action (CPA)*—Performance ad networks often use this model where the revenue event is triggered only when the user or visitor takes the desired action with the advertiser (i.e., makes a purchase).
- *Cost per view (CPV)*—This relatively new model triggers the revenue event only when the user or visitor opts in to view the ad, often by clicking on a prompt or "bug."
- *Cost per session (CPS)*—A session-based sponsorship where the user or visitor's play experience is branded.*Game Advertising Platform Status Report: Let The Games Begin*, Interactive Advertising Bureau, October 2007, http://www.iab.com (accessed August 14, 2008).

### SS+K Spotlight

SS+K created msnbc.com's NewsBreaker game because the agency realized that its target segment of News Explorers also tend to be active in casual online games. The chart below illustrates two types of engagement with the NewsBreaker game: number of times played and how long the user plays.

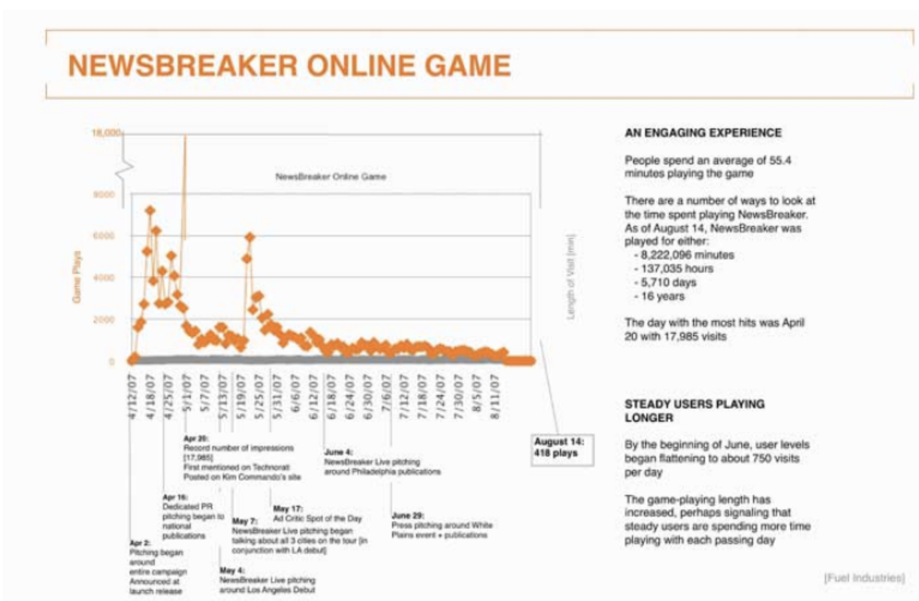



Figure 14.15 Chart tracking number of players and time spent playing NewsBreaker online.

As you can see, users spent an average of 55.4 minutes playing the game. Game enthusiasts have enjoyed playing the game well past the media buy, which ended in June 2007. The total time people spent playing the game from April 12 through the end of August is 8,714,295 minutes—around seventeen years!

The number of people playing peaked on April 20 at a whopping 17,985 people. That was at the beginning of the campaign; toward the end the numbers were closer to 750 per day, indicating that the media efforts attracted News Explorers to the game.

## Direct and Online Advertising

In 2007, marketers—commercial and nonprofit—spent $173.2 billion on direct marketing in the United States. The Direct Marketing Association (DMA) claims that each dollar spent on direct marketing yields, on average, a return on investment of $11.69.The Power of Direct Marketing: ROI, Sales, Expenditures and Employment in the US, 2007-2008 Edition, *Direct Marketing Association*, http://www.the-dma.org/aboutdma/whatisthedma.shtml (accessed August 15, 2008) The strength of direct marketing is that it allows the advertiser to track the impact of a mailing or online ad directly. As direct marketers like to say, “What gets measured, gets managed.”

E-commerce marketers often use a metric they call the **conversion rate**—the percentage of visitors to an online store who purchase from it. Because each action online is trackable, it’s possible to go even further by breaking down the Web experience to understand which aspects of it are effective and which are not. For example, IBM computes *microconversion rates* to pinpoint more precisely how companies can improve their online shopping process.Joan Raymond, “No More Shoppus Interruptus,” *American Demographics* (May 2001): 39. This technique breaks down the shopping experience into the stages that occur from the time a customer visits a site to if or when she actually makes a transaction:

- *Product impression*: Viewing a hyperlink to a Web page that presents a product
- *Click-through*: Clicking on the hyperlink and viewing the product’s Web page
- *Basket placement*: Placing the item in the “shopping basket”
- *Purchase*: Actually buying the item

These researchers calculate microconversion rates for each adjacent pair of measures to come up with additional metrics that can pinpoint specific problems in the shopping process:

- *Look-to-click rate*: How many product impressions convert to click-throughs? This can help the e-tailer determine if the products it features on the Web site are the ones that customers want to see.
- *Click-to-basket rate*: How many click-throughs result in the shopper placing a product in the shopping basket? This metric helps to determine if the detailed information the site provides about the product is appropriate.
- *Basket-to-buy rate*: How many basket placements convert to purchases? This metric can tell the e-tailer which kinds of products shoppers are more likely to abandon in the shopping cart instead of buying them (believe it or not, this is a major problem for e-commerce businesses). It can also pinpoint possible problems with the checkout process, such as forcing the shopper to answer too many questions or making her wait too long for her credit card to be approved.

In some cases advertisers evaluate how much they spend on various ads compared to the visits or clicks they each create and then reallocate their ad spend to the ones with the highest ROI, as measured by cost per visit or cost per click. This method is easy to implement, but it can be misleading because it’s short-term oriented: one execution may result in a low cost per action, but customers may be “one-timers” who don’t return. Another execution might be more expensive, but customers may respond to it repeatedly over time, generating additional profits with no additional costs.“True Campaign ROI Links to LTV (Lifetime Value),” http://www.jimnovo.com/ROILTV.htm (accessed August 15, 2008).

Online advertising formats have historically faced problems with declining response rates over time. Banner ads debuted with click-through rates above 50 percent but faded to about 2 percent after their novelty wore off. Today, banners get fewer than five responses for every thousand advertisements shown, a response rate of about 0.5 percent.“IAB on Advertising ROI,” ZDNet Research, November 14th, 2003, http://blogs.zdnet.com/ITFacts/?p=4928 (accessed August 15, 2008). That’s why advertisers now resort to other methods to capture surfers’ attention, such as **pop-up ads** that open on top of the Web site a person visits (also on their way out because they tend to be more annoying than entertaining) and, more lately, **pop-under ads** that open a new browser window under the active window so they allow the user to continue browsing at the intended site.

Numerous Web sites provide online calculators to determine ROI—of course these assume that you have accurate information to use (garbage in, garbage out). They typically consider these inputs:

- *Site traffic*: How many people visit your site in a typical month?
- *Investment*: How much do you spend on Web development, hosting, search engine marketing, or other advertising?
- *Responses*: What percentage of visitors do you expect to request more information, request a quote, or place an order?
- *Conversions*: What percentage of those who make one of the responses above do you realistically expect will buy?

- *Average sale*: How much do you expect each buyer to spend?
- *Gross profit margin*: What is the average percentage margin of your sales?

With this information in hand, you can calculate how much you spend to attract each visitor, how much you spend to attract each visitor who actually buys from you, and your net return on your investment. Blitz Media Design, http://www.webrefinements.com/seo/web-roi.html (accessed August 15, 2008).

### SS+K Spotlight

Since its core product is delivered online, it was a no-brainer that msnbc.com's new branding campaign would include an online element.

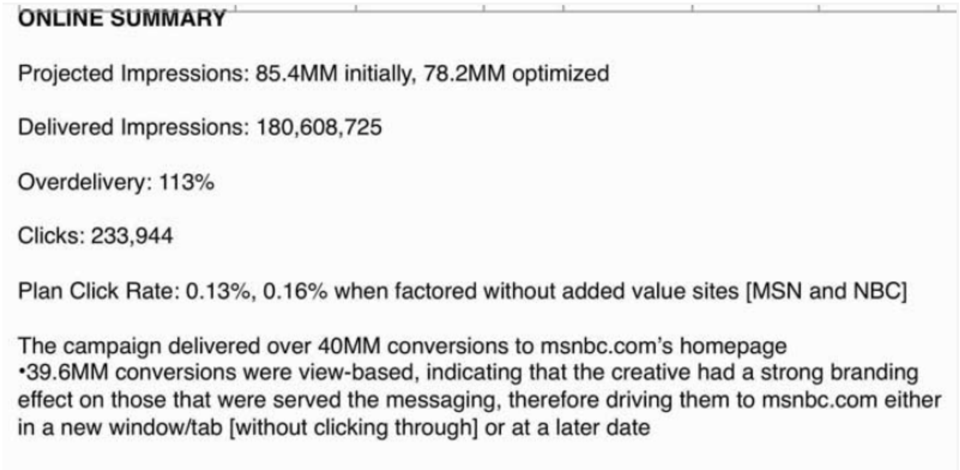



Figure 14.16 Summary of results from the msnbc.com online banner campaign including paid and in-kind media from NBC and MSN.

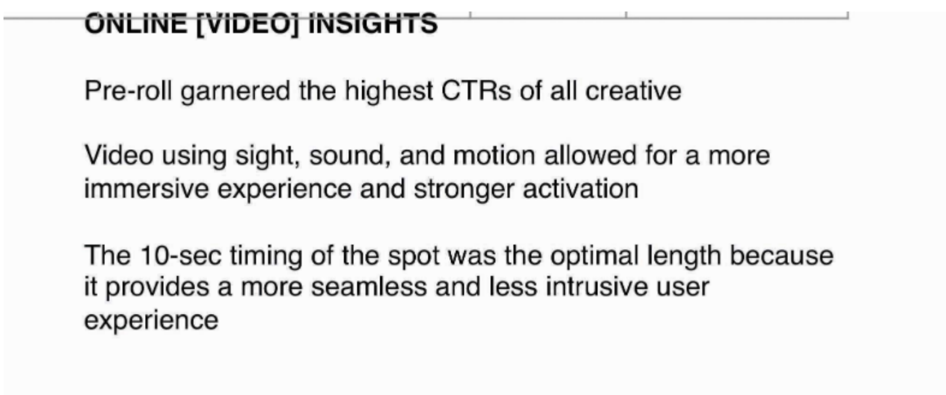
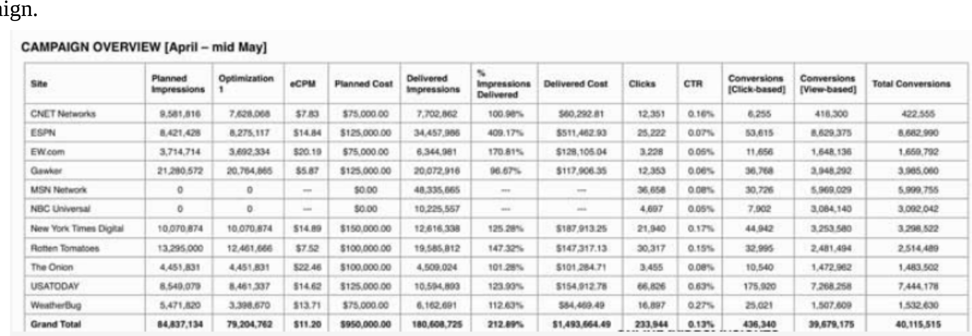



Figure 14.17 msnbc.com ran ten-second prerolls "Spectrum Rain" and "Spectrum Wall" and garnered the highest click-through rate of the campaign.



**CAMPAIGN OVERVIEW [April – mid May]**

| Site | Planned Impressions | Optimization 1 | eCPM | Planned Cost | Delivered Impressions | % Impressions Delivered | Delivered Cost | Clicks | CTR | Conversions [Click-based] | Conversions [View-based] | Total Conversions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CNET Networks | 9,581,816 | 7,628,068 | $7.83 | $75,000.00 | 7,702,862 | 100.98% | $60,292.81 | 12,351 | 0.16% | 6,255 | 416,300 | 422,555 |
| ESPN | 8,421,428 | 8,275,117 | $14.84 | $125,000.00 | 34,457,986 | 409.17% | $511,462.93 | 25,222 | 0.07% | 53,615 | 8,629,375 | 8,682,990 |
| EW.com | 3,714,714 | 3,692,334 | $20.19 | $75,000.00 | 6,344,981 | 170.81% | $128,105.04 | 3,228 | 0.05% | 11,656 | 1,648,136 | 1,659,792 |
| Gawker | 21,280,572 | 20,764,865 | $5.87 | $125,000.00 | 20,072,916 | 96.67% | $117,906.35 | 12,353 | 0.06% | 36,768 | 3,948,292 | 3,985,060 |
| MSN Network | 0 | 0 | — | $0.00 | 48,335,665 | — | — | 36,658 | 0.08% | 30,726 | 5,969,029 | 5,999,755 |
| NBC Universal | 0 | 0 | — | $0.00 | 10,225,557 | — | — | 4,697 | 0.05% | 7,902 | 3,084,140 | 3,092,042 |
| New York Times Digital | 10,070,874 | 10,070,874 | $14.89 | $150,000.00 | 12,616,338 | 125.28% | $187,913.25 | 21,940 | 0.17% | 44,942 | 3,253,580 | 3,298,522 |
| Rotten Tomatoes | 13,295,000 | 12,461,666 | $7.52 | $100,000.00 | 19,585,812 | 147.32% | $147,317.13 | 30,317 | 0.15% | 32,995 | 2,481,494 | 2,514,489 |
| The Onion | 4,451,831 | 4,451,831 | $22.46 | $100,000.00 | 4,509,024 | 101.28% | $101,284.71 | 3,455 | 0.08% | 10,540 | 1,472,962 | 1,483,502 |
| USATODAY | 8,549,079 | 8,461,337 | $14.62 | $125,000.00 | 10,594,893 | 123.93% | $154,912.78 | 66,826 | 0.63% | 175,920 | 7,268,258 | 7,444,178 |
| WeatherBug | 5,471,820 | 3,398,670 | $13.71 | $75,000.00 | 6,162,691 | 112.63% | $84,469.49 | 16,897 | 0.27% | 25,021 | 1,507,609 | 1,532,630 |
| **Grand Total** | **84,837,134** | **79,204,762** | **$11.20** | **$950,000.00** | **180,608,725** | **212.89%** | **$1,493,664.49** | **233,944** | **0.13%** | **436,340** | **39,679,175** | **40,115,515** |

Figure 14.18 In order to optimize online dollars, it was important for msnbc.com, The Media Kitchen, and SS+K to pay attention to each site and each unit that was being utilized.

## Buzz, PR, and WOM

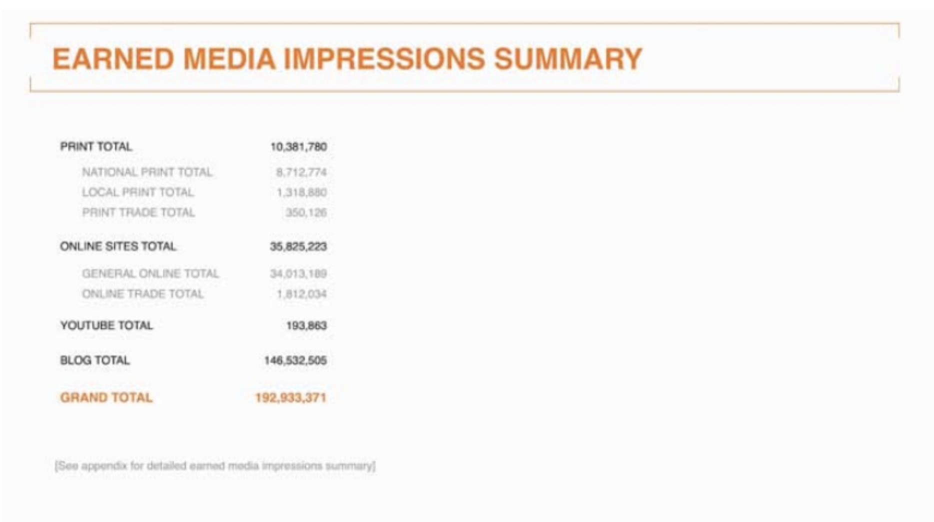
Public relations campaigns traditionally measure impact in terms of the extent to which the client obtains media coverage. A basic metric is **media impressions**; as you learned in earlier chapters, this is an estimate of the number of people who see the plug in a magazine or newspaper or on a talk show or who hear about it in a radio interview. A PR firm typically delivers a comprehensive list of media citations to the client, and it may rank these in terms of the prestige or circulation of the outlet or how prominent the mention was in this outlet. Again, this metric doesn't really speak to any impact the citations have on actual purchases or attitude change.Deborah Holloway, "How to Select a Measurement System That's Right for You," *Public Relations Quarterly* (Fall 1992): 15–17.

As WOM (word-of-mouth) assumes a greater role in many advertisers' strategies—especially online buzz—the pressure is on for agencies to demonstrate that this approach does more than just make people talk about a brand. In fact, one prominent WOM agency called BzzAgent recently took a bold step to back up its claims that its buzz campaigns yield attractive ROI. With its "WOM Impact Guarantee" program the agency invites any brand marketer and its agency partners to take part in a challenge in which BzzAgent and the agency partner will run competing campaigns. If BzzAgent does not top the competing agency by 20 percent across four metrics—brand awareness, consumer opinion, purchase intent, and actual sales—the agency will refund the marketer the cost of its word-of-mouth campaign and measurement costs.Michael Bush, "Better ROI or Your Money Back, Says Buzz Agency," *Advertising Age*, July 14, 2008, adage.com/article?article_id=129593 (accessed July 16, 2008). That's putting your money where your (word-of-) mouth is.

The explosion of blogs, chat rooms, and Web sites that let consumers spread the word about products they love and hate opens an entire new realm of possibilities to develop metrics for WOM. Contrary to the assumptions of many students who brazenly post embarrassing photos of themselves on Facebook, the Web is forever—most content that goes online can be traced and analyzed long after it's been put there. That photo of you from last weekend's wild party might come back to haunt you someday!

BuzzMetrics, a subsidiary of the Nielsen Company, offers marketers research services to help them understand how this consumer-generated content affects their brands. BuzzMetrics' search engines identify online word-of-mouth commentary and conversations to closely examine phrases, opinions, keywords, sentences, and images people use when they talk about a client's products. The company's processing programs then analyze vocabulary, language patterns, and phrasing to determine whether the comments are positive or negative and whether the authors are men, women, young, or old to more accurately measure buzz. BuzzMetrics' *BrandPulse* and *BrandPulse Insight* reports can tell advertisers how many people are talking about their products online, the issues they're discussing, and how people react to specific ads or other promotional activities.Keith Schneider, "Brands for the Chattering Masses," *New York Times Online*, December 17, 2006, http://www.nytimes.com/2006/12/17/business/yourmoney/17buzz.html?scp=4&sq=buzzmetrics&st=nyt (accessed April 14 2008); Nielsen Buzzmetrics, www.nielsenbuzzmetrics.com/products (accessed April 14, 2008).

### SS+K Spotlight



EARNED MEDIA IMPRESSIONS SUMMARY

| | |
|---|---|
| PRINT TOTAL | 10,381,780 |
| NATIONAL PRINT TOTAL | 8,712,774 |
| LOCAL PRINT TOTAL | 1,318,880 |
| PRINT TRADE TOTAL | 350,126 |
| ONLINE SITES TOTAL | 35,825,223 |
| GENERAL ONLINE TOTAL | 34,013,189 |
| ONLINE TRADE TOTAL | 1,812,034 |
| YOUTUBE TOTAL | 193,863 |
| BLOG TOTAL | 146,532,505 |
| GRAND TOTAL | 192,933,371 |

[See appendix for detailed earned media impressions summary]

Figure 14.19 Total earned media impressions from the msnbc.com PR campaign.

In addition to measuring elements of the campaign, msnbc.com took some internal measurements. Taking these additional steps allowed them to see how the messaging impressions were affecting the site traffic. Using Omniture tracking, msnbc.com was able to analyze the action on their site while the campaign was in effect and to determine whether they met their goals.

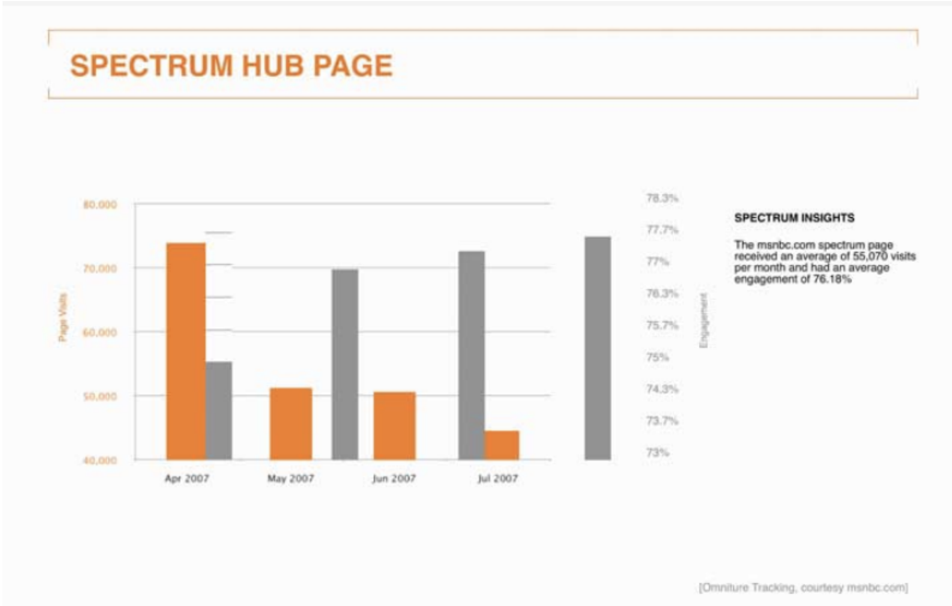



Figure 14.20 This chart follows the traffic numbers and time spent interacting with www.spectrum.msnbc.com, which was a landing destination for the campaign. Having a unique URL or phone number is a common way for direct marketers and online advertisers to measure success.

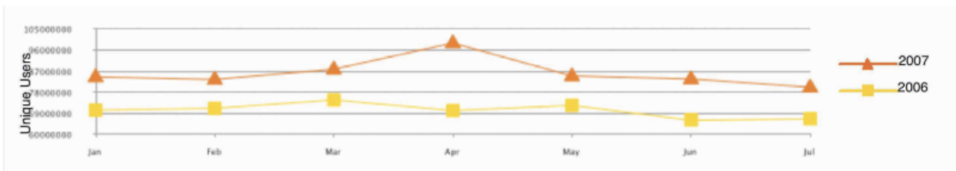



Figure 14.22 One of the key measurements of success was to increase unique users, the number of different people who come to a site. If the same person visits a site five times a day, she still counts as one unique user.

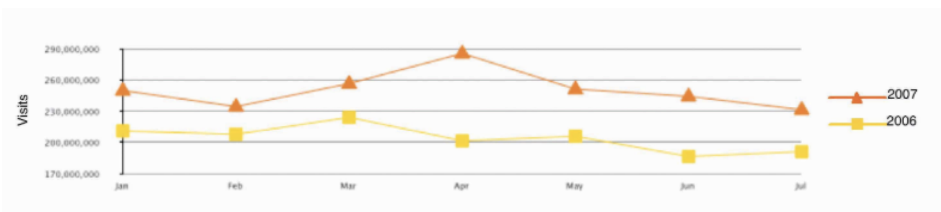



Figure 14.23 Another breakdown of the traffic shows the number of organic users. This is a user who types in a given URL, or who has that URL bookmarked as her form of entry into a given site, rather than clicking through a link (from a search page or ad).

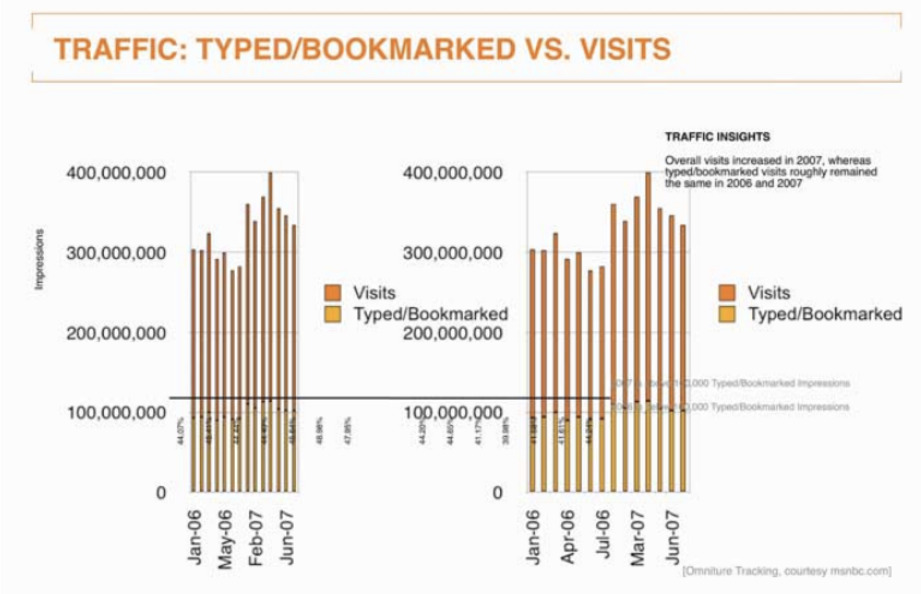
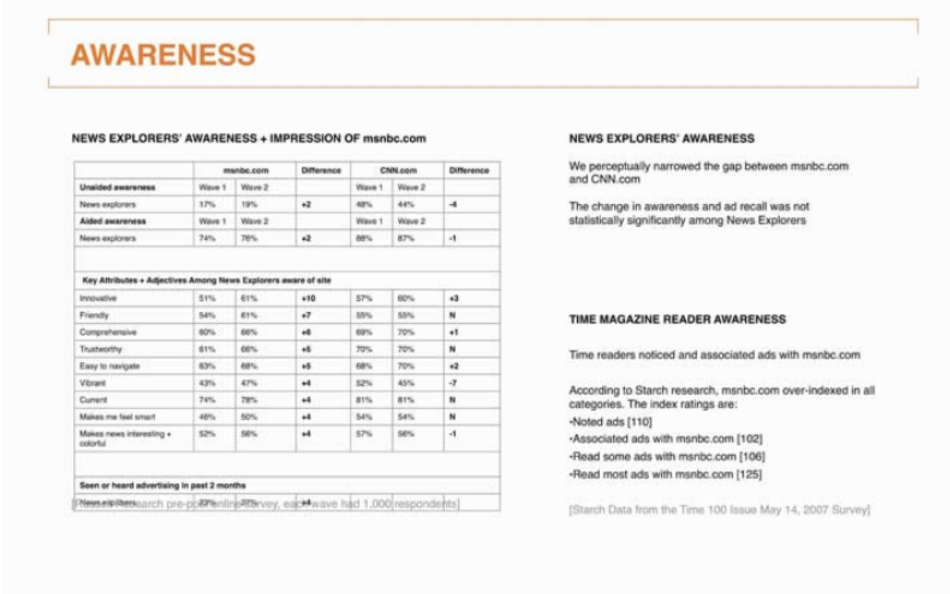



Figure 14.24 SS+K compared the rate of overall visits versus the rate of visits by organic users.


Figure 14.25 The bottom line: the first-ever branding campaign for msnbc.com was a huge success! The slide above captures the key statistics in the launch month of April 2007.



AWARENESS

NEWS EXPLORERS' AWARENESS + IMPRESSION OF msnbc.com

| | msnbc.com | | Difference | CNN.com | | Difference |
|---|---|---|---|---|---|---|
| **Unaided awareness** | Wave 1 | Wave 2 | | Wave 1 | Wave 2 | |
| News explorers | 17% | 19% | +2 | 48% | 44% | -4 |
| **Aided awareness** | Wave 1 | Wave 2 | | Wave 1 | Wave 2 | |
| News explorers | 74% | 76% | +2 | 88% | 87% | -1 |
| | | | | | | |
| **Key Attributes + Adjectives Among News Explorers aware of site** | | | | | | |
| Innovative | 51% | 61% | +10 | 57% | 60% | +3 |
| Friendly | 54% | 61% | +7 | 55% | 55% | N |
| Comprehensive | 60% | 66% | +6 | 69% | 70% | +1 |
| Trustworthy | 61% | 66% | +5 | 70% | 70% | N |
| Easy to navigate | 63% | 68% | +5 | 68% | 70% | +2 |
| Vibrant | 43% | 47% | +4 | 52% | 45% | -7 |
| Current | 74% | 78% | +4 | 81% | 81% | N |
| Makes me feel smart | 46% | 50% | +4 | 54% | 54% | N |
| Makes news interesting + colorful | 52% | 56% | +4 | 57% | 56% | -1 |
| | | | | | | |
| **Seen or heard advertising in past 2 months** | | | | | | |
| News explorers | [illegible] | [illegible] | +4 | | | |

[... search pre-post online survey, each wave had 1,000 respondents]

NEWS EXPLORERS' AWARENESS

We perceptually narrowed the gap between msnbc.com and CNN.com

The change in awareness and ad recall was not statistically significantly among News Explorers

TIME MAGAZINE READER AWARENESS

Time readers noticed and associated ads with msnbc.com

According to Starch research, msnbc.com over-indexed in all categories. The index ratings are:

•Noted ads [110]

•Associated ads with msnbc.com [102]

•Read some ads with msnbc.com [106]

•Read most ads with msnbc.com [125]

[Starch Data from the Time 100 Issue May 14, 2007 Survey]

Figure 14.26 In addition to tracking traffic data, it was also important to consider awareness as a metric to determine the success of the campaign. Prepost survey results included both qualitative and quantitative data.

A few months after the campaign wrapped, SS+K conducted a set of interviews with the same internal stakeholders they'd interviewed when they won the account. One of the goals of the marketing campaign was to unite their multiple views of what the brand stood for. It turned out that even before it launched, stakeholders felt the campaign was successful in that it gave msnbc.com a clear story. It gave them a common lens they could use to evaluate new design concepts and editorial content, while it gave msnbc.com the cachet stakeholders felt was long overdue. It successfully overcame the past ambiguity about whether the site was primarily an offshoot of NBC versus Microsoft and promised stakeholders a clearer future. The head of msnbc.com ad sales noted: "Clients have called us asking, 'How do we do something similar?' It's opened up doors."

### Video Spotlight

*Catherine Captain*

(click to see video)

*Catherine Captain summarizes the campaign's success from her point of view.*

Table 14.1 Final Takeaway and Lessons from the msnbc.com Branding Campaign

| |
|---|
| A BRAND IS BORN<br>"This is a good thing, we now have an independent identity."<br>—msnbc.com key stakeholder |
| INTERNAL RALLYING CRY<br>"It's now visually clear that we are different and we've arrived somewhere special and unique, and it works because we brought it out ourselves, it's who we are."<br>—msnbc.com key stakeholder |
| STARTING TO GET THE WORD OUT<br>Paid media impressions: Over 730 million<br>Earned media impressions: Over 175 million |
| LOW CONSUMER AWARENESS<br>Statistically insignificant changes in awareness and ad recall among News Explorers |
| HIGH CONSUMER ENGAGEMENT<br>Large amount of time spent playing online game<br>High recall of game sponsor in-cinema |
| CLARIFIED IDENTITY HELPS DEVELOP AS NEWS SOURCE, NOT JUST A NEWS SITE<br>"The key is, we have to keep at it, this can't be a one shot deal, we have to get it out there more."<br>—msnbc.com key stakeholder |

KEEP EVOLVING THE PRODUCT
"We know that CNN.com beat us to a redesign, and we know that we are behind them, we are working on getting our flexible design out there."
—msnbc.com key stakeholder

Since the campaign, msnbc.com has been decorated with more than a dozen honors and accolades, including these awards. As you'll note, these awards are in different categories from effectiveness to creativity. Visit each of their Web sites to learn more about the prestige of each of these awards.

- Winner of the prestigious international Webby Award for best Integrated Campaign, honoring excellence on the Internet
- Winner of a Gold EFFIE award (small budget campaign) for effective advertising, honoring the most significant achievement in the business of marketing communications: ideas that work
- Winner of the Gold One Show Interactive award for brand gaming
- Winner of the Gold One Show Interactive award for its integrated campaign (interactive and noninteractive)
- Winner of a Bronze ANDY award from the Ad Club of New York for creativity in advertising

## Key Takaway

Advertisers continue to search for new platforms as they compete for the attention of media-saturated consumers. Today virtually anything—from a cemetery to a rocket ship—can be used to get across a message. But these emerging venues don't necessarily have a tradition (yet) of measuring direct impact. An exception is direct marketing; its lifeblood is about tying a message directly to a result. Whether via mail catalogs or online ads, direct marketers carefully track the effectiveness of each and every message they send. This sounds great, and it usually is—but remember, as we've already noted, short-term purchases may boost your bottom line this quarter but still come back to bite you in the long term if these messages don't contribute to a more fundamental shaping of customers' deep-seated feelings and beliefs about the product or service. And so, the search for the Holy Grail continues.

## EXERCISES

1. List and briefly characterize each of the alternative media forms listed.
2. Identify and describe each of the Interactive Advertising Bureau's (IAB) five basic metrics for advergaming.
3. Describe how e-commerce marketers use the conversion rate metric to track customer activity.

# Index

# Detailed Licensing

## Overview

**Title:** Segmentation and Target Marketing Remix (Arthur)

**Webpages:** 96

**Applicable Restrictions:** Noncommercial

**All licenses found:**

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- CC BY-NC-SA 4.0: 31.3% (30 pages)
- CC BY-SA 2.0: 8.3% (8 pages)
- CC BY 4.0: 2.1% (2 pages)
- CC BY-NC-SA 3.0: 1% (1 page)

## By Page

- Segmentation and Target Marketing Remix (Arthur) - *CC BY 4.0*
  - Front Matter - *Undeclared*
    - TitlePage - *Undeclared*
    - InfoPage - *Undeclared*
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