Introduction

Part 1 Provides the Background and the Tools for a Strong and Comprehensive Understanding of Consumer Behavior

Chapter 1 introduces the reader to the study of consumer behavior, its diversity, its development, and the role of consumer research. It concludes with a detailed discussion of ethical considerations in marketing and consumer practices and introduces a simple model of consumer decision making. Chapter 2 provides a detailed overview of the critical research process and the techniques associated with consumer behavior research, including a discussion of positivist and interpretivist research methods. Chapter 3 presents a comprehensive examination of market segmentation and demonstrates how consumer behavior variables provide both the conceptual framework and the strategic direction for the practical segmentation of markets.

chapter**one**

Consumer Behavior: Its Origins and Strategic Applications

Consumer behavior has changed dramatically in the past decade. Today, consumers can order online many customized products ranging from sneakers to computers. Many have replaced their daily newspapers with customized, online editions of these media and are increasingly receiving information from online sources. Students choosing a university no longer rely on information from mailed catalogs; instead, they have online access to all the pertinent information about the university's courses and professors and, in some cases, can visit, virtually, actual classes. People wanting to sell their old computers or grandma's antique credenza no longer need to advertise in the local newspaper or rely on a pricy auction house; instead, they can sell these items via ebay.com. Consumers who want out-of-print books no longer have to visit out-of-the-way stores with hundreds of poorly organized dusty shelves, and those who wish to purchase a book published in another country no longer have to call foreign publishers or deal with the bureaucratic nuances of overseas shipping; instead, they visit amazon.com where they can easily locate and place orders for the books they seek. TV viewers can now avoid advertising commercials by using the "skip" features of their digital video recorders and order on-demand previously shown TV programs as well as



movies. All of these new ways of selling products and services became available to consumers during the past fifteen years and are the result of digital technologies. And they also have another thing in common: They exist today because they reflect an understanding of consumer needs and consumer behavior.

The term *consumer behavior* is defined as the behavior that consumers display in *searching for, purchasing, using, evaluating, and disposing of products and services that they expect will satisfy their needs.* Consumer behavior focuses on how individuals make decisions to spend their available resources (time, money, effort) on consumption-related items. That includes what they buy, why they buy it, when they buy it, where they buy it, how often they

buy it, how often they use it, how they evaluate it after the purchase, the impact of such evaluations on future purchases, and how they dispose of it.

Clearly, as individuals, we are all unique. However, one of the most important constants among all of us, despite our differences, is that, above all, we are consumers. We use or consume on a regular basis food, clothing, shelter, transportation, education, equipment, vacations, necessities, luxuries, services, and even ideas. As consumers, we play a vital role in the health of the economy—local, national, and international. The purchase decisions we make affect the demand for basic raw materials, for transportation, for production, for banking; they affect the employment of workers and the deployment of resources, the success of some industries and the failure of others. In order to succeed in any business, and especially in today's dynamic and rapidly evolving marketplace, marketers need to know everything they can about consumers—what they want, what they think, how they work, how they spend their leisure time. They need to understand the personal and group influences that affect consumer decisions and how these decisions are made. And, in these days of ever-widening media choices, they need to not only identify their target audiences, but they need to know where and how to reach them.

The term *consumer behavior* describes two different kinds of consuming entities: the personal consumer and the organizational consumer. The **personal consumer** buys goods and services for his or her own use, for the use of the household, or as a gift for a friend. In each of these contexts, the products are bought for final use by individuals, who are referred to as *end users* or ultimate consumers. The second category of consumer—the **organizational consumer**—includes profit and not-for-profit businesses, government agencies (local, state, and national), and institutions (e.g., schools, hospitals, and prisons), all of which must buy products, equipment, and services in order to run their organizations. Despite the importance of both categories of consumers—individuals and organizations—this book will focus on the individual consumer, who purchases for his or her own personal use or for household use. End-use consumption is perhaps the most pervasive of all types of consumer behavior, for it involves every individual, of every age and background, in the role of either buyer or user, or both.

development of the marketing concept

The field of consumer behavior is rooted in the **marketing concept**, a business orientation that evolved in the 1950s through several alternative approaches toward doing business: the *production concept*, the *product concept*, and the *selling concept*.

No single product has impacted Americans more than the personal automobile. And the business leader who gave us the affordable car and the business approach called the **production concept** was Henry Ford. Before the early 1900s, only wealthy consumers could afford automobiles because cars were assembled individually and it took considerable time and expense to produce each car. In the early 1900s, Henry Ford became consumed with the idea of producing cars that average Americans could afford. In 1908, Ford began selling the sturdy and reliable Model T for $850—an inexpensive price for that day. Soon he found out that he could not meet the overwhelming consumer demand for his cars and, in 1913, he introduced the assembly line. The new production method enabled Ford to produce good-quality cars more quickly and much less expensively. In 1916, Ford sold Model Ts for $360 and sold more than 100 times as many cars as he did in 1908.[1] In only eight years, Americans got the product that led to our nation's extensive system of highways and the emergence of suburbs with their adjacent shopping malls—two key features of our lives and consumption patterns even today.

The production concept assumes that consumers are mostly interested in product availability at low prices; its implicit marketing objectives are cheap, efficient production and intensive distribution. This orientation makes sense when consumers are more interested in obtaining the product than they are in specific features, and will buy what's available rather than wait for what they really want. Today, using this orientation makes sense in developing countries or in other situations in which the main objective is to expand the market.

The **product concept** assumes that consumers will buy the product that offers them the highest quality, the best performance, and the most features. A product orientation leads the company to strive constantly to improve the quality of its product and to add new features that are technically feasible, without finding out first whether or not consumers really want these features. A product orientation often leads to "marketing myopia," that is, a focus on the product rather than on the consumer needs it presumes to satisfy. Marketing myopia may cause a company to ignore crucial changes in the marketplace because it causes marketers to look in the mirror rather than through the window. Thus, American railroads today are a far less significant economic force than they were some 50 years ago because their management was convinced that travelers wanted trains and overlooked the competition for transportation from personal cars, airlines, buses, and trucks. These railroad executives focused on the product (i.e., trains) rather than the need that it satisfies (transportation).[2] Similarly, designers and engineers working on a new model of a personal digital assistant (PDA) must always remember that people do not buy PDAs—they buy ways to organize and retrieve data in a manner that will save them time and effort. If PDA designers and engineers forget this simple fact, they may improve the product in ways that makes sense to them but that do not correspond with consumer needs.

A natural evolution from both the production concept and the product concept is the **selling concept**, in which a marketer's primary focus is selling the product(s) that it has unilaterally decided to produce. The assumption of the selling concept is that consumers are unlikely to buy the product unless they are aggressively persuaded to do so—mostly through the "hard sell" approach. The problem with this approach is that it fails to consider customer satisfaction. When consumers are induced to buy products they do not want or need, they will not buy them again. Also, they are likely to communicate any dissatisfaction with the product through negative word-of-mouth that serves to dissuade potential consumers from making similar purchases. Today the selling concept is typically utilized by marketers of unsought goods (such as life insurance), by political parties "selling" their candidates aggressively to apathetic voters, and by firms that have excess inventory.

The marketing concept

The field of consumer behavior is rooted in a marketing strategy that evolved in the late 1950s, when some marketers began to realize that they could sell more goods, more easily, if they produced only those goods they had already determined that consumers would buy. Instead of trying to persuade customers to buy what the firm had already produced, marketing-oriented firms found that it was a lot easier to produce only products they had first confirmed, through research, that consumers wanted. Consumer needs and wants became the firm's primary focus. This consumer-oriented marketing philosophy came to be known as the **marketing concept**. Although the idea of producing and selling only those goods that match consumer needs took hold during the 1950s, it was articulated much earlier and, ironically, by a competitor of Henry Ford. In 1923, as the automobile market was growing rapidly thanks to Ford's mass production, *Alfred P. Sloan* became president and chairman of General Motors. He inherited a company that was built through takeovers of small car companies, and therefore produced many ill-sorted models unguided by clear business objectives. Sloan reorganized the company and in 1924 articulated the company's product strategy as "a car for every purse and purpose." While Ford continued to produce the

Model T until 1927, GM offered a variety of affordable mass-produced models—from the aristocratic Cadillac to the proletarian Chevrolet—and took over a large portion of Ford's market share.[3] About 30 years before the birth of the marketing concept, Alfred Sloan realized that all consumers are not alike and the importance of segmenting the market—now known as **market segmentation**—a concept that is the cornerstone of modern marketing today.

The key assumption underlying the marketing concept is that, to be successful, a company must determine the needs and wants of specific target markets and deliver the desired satisfactions better than the competition. The marketing concept is based on the premise that a marketer should make what it can sell, instead of trying to sell what it has made. Whereas the selling concept focuses on the needs of the *sellers* and on existing products, the marketing concept focuses on the needs of the *buyer*. The selling concept focuses on profits through sales volume; the marketing concept focuses on profits based on customer satisfaction.

It is interesting to note that even before the evolution of the marketing concept, an intuitive understanding of consumer behavior was the key to the growth of companies that have remained highly successful, even today. For example, in the 1930s, *Colonel Sanders* opened a roadside restaurant where he developed the recipes and cooking methods that were the key to KFC's successes. As the restaurant grew in popularity, Sanders enlarged it and also opened a roadside motel. At that time, motels had a bad reputation and "nice" people driving long distances generally stayed at downtown hotels. Sanders decided to try and overcome this image by putting a sample room of his clean and comfortable motel in the middle of his successful restaurant, and even put the entrance to the restaurant's ladies' room in that room. Sanders understood the importance of image and of turning an offering into a success by *repositioning*, long before this idea was articulated as a business objective. Later on, Sanders came up with the idea of franchising his cooking methods and chicken recipe, while keeping the ingredients of the recipe a secret, and founded KFC and a business model that has since been adopted by many other fast-food chains.[4] In the early 1950s, *Ray Kroc*, who purchased the idea of fast food from the McDonald brothers and established the McDonald's Corporation, selected locations for new outlets by flying over towns and looking for church steeples. He believed that where there were churches there were good American families—the kind of people he wanted as customers. Intuitively, Kroc understood and practiced *market targeting*.[5] Apparently, companies focused on understanding their customers are the ones that continue to grow, and remain leaders in their industries in spite of increased competition and changing business environments.

Implementing the marketing concept

The widespread adoption of the marketing concept by American business provided the impetus for the study of consumer behavior. To identify unsatisfied consumer needs, companies had to engage in extensive marketing research. In so doing, they discovered that consumers were highly complex individuals, subject to a variety of psychological and social needs quite apart from their survival needs. They discovered that the needs and priorities of different consumer segments differed dramatically, and in order to design new products and marketing strategies that would fulfill consumer needs, they had to study consumers and their consumption behavior in depth. The term **consumer research** represents the process and tools used to study consumer behavior. The adoption of the marketing concept underscores the importance of consumer research and provides the groundwork for the application of consumer behavior principles to marketing strategy. The tools and processes of consumer research are discussed in detail in Chapter 2.

Segmentation, targeting, and positioning

The focus of the marketing concept is consumer needs. At the same time, recognizing the high degree of diversity among us, consumer researchers seek to identify the many

similarities—or constants—that exist among the peoples of the world. For example, we all have the same kinds of biological needs, no matter where we are born—the needs for food, for nourishment, for water, for air, and for shelter from the elements. We also acquire needs after we are born. These needs are shaped by the environment and the culture in which we live, by our education, and by our experiences. The interesting thing about acquired needs is that there are usually many people who develop the same needs. This commonality of need or interest constitutes a market segment, which enables the marketer to target consumers with specifically designed products and/or promotional appeals that satisfy the needs of that segment. The marketer must also adapt the image of its product (i.e., *position* it), so that each market segment perceives the product as better fulfilling its specific needs than competitive products. The three elements of this strategic framework are *market segmentation*, *targeting*, and *positioning*.

Market segmentation is the process of dividing a market into subsets of consumers with common needs or characteristics. The variables and methods used to form such subsets are discussed in Chapter 3. Because most companies have limited resources, few companies can pursue all of the market segments identified. **Market targeting** is the selection of one or more of the segments identified for the company to pursue. The criteria for selecting target markets are detailed in Chapter 3.

Positioning refers to the development of a distinct image for the product or service in the mind of the consumer, an image that will differentiate the offering from competing ones and squarely communicate to the target audience that the particular product or service will fulfill their needs better than competing brands. Successful positioning centers around two key principles: first, communicating the *benefits* that the product will provide rather than the product's features. As one marketing sage pointed out: ". . . consumers do not buy drill bits—they buy ways to make holes." Second, because there are many similar products in almost any marketplace, an effective positioning strategy must develop and communicate a *unique selling proposition*—a distinct benefit or point of difference—for the product or service. In fact, most of the new products introduced by marketers (including new forms of existing products such as new flavors, sizes, etc.) fail to capture a significant market share and are discontinued because they are perceived by consumers as "me too" products lacking a unique image or benefit. The concepts and tools of positioning are explored in Chapter 6.

The marketing mix

The **marketing mix** consists of a company's service and/or product offerings to consumers and the methods and tools it selects to accomplish the exchange. The marketing mix consists of four elements (known as the **four Ps**): (1) the *product* or *service* (i.e., the features, designs, brands, and packaging offered, along with postpurchase benefits such as warranties and return policies); (2) the *price* (the list price, including discounts, allowances, and payment methods); (3) the *place* (the distribution of the product or service through specific store and nonstore outlets); (4) *promotion* (the advertising, sales promotion, public relations, and sales efforts designed to build awareness of and demand for the product or service). Table 1.1 depicts the implementation of the elements of the marketing concept by Rollerblade.

customer value, satisfaction, and retention

Since its emergence in the 1950s, many companies have very successfully adopted the marketing concept. The result has been more products, in more sizes, models, versions, and packages, offered to more precisely targeted (and often smaller) target markets. This has resulted in an increasingly competitive marketplace. And, during the last decade, the digital revolution enabled many marketers to offer even more products and services and distribute them more widely, while reducing the costs and barriers of entering many

TABLE 1.1 **Rollerblade: Effective Implementation of the Marketing Concept**

Less than two decades ago, in-line skates were an off-season training tool for hockey players. In the mid-1980s, Rollerblade developed marketing strategies that positioned in-line skating as a new sport. The company sold in-line skates to bicycle and conventional skate rental stores in two trend-setting places: Miami Beach, Florida, and Venice Beach, California, and a new form of recreational sport that appeals to many age groups and social classes was born. Backed by aggressive marketing and public relations, the popularity of the new sport soared. As competition appeared, Rollerblade continued to lead the market with such innovations as breathable shoe liners, buckle closure systems, and female-specific skates; today the company holds several hundred patented innovations.

The company's product line illustrates the utilization of segmentation, targeting, and positioning strategies. The company targets four segments and offers models that provide different benefits to the members of each segment: (1) experienced skaters; (2) men and women seeking *fitness and recreation*; (3) the *Street/Vert* line, which combines performance and increased structural support; and (4) several models for *kids*. Some of the models offered include brakes.

Rollerblade's entire marketing mix stems from its core product. In addition to the skates, the company sells protective gear, accessories, and replacement parts. The skates are priced along a range varying from very expensive models offered to aggressive skaters looking for maximum performance, to value-oriented skaters, to recreational skaters. The products are distributed in a variety of outlets—both domestic and overseas—in a way that reflects the market segments targeted and the skate models' prices. The company advertises its products in the mass media, issues frequent press releases as part of its public relations, and promotes its products through athletic and event sponsorships, as well as its "Skate School."

The company's Web site includes features on skating, maintaining the skates, using rollerblading for fitness, tips on skating safety, and a dealer locator. These features show that Rollerblade has a thorough understanding of customer retention as well as social responsibility, concepts that are discussed later in this chapter.

Source: Developed from material available at www.rollerblade.com.

industries. It has accelerated the rate at which new competitors enter markets and also speeded up the rate at which successful segmentation, targeting, and positioning approaches must be updated or changed, as they are imitated or made obsolete by the offerings of new business rivals.

Savvy marketers today realize that in order to outperform competitors they must achieve the full profit potential from each and every customer. They must make the customer the core of the company's organizational culture, across all departments and functions, and ensure that each and every employee views any exchange with a customer as part of a *customer relationship*, not as a *transaction*. The three drivers of successful relationships between marketers and customers are *customer value*, high levels of *customer satisfaction*, and building a structure that ensures *customer retention*.

Providing customer value

Customer value is defined as the *ratio between the customer's perceived benefits* (economic, functional and psychological) and the *resources* (monetary, time, effort, psycho-

logical) *used to obtain those benefits*. Perceived value is relative and subjective. For example, diners at an exclusive French restaurant in Washington, D.C., where a meal with beverages may cost up to $300 per person, may expect unique and delicious food, immaculate service, and beautiful decor. Some diners may receive even more than they had expected and will leave the restaurant feeling that the experience was worth the money and other resources expended (such as a month-long wait for a reservation). Other diners may go with expectations so high that they leave the restaurant disappointed. On the other hand, many millions of customers each year visit thousands of McDonald's restaurants, in scores of countries around the globe, where they purchase standard, inexpensive meals from franchise owners and employees systematically trained by the McDonald's Corporation to deliver the company's four core standards: *quality, service, cleanliness*, and *value*. Customers flock to McDonald's outlets repeatedly because the restaurants are uniform, customers know what to expect, and they feel that they are getting value for the resources they expend.

Developing a *value proposition* (a term rapidly replacing the popular business phrase "unique selling proposition") is the core of successful positioning. For example, Lexus claims to deliver to its buyers *quality, zero defects in manufacturing*, and *superior, personal postpurchase service*. Dell's value proposition for personal computer users consists of *customized* PC systems *assembled speedily* and sold at *economical prices*. Apple's iPod is *the best digital jukebox*, and it provides users with many options to purchase, share, personalize, and listen to their favorite music. The value propositions stated above create customer expectations that these companies must continuously fulfill and even exceed as competitors try to win over their markets. Measures of customers' expectations and evaluations of products and services are discussed in Chapter 2, and the strategic applications of perceived customer value are explored in Chapter 6.

Customer satisfaction

Customer satisfaction is the individual's perception of the performance of the product or service in relation to his or her expectations. As noted earlier, customers will have drastically different expectations of an expensive French restaurant and a McDonald's, although both are part of the restaurant industry. The concept of customer satisfaction is a function of customer expectations. A customer whose experience falls below expectations (e.g., a limited wine list at an expensive restaurant or cold fries served at a McDonald's) will be dissatisfied. Diners whose experiences match expectations will be satisfied. And customers whose expectations are exceeded (e.g., by small samples of delicious food "from the Chef" served between courses at the expensive restaurant, or a well-designed play area for children at a McDonald's outlet) will be very satisfied or delighted.

A widely quoted study that linked levels of customer satisfaction with customer behavior identified several types of customers: completely satisfied customers who are either *loyalists* who keep purchasing, or *apostles* whose experiences exceed their expectations and who provide very positive word-of-mouth about the company to others; "*defectors*" who feel neutral or merely satisfied and are just as likely to stop doing business with the company; consumer "*terrorists*" who have had negative experiences with the company and who spread negative word-of-mouth. "*Hostages*" are unhappy customers who stay with the company because of a monopolistic environment or low prices and who are difficult and costly to deal with because of their frequent complaints; *mercenaries* are very satisfied customers who have no real loyalty to the company and may defect because of a lower price elsewhere or on impulse, defying the satisfaction–loyalty rationale. The researchers propose that companies should strive to create *apostles*, raise the satisfaction of *defectors* and turn them into *loyalists*, avoid having *terrorists* or *hostages*, and reduce the number of *mercenaries*.[6] Customer satisfaction measurement tools and techniques are discussed in Chapter 2.

Customer retention

The overall objective of providing value to customers continuously and more effectively than the competition is to have and to retain highly satisfied customers; this strategy of **customer retention** makes it in the best interests of customers to stay with the company rather than switch to another firm. In almost all business situations, it is more expensive to win new customers than to keep existing ones. Studies have shown that small reductions in customer defections produce significant increases in profits because (1) loyal customers buy more products; (2) loyal customers are less price sensitive and pay less attention to competitors' advertising; (3) servicing existing customers, who are familiar with the firm's offerings and processes, is cheaper; and (4) loyal customers spread positive word-of-mouth and refer other customers. Furthermore, marketing efforts aimed at attracting new customers are expensive; indeed, in saturated markets, it may be impossible to find new customers.[7] Today the Internet and electronic marketer–consumer interactions are ideal tools for tailoring products and services to the specific needs of consumers (often termed *one-to-one marketing*), offering them more value through increased *customer intimacy* and keeping the customers returning to the company.

Marketers who designate increasing customer retention rates as a strategic corporate goal must also recognize that all customers are not equal. Sophisticated marketers build *selective relationships* with customers, based on where customers rank in terms of profitability, rather than merely strive "to retain customers." A customer retention–savvy company closely monitors its customers' consumption volume and patterns, establishes tiers of customers according to their profitability levels, and develops distinct strategies toward each group of customers. For example, some stockbrokers program their phones to recognize the phone numbers of high-volume traders to ensure that their calls receive priority. Customers who have purchased and registered several of a company's products should receive extensive and expedited customer support. On the other hand, a bank's less profitable customers who, say, make little use of their credit cards or maintain the minimum balance needed to receive free checking should not have penalties waived for bounced checks or late payments. Some companies also identify customer groups that are unlikely to purchase more even if pursued aggressively; such customers are often discouraged from staying with the company, or even "fired" as customers.

Classifying customers according to profitability levels goes beyond traditional segmentation methods that subdivide consumers on the basis of demographic, sociocultural, or behavioral characteristics. *Customer profitability-focused marketing* tracks costs and revenues of individual customers and then categorizes them into tiers based on consumption behaviors that are specific to the company's offerings. Such a strategy is a very effective way to utilize the knowledge of consumer behavior. For example, a recent study advocates using a "customer pyramid" where customers are grouped into four tiers: (1) The *platinum tier* includes heavy users who are not price sensitive and who are willing to try new offerings; (2) the *gold tier* consists of customers who are heavy users but not as profitable because they are more price sensitive than those in the higher tier, ask for more discounts, and are likely to buy from several providers; (3) the *iron tier* consists of customers whose spending volume and profitability do not merit special treatment from the company; and (4) the *lead tier* includes customers who actually cost the company money because they claim more attention than is merited by their spending, tie up company resources, and spread negative word-of-mouth. The authors of the study urge companies to develop distinct marketing responses for each group.[8] Methods for collecting the customer data needed to develop the kind of retention systems discussed here are described in Chapter 2.

A corporate philosophy centered on customer value, satisfaction, and retention evolves from the marketing concept and unfolds new dimensions of marketing. Table 1.2 compares traditional marketing with perceived value and retention marketing. Applications of consumer behavior concepts to value and retention-focused marketing are discussed throughout the book.

TABLE 1.2 The Traditional Marketing Concept Versus Value- and Retention-Focused Marketing

THE TRADITIONAL MARKETING CONCEPT	VALUE- AND RETENTION-FOCUSED MARKETING
Make only what you can sell instead of trying to sell what you make.	Use technology that enables customers to customize what you make.
Do not focus on the product; focus on the need that it satisfies.	Focus on the product's perceived value, as well as the need that it satisfies.
Market products and services that match customers' needs better than competitors' offerings.	Utilize an understanding of customer needs to develop offerings that customers perceive as more valuable than competitors' offerings.
Research consumer needs and characteristics.	Research the levels of profit associated with various consumer needs and characteristics.
Understand the purchase behavior process and the influences on consumer behavior.	Understand consumer behavior in relation to the company's product.
Realize that each customer transaction is a discrete sale.	Make each customer transaction part of an ongoing relationship with the customer.
Segment the market based on customers' geographic, demographic, psychological, sociocultural, lifestyle, and product-usage related characteristics.	Use hybrid segmentation that combines the traditional segmentation bases with data on the customer's purchase levels and patterns of use of the company's products.
Target large groups of customers that share common characteristics with messages transmitted through mass media.	Invest in technologies that enable you to send one-to-one promotional messages via digital channels.
Use one-way promotions whose effectiveness is measured through sales data or marketing surveys.	Use interactive communications in which messages to customers are tailored according to their responses to previous communications.
Create loyalty programs based on the volume purchased.	Create customer tiers based on both volume and consumption patterns.
Encourage customers to stay with the company and buy more.	Make it very unattractive for your customers to switch to a competitor and encourage them to purchase "better"—in a manner that will raise the company's profitability levels.
Determine marketing budgets on the basis of the numbers of customers you are trying to reach.	Base your marketing budget on the "lifetime value" of typical customers in each of the targeted segments compared with the resources needed to acquire them as customers.
Conduct customer satisfaction surveys and present the results to management.	Conduct customer satisfaction surveys that include a component that studies the customer's word-of-mouth about the company, and use the results immediately to enhance customer relationships.
Create customer trust and loyalty to the company and high levels of customer satisfaction.	Create customer intimacy and bonds with completely satisfied, "delighted" customers.

Source: Joseph Wisenblit, "Beyond the Marketing Concept: From 'Make Only What You Can Sell' to 'Let Customers Customize What You Make'," The Stillman School of Business, Seton Hall University, South Orange, NJ.

the impact of digital technologies on marketing strategies

Digital technologies allow much greater customization of products, services, and promotional messages than older marketing tools. They enable marketers to adapt the elements of the marketing mix to consumers' needs more quickly and efficiently, and to build and

maintain relationships with customers on a much greater scale. By using new technologies, marketers can collect and analyze increasingly complex data on consumers' buying patterns and personal characteristics, and quickly analyze and use this information for targeting increasingly smaller and focused groups of consumers. On the other hand, the same technologies enable consumers to find more information about products and services (including prices) more easily, efficiently, and, for the most part, from the comfort of their own homes. Therefore, more than ever before, marketers must ensure that their products and services provide the right benefits and value and are positioned effectively to reach them.

Online communication and emerging digital technologies have introduced several dramatic changes into the business environment:

Consumers have more power than ever before. They can use "intelligent agents" to locate the best prices for products or services, bid on various marketing offerings, bypass distribution outlets and middlemen, and shop for goods around the globe and around the clock from the convenience of their homes. Therefore, marketers must offer more competitively priced products and more options.

Consumers have access to more information than ever before. They can easily find reviews for products they are considering buying that have been posted by previous buyers, click a button to compare the features of different product models at the sites of online retailers, and subscribe to "virtual communities" of persons who share the same interests they do. In turn, marketers must be aware of the limits of their promotional messages and assume that consumers know all of their buying options.

Marketers can and must offer more services and products than ever before. The digitization of information enables sellers to *customize* the products and services they are selling and still sell them at reasonable prices. It also allows marketers to customize the promotional messages directed at many customers. For example, Amazon.com sends personalized e-mails to previous book purchasers announcing newly published books; these suggestions are based on a determination of the interests of the targeted consumers derived from their past purchases. Similarly, an online drugstore may vary the initial display returning buyers see when they revisit its Web site. Buyers whose past purchases indicate that they tend to buy national brands will see a display arranged by brand. Past purchasers who bought mostly products that were on sale or generic brands will see a display categorized by price and discounted products.

The exchange between marketers and customers is increasingly interactive and instantaneous. Traditional advertising is a one-way street where the marketer pays a large sum of money to reach a large number of potential buyers via a mass medium, and then assesses (usually after the fact) whether or not the message was effective on the basis of future sales or market studies. On the other hand, digital communication enables a two-way interactive exchange in which consumers can instantly react to the marketer's message by, say, clicking on links within a given Web site or even by leaving the site. Thus, marketers can quickly gauge the effectiveness of their promotional messages rather than rely on delayed feedback through sales information that is collected after the fact.

Marketers can gather more information about consumers more quickly and easily. Marketers can track consumers' online behavior and also gather information by requiring visitors to Web sites to register and provide some information about themselves before they get access to the site's features. Thus, marketers can construct and update their consumer databases efficiently and inexpensively. As a result, many marketers now employ **narrowcasting**—a method that enables them to develop and deliver more customized messages to increasingly smaller markets on an ongoing basis.

Impact reaches beyond the PC-based connection to the Web. Presently, most of the digital communications between consumers and marketers takes place via a PC connected to the Web through a phone line, a cable modem or other high-speed connection, or wirelessly. However, the digital revolution also gave us PDAs (personal digital assistants) that are rapidly becoming connected to the Web, also wirelessly. And it is likely

that very soon our cell phones and PDAs will be combined into one product. In some European countries, consumers can already purchase products via their mobile phones. Cell phones with built-in GPS systems are likely to become a medium that will deliver customized promotional messages to consumers everywhere. In addition, many U.S. homes now have TV cable boxes that enable two-way communications with broadcasters; as we switch to high-definition TV, all cable subscribers will have such boxes. Also, as we receive more and more TV programming on PCs, some companies are merging the TV and the PC into a single device that provides households with hundreds of cable channels, interactive capabilities with broadcasters, and high-speed, wireless access to the Web. Supermarket scanners that keep track of households' purchases and instantly provide personalized coupons at the checkout counter, and telephone devices that enable us to identify callers without picking up the phone, are two of the many additional products made possible by recently developed technologies.

Challenges marketers face

The digital revolution in the marketplace, and its impact on consumer behavior, presents many challenges for today's marketers. For example, the TiVo digital recorder allows viewers to control what they watch on TV, when they watch it, and whether or not to view the commercials for which marketers spend billions of dollars per year. The TiVo recorder downloads programming information and allows users to record many hours of TV programming onto a hard drive without the hassle of videocassettes. Users can program the recorder by topic or keyword, easily play back selected segments, and, to the delight of many viewers, hit a single button for preprogrammed quick skips of strings of TV commercials. Since TiVo and other similar devices are shifting the power over viewing behavior from the broadcaster to the viewer, broadcasters are facing a new set of challenges: Should they develop their own TiVo-like systems? Should they try to block the sales of such devices legally on the grounds that they contribute to copyright infringement? Or should they develop business models centered on viewers paying for content? These questions are no longer hypothetical and will have to be addressed relatively soon.

As consumers spend more time online and have more technological tools that enable them to avoid exposure to TV ads, some marketers have begun reducing their advertising expenditures on the major networks and investing their advertising dollars in the newer media, such as the Web or even e-mail. Unilever has recently developed a series of amusing "Webisodes" targeted to women over 35 to view on the Web, and hopefully, to e-mail to their friends and family, thus encouraging word-of-mouth about their non-butter spray.[9]

Marketers have begun to insist that broadcasters develop new measurement systems to more accurately estimate the number and demographics of their viewers. Some marketers are considering investing in technologies that embed electronic tags of ads visible only to digital video recorder users, as some advertisers are already doing.

At Nike's Web site, buyers can now choose among many models of sneakers in different price ranges, customize the selected shoe using several colors and features (e.g., some models even allow buyers to choose the colors of the Nike Swoosh and the laces), put a personal ID on each shoe, pay for the product, and have it shipped directly to them. Should Nike and other companies that produce nondurable consumer goods begin shifting resources away from building consumer demand by advertising products carried by independently owned retailers, and into direct distribution systems based on customized offerings?

Some suggest that because virtual competition eliminates distance and location-based benefits (such as a desirable store location), online sellers will compete almost exclusively on the basis of price for branded merchandise. Does this mean that competitive differentiation—a key feature of modern marketing—will become meaningless in the virtual marketplace? These are only some of the many challenges marketers face as our technologies continue to evolve and change our daily lives and consumption patterns.

marketing ethics and social responsibility

The marketing concept as we know it—fulfilling the needs of target audiences—is sometimes inappropriate. This is particularly true in situations in which the means for need satisfaction, the product or service provided to satisfy customer "needs," can be harmful to the individual or to society (e.g., drugs, tobacco) or cause environmental deterioration. Given the fact that all companies prosper when society prospers, many people believe that all of us, companies as well as individuals, would be better off if social responsibility were an integral component of every marketing decision. A reassessment of the traditional marketing concept suggests that a more appropriate conceptualization for the times in which we live would balance the needs of society with the needs of the individual and the organization. The **societal marketing concept** requires that all marketers adhere to principles of social responsibility in the marketing of their goods and services; that is, they should endeavor to satisfy the needs and wants of their target markets in ways that preserve and enhance the well-being of consumers and society as a whole. Thus, a restructured definition of the marketing concept calls on marketers to *fulfill the needs of the target audience in ways that improve society as a whole, while fulfilling the objectives of the organization.* According to the societal marketing concept, fast-food restaurants should develop foods that contain less fat and starch and more nutrients, and marketers should not advertise foods to young people in ways that encourage overeating, or use professional athletes in liquor or tobacco advertisements, because celebrities so often serve as role models for the young.

A serious deterrent to widespread implementation of the societal marketing concept is the *short-term orientation* embraced by most business executives in their drive for increased market share and quick profits. This short-term orientation derives from the fact that managerial performance usually is evaluated on the basis of short-term results. Thus, a young and ambitious advertising executive may create a striking advertising campaign using unreasonably slim females with pale faces and withdrawn expressions in order to dramatically increase the sales of the advertised product, without considering the negative impact of the campaign, such as an increase in eating disorders among young women or the implicit approval of drug-taking reflected in the models' appearances. The societal marketing concept advocates a *long-term perspective.* It recognizes that all companies would be better off in a stronger, healthier society, and that companies that incorporate ethical behavior and social responsibility in all of their business dealings attract and maintain loyal consumer support over the long term.

The primary purpose for studying consumer behavior as part of a marketing curriculum is to understand why and how consumers make their purchase decisions. These insights enable marketers to design more effective marketing strategies, especially today when advanced technologies enable marketers to collect more data about consumers and target them more precisely. Some critics are concerned that an in-depth understanding of consumer behavior makes it possible for unethical marketers to exploit human vulnerabilities in the marketplace and engage in other unethical marketing practices in order to achieve individual business objectives.

As a result, many trade associations have developed industry-wide *codes of ethics*, because they recognize that industry-wide self-regulation is in every member's best interests in that it deters government from imposing its own regulations on the industry. A number of companies have incorporated specific social goals into their mission statements and include programs in support of these goals as integral components of their strategic planning. They believe that **marketing ethics** and **social responsibility** are important components of organizational effectiveness. Most companies recognize that socially responsible activities improve their image among consumers, stockholders, the financial community, and other relevant publics. They have found that ethical and socially responsible practices are simply good business, resulting not only in a favorable

image, but ultimately in increased sales. The converse is also true: Perceptions of a company's lack of social responsibility or unethical marketing strategies negatively affect consumer purchase decisions. Applicable marketing ethics and social responsibility issues are discussed throughout the book.

consumer behavior and decision making are interdisciplinary

Consumer behavior was a relatively new field of study in the mid- to late-1960s. Because it had no history or body of research of its own, marketing theorists borrowed heavily from concepts developed in other scientific disciplines, such as *psychology* (the study of the individual), *sociology* (the study of groups), *social psychology* (the study of how an individual operates in groups), *anthropology* (the influence of society on the individual), and *economics* to form the basis of this new marketing discipline. Many early theories concerning consumer behavior were based on economic theory, on the notion that individuals act rationally to maximize their benefits (satisfactions) in the purchase of goods and services. Later research discovered that consumers are just as likely to purchase impulsively and to be influenced not only by family and friends, by advertisers and role models, but also by mood, situation, and emotion. All of these factors combine to form a comprehensive model of consumer behavior that reflects both the cognitive and emotional aspects of consumer decision making.

A simplified model of consumer decision making

The process of **consumer decision making** can be viewed as three distinct but interlocking stages: the **input** stage, the **process** stage, and the **output** stage. These stages are depicted in the simplified model of consumer decision making in Figure 1.1.

The *input* stage influences the consumer's recognition of a product need and consists of two major sources of information: the firm's marketing efforts (the product itself, its price, its promotion, and where it is sold) and the external sociological influences on the consumer (family, friends, neighbors, other informal and noncommercial sources, social class, and cultural and subcultural memberships). The cumulative impact of each firm's marketing efforts, the influence of family, friends, and neighbors, and society's existing code of behavior are all inputs that are likely to affect what consumers purchase and how they use what they buy.

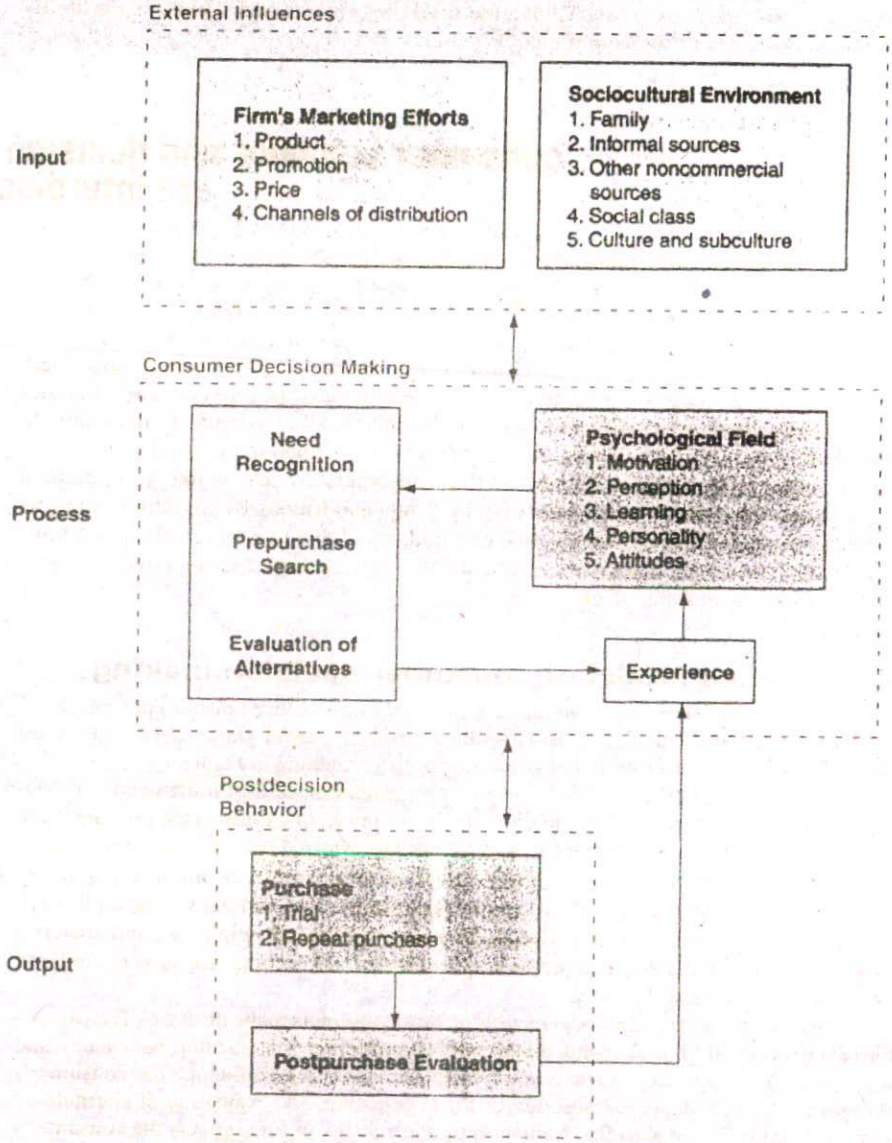
The *process* stage of the model focuses on how consumers make decisions. The psychological factors inherent in each individual (motivation, perception, learning, personality, and attitudes) affect how the external inputs from the input stage influence the consumer's recognition of a need, prepurchase search for information, and evaluation of alternatives. The experience gained through evaluation of alternatives, in turn, affects the consumer's existing psychological attributes.

The *output* stage of the consumer decision-making model consists of two closely related postdecision activities: purchase behavior and postpurchase evaluation. Purchase behavior for a low-cost, nondurable product (e.g., a new shampoo) may be influenced by a manufacturer's coupon and may actually be a trial purchase; if the consumer is satisfied, he or she may repeat the purchase. The trial is the exploratory phase of purchase behavior in which the consumer evaluates the product through direct use. A repeat purchase usually signifies product adoption. For a relatively durable product such as a laptop ("relatively" durable because of the rapid rate of obsolescence), the purchase is more likely to signify adoption.

The consumer decision-making model is examined in greater depth in Chapter 16, where it ties together in great detail the psychological and sociocultural concepts explored throughout the book.

FIGURE 1.1

A Simple Model of Consumer Decision Making



the plan of this book

In an effort to build a useful conceptual framework that both enhances understanding and permits practical application of consumer behavior principles to marketing strategy, this book is divided into four parts: Part 1 gives an introduction to the study of consumer behavior, Part 2 discusses the consumer as an individual, Part 3 examines consumers in their social and cultural settings, and Part 4 synthesizes all of the variables discussed earlier into the consumer decision-making process.

Chapter 1 introduced the reader to the study of consumer behavior as an interdisciplinary science that investigates the consumption-related activities of individuals. It described the reasons for the development of consumer behavior as an academic discipline and as an applied science, and introduced a simplified model of consumer decision making that links together all of the personal and group influences that affect consumption decisions. Chapter 2 examines the methodology of consumer research, including the assumptions underlying qualitative and quantitative research approaches. Chapter 3 discusses the process of market segmentation, including the demographic, sociocultural, and psychographic bases for segmenting markets.

Part 2 focuses on the psychological characteristics of the consumer. Chapter 4 discusses how individuals are motivated, Chapter 5 examines the impact of individual personality characteristics on consumer behavior, Chapter 6 explores consumer perception, Chapter 7 examines how consumers learn, Chapter 8 discusses consumer attitudes, and Chapter 9 concludes Part 2 with an examination of the communications process that links consumers to the world around them.

Part 3 focuses on consumers as members of society, subject to varying external influences on their buying behavior, such as their group and family memberships (see Chapter 10), social class (Chapter 11), and the broad cultural and specific subcultural groups to which they belong (Chapters 12 and 13). The importance of cross-cultural consumer research to international marketing is explored in Chapter 14.

Part 4 examines the consumer decision-making process. Chapter 15 discusses the consumer's reactions to innovation and change and describes the process by which new products are adopted and diffused throughout society. The book concludes with Chapter 16, an in-depth discussion of consumer decision making that shows how all the psychological and sociocultural variables discussed in Parts 2 and 3 influence the consumer's decision-making process.

SUMMARY

The study of consumer behavior enables marketers to understand and predict consumer behavior in the marketplace; it is concerned not only with what consumers buy but also with why, when, where, how, and how often they buy it. Consumer research is the methodology used to study consumer behavior and takes place at every phase of the consumption process: before, during, and after the purchase.

The field of consumer behavior is rooted in the **marketing concept**, a business orientation that evolved in the 1950s through several alternative approaches, referred to, respectively, as the *production concept*, the *product concept*, and the *selling concept*. The three major strategic tools of marketing are *market segmentation, targeting*, and *positioning*. The **marketing mix** consists of a company's service and/or product offerings to consumers and the pricing, promotion, and distribution methods needed to accomplish the exchange.

Skilled marketers make the customer the core of the company's organizational culture and ensure that all employees view any exchange with a customer as part of a *customer relationship*, not as a *transaction*. The three drivers of successful relationships between marketers and customers are *customer value*, high levels of *customer satisfaction*, and building a structure for *customer retention*.

Digital technologies allow much greater customization of products, services, and promotional messages than do older marketing tools. They enable marketers to adapt the elements of the marketing mix to consumers' needs more quickly and efficiently, and to build and maintain relationships with customers on a much greater scale. However, these technologies also represent significant challenges to marketers and to business models that have been used for decades.

Consumer behavior is interdisciplinary; that is, it is based on concepts and theories about people that have been developed by scientists in such diverse disciplines as psychology, sociology, social psychology, cultural anthropology, and economics.

Consumer behavior has become an integral part of strategic market planning. The belief that ethics and social responsibility should also be integral components of every marketing decision is embodied in a revised marketing concept—**the societal marketing concept**—that calls on marketers to fulfill the needs of their target markets in ways that improve society as a whole.

DISCUSSION QUESTIONS

1. Describe the interrelationship between consumer behavior as an academic discipline and the marketing concept.
2. Describe the interrelationships between consumer research, market segmentation and targeting, and the development of the marketing mix for a manufacturer of high-definition TV sets.
3. Define the societal marketing concept and discuss the importance of integrating marketing ethics into the company's philosophy and operations.
4. Discuss the interrelationships among customer expectations and satisfaction, perceived value, and customer retention. Why is customer retention essential?
5. Discuss the role of the social and behavioral sciences in developing the consumer decision-making model.
6. Apply each of the two models depicted in Table 1.2 (i.e., traditional marketing and value and retention marketing) to the marketing of cellular phone services. You may want to incorporate into your answer your own and your peers' experiences in selecting cellular communications providers.

EXERCISES

1. You are the marketing manager of Citibank's Online Banking Division. How would you apply the concepts of providing value, customer satisfaction, and customer retention to designing and marketing effective online banking?
2. Locate two examples (e.g., advertisements, articles, etc.) depicting practices that are consistent with the societal marketing concept and two examples of business practices that contradict this concept. Explain your choices.
3. Apply each of the concepts featured in the section describing the development of the marketing concept to manufacturing and marketing high-definition TVs.

KEY TERMS

- **consumer behavior**
- **consumer decision making**
- **consumer research**
- **customer expectations vs. customer satisfaction**
- **customer retention**
- **customer satisfaction**
- **customer value**
- **digital technologies**
- **marketing concept**
- **marketing ethics**
- **marketing mix**
- **marketing myopia**
- **market segmentation**
- **market targeting**
- **narrowcasting vs. broadcasting**
- **organizational consumer vs. personal consumer**
- **positioning**
- **production concept vs. the product concept**
- **selling concept**
- **social responsibility**
- **societal marketing concept**
- **targeting**

NOTES

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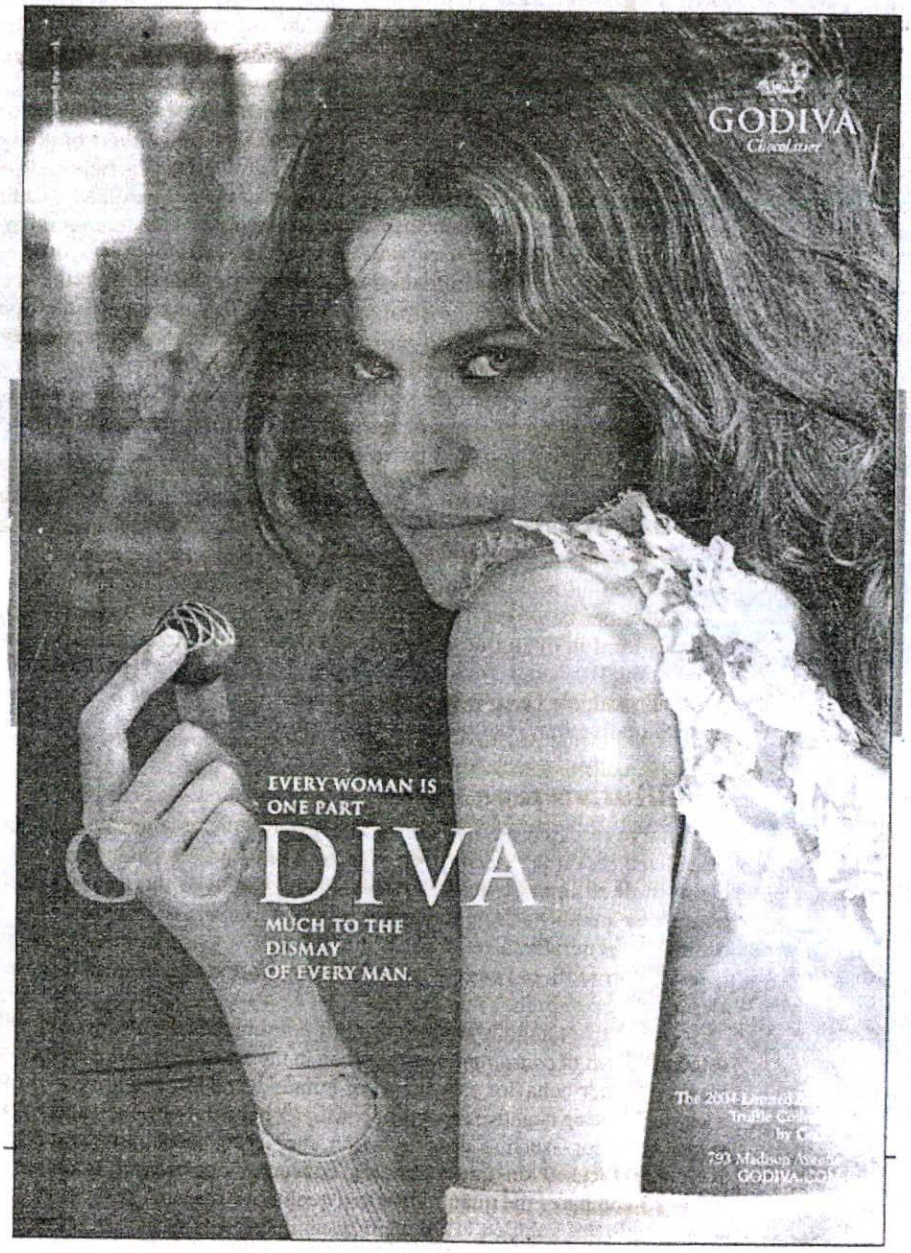
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chapter**two**

Consumer Research

The *marketing concept* states that, to be successful, a company must understand the needs of specific groups of consumers (i.e., target markets) and then satisfy these needs more effectively than the competition. The satisfaction of consumer needs is delivered in the form of the *marketing mix*, which consists of the so-called "4 Ps": product, price, place, and promotion. Marketers who have a thorough understanding of the consumer decision-making process are likely to design products, establish prices, select distribution outlets, and design promotional messages that will favorably influence consumer purchase decisions.

The field of consumer research developed as an extension of the field of marketing research. Just as the findings of marketing research are used to improve managerial decision making, so too are the findings of consumer research. Studying consumer behavior, in all its ramifications, enables marketers to predict how consumers will react to promotional messages and to understand why they make the purchase decisions they do. Marketers realize that the more they know about their target consumers'



decision-making process, the more likely they are to design marketing strategies and promotional messages that will favorably influence these consumers. Savvy marketers recognize that consumer research is a unique subset of marketing research, which merits the use of specialized research methods to collect customer data. *Consumer research* enables marketers to study and understand consumers' needs and wants, and how they make consumption decisions.

consumer research paradigms

The early consumer researchers gave little thought to the impact of mood, emotion, or situation on consumer decisions. They believed that marketing was simply applied economics, and that consumers were rational decision makers who objectively evaluated the goods and services available to them and selected those that gave them the highest utility (satisfaction) at the lowest cost. Later on, researchers realized that consumers were not always consciously aware of why they made the decisions they did. Even when they were aware of their basic motivations, consumers were not always willing to reveal those reasons. In 1939, a Viennese psychoanalyst named Ernest Dichter began to use Freudian psychoanalytic techniques to uncover the hidden motivations of consumers. By the late 1950s, his research methodology (called **motivational research**), which was essentially qualitative in approach, was widely adopted by consumer researchers. As a result of Dichter's work and subsequent research designed to search deep within the consumer's psyche, consumer researchers today use two different types of research methodology to study consumer behavior: **quantitative research** and **qualitative research**.

Quantitative research

Quantitative research is descriptive in nature and is used by researchers to understand the effects of various promotional inputs on the consumer, thus enabling marketers to "predict" consumer behavior. This research approach is known as **positivism**. The research methods used in quantitative research consist of experiments, survey techniques, and observation. The findings are descriptive, empirical, and, if collected randomly (i.e., using a probability sample), can be generalized to larger populations. Because the data collected are quantitative, they lend themselves to sophisticated statistical analysis.

Qualitative research

Qualitative research methods include depth interviews, focus groups, metaphor analysis, collage research, and projective techniques. These techniques are administered by highly trained interviewer–analysts who also analyze the findings; thus, the findings tend to be somewhat subjective. Because sample sizes are necessarily small, findings cannot be generalized to larger populations. They are primarily used to obtain new ideas for promotional campaigns and products that can be tested more thoroughly in larger, more comprehensive studies.

Qualitative methods are also used by consumer behavior researchers who are interested in the act of *consumption* rather than in the act of *buying* (i.e., decision making). They view consumer behavior as a subset of human behavior, and increased understanding as a key to reducing negative aspects of consumer behavior—the so-called "dark side" of consumer behavior—such as drug addiction, shoplifting, alcoholism, and compulsive buying. Research focused on understanding consumer *experiences* is called **interpretivism**. Table 2.1 compares the quantitative and qualitative research designs.

Combining qualitative and quantitative research findings

Marketers often use a combination of quantitative and qualitative research to help make strategic marketing decisions. For example, they use qualitative research findings to discover new ideas and to develop promotional strategy, and quantitative research findings to predict consumer reactions to various promotional inputs. Frequently, ideas stemming from qualitative research are tested empirically through quantitative studies. The predictions made possible by quantitative research and the understanding provided by qualitative research together produce a richer and more robust profile of consumer behavior than either research approach used alone. The combined findings enable marketers to design more meaningful and effective marketing strategies.

TABLE 2.1 Comparisons Between Quantitative and Qualitative Research Designs

	QUALITATIVE RESEARCH	QUANTITATIVE RESEARCH
Study Purpose	Studies designed to provide insights about new product ideas and positioning strategies. Ideas uncovered should be tested via quantitative studies. Often used in exploratory research to refine the objectives of quantitative studies.	Studies aimed at describing a target market—its characteristics and possible reactions of various segments to the elements of the marketing mix. Results are used for making strategic marketing decisions.
Types of Questions and Data Collection Methods	Open-ended, unstructured questions and further probing by the interviewer. Projective techniques include disguised questions where the respondents do not know the true purpose of the questions and are asked to freely respond to stimuli such as words or pictures. Depth interviews and focus groups are used.	Closed-ended questions with predefined possible responses and open-ended questions that have to be coded numerically. Most questionnaires include attitude scales and, generally, the questions are not disguised. Questionnaires are used in surveys conducted in person, by phone or mail, or online. Observation of respondents is also used. Experimentation is used to test cause-and-effect relationships.
Sampling Methods	Small, nonprobability samples; the findings are generally not representative of the universe under study.	Large, probability samples. Providing that the data collection instruments are valid and reliable, the results can be viewed as representative of the universe.
Data Analysis	Data collected are analyzed by the researchers who have collected it and who have expertise in the behavioral sciences. The analysis consists of looking for "key words" and establishing categories for the respondents' answers; it is subjective because it reflects the researchers' judgments.	The data is collected by a field force retained by the researcher, and then coded, tabulated, and entered into the database. The researcher analyzes the data by using objective, standardized statistical methods consisting mainly of comparisons of averages among the predefined variables and significance tests that estimate the extent to which the results represent the universe.

the consumer research process

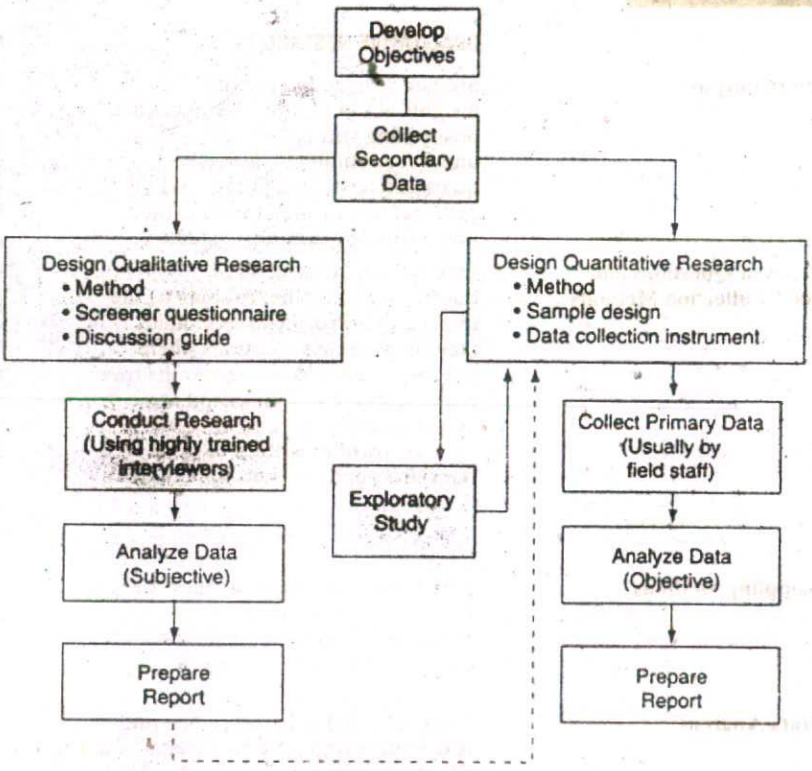
The major steps in the consumer research process include (1) defining the objectives of the research, (2) collecting and evaluating secondary data, (3) designing a primary research study, (4) collecting primary data, (5) analyzing the data, and (6) preparing a report on the findings. Figure 2.1 depicts a model of the consumer research process.

Developing research objectives

The first and most difficult step in the consumer research process is to carefully define the objectives of the study. Is it to segment the market for plasma television sets? To find out consumer attitudes about and experiences with online shopping? To determine what percentage of households do their food shopping online? It is important for the marketing manager and the research manager (either in-house or retained for the specific study) to agree at the outset on the purposes and objectives of the study to ensure that

FIGURE 2.1

The Consumer Research Process



the research design is appropriate. A carefully thought-out statement of objectives helps to define the type and level of information needed.

For example, if the purpose of the study is to come up with new ideas for products or promotional campaigns, then a qualitative study is usually undertaken, in which respondents spend a significant amount of time face-to-face with a highly trained professional interviewer-analyst who also does the analysis. Because of the high costs of each interview, a fairly small sample of respondents is studied; thus, the findings are not projectable to the marketplace. If the purpose of the study is to find out how many people in the population (i.e., what percentage) use certain products and how frequently they use them, then a quantitative study that can be computer analyzed is undertaken. Sometimes, in designing a quantitative study, the researcher may not know what questions to ask. In such cases, before undertaking a full-scale study, the researcher is likely to conduct a small-scale *exploratory study* to identify the critical issues needed to develop narrow and more precise research objectives.

Collecting secondary data

A search for **secondary data** generally follows the statement of objectives. Secondary information is any data originally generated for some purpose other than the present research objectives. (Original data performed by individual researchers or organizations to meet specific objectives is called **primary data**.) Secondary data includes both **internal** and **external data**.

Internal secondary data consists of such information as data generated in-house for earlier studies as well as analysis of customer files, such as past customer transactions, letters from customers, sales-call reports, and data collected via warranty cards. Increasingly, companies use internal secondary data to compute **customer lifetime value profiles** for various customer segments. These profiles include customer acquisition costs (the

resources needed to establish a relationship with the customer), the profits generated from individual sales to each customer, the costs of handling customers and their orders (some customers may place more complex and variable orders that cost more to handle), and the expected duration of the relationship.

External secondary data consists of any data collected by an outside organization. The major source of these data is the federal government, which publishes information collected by scores of government agencies about the economy, business, and virtually all demographics of the U.S. population. An excellent way to access selected parts of these data is FedStats (**www.fedstats.gov**). The U.S. Census Bureau (**www.census.gov**) collects data on the age, education, occupation, and income of U.S. residents by state and region and also provides projections on the future growth or decline of various demographic segments. Any firm operating globally may find key statistics about any country in the world in the CIA's electronic *The World Factbook* (**www.cia.gov/cia/publications/factbook**). Business-relevant secondary data from periodicals, newspapers, and books is readily accessible via two search engines—*ProQuest* and *Lexis-Nexis*. These engines access major newspapers such as *The Wall Street Journal* and *The New York Times*; business magazines such as *Business Week, Forbes, Fortune*, and *Harvard Business Review*; and journals focused specifically on marketing, such as *Advertising Age, Brandweek Magazine, Marketing News, Journal of Marketing, Journal of Marketing Research*, and *Journal of Consumer Research*.

Commercial data is available from marketing research companies that routinely monitor specific aspects of consumer behavior and sell the data to marketers. For example, *Claritas* provides demographic and lifestyle profiles of the consumers residing in each U.S. zip code (**http://www.clusterbigip1.claritas.com/MyBestSegments/Default.jsp?ID=0&SubID= &pageName=Home**). *Yankelovich* monitors consumers' lifestyles and consumption patterns, as well as more targeted studies focused on the consumer behavior of specific ethnic groups (**http://www.yankelovich.com/y-monitor.asp**). *Mediamark Research Inc.* conducts segmentation studies of consumers' leisure activities and buying styles, and also studies focused specifically on consumer innovators (**http://www.mediamark.com**).

Secondary data is also provided by companies that routinely monitor a particular consumption-related behavior. For example, one of the primary challenges marketers face is placing their advertisements in media that are most likely to reach their target customers. For decades, Nielsen Media Research has monitored the characteristics and size of audiences of TV programs. Nielsen did so through studying a presumably representative sample of U.S. households who agreed to install computerized boxes with modems connected to each set in their homes; many of these households also used *people meters*, on which each family member watching a particular program "logged on" for the duration of their viewing. A company called *Arbitron* has provided similar data about the audiences of radio programs. Marketers use this data to decide where to place their promotional messages, and the managers of the TV and radio stations use this data to determine how much to charge the marketers. This figure is usually based on the size of the audience and is expressed as the *cpm*, or cost to reach 1000 people. Obviously, the larger the audience of a particular program, the more money is charged for the commercial time within it. Although marketers understand that, by using the Nielsen and Arbitron data, they are also reaching many consumers who are not within their target markets (and unfortunately paying for this "wasted" advertising), they have no other options since the Nielsen and Arbitron data are used universally.

Recognizing that new technologies provide opportunities for far more sophisticated monitoring techniques, Nielsen and Arbitron are now testing *portable people meters*. These meters are small devices that consumers clip to their belts or to other clothing and wear during their waking hours. This device monitors all the radio and TV programming a person is exposed to during the day. Eventually, the device will monitor the person's exposure to all media programming and advertising, such as Web streaming, supermarket Muzak, and, when GPS systems are integrated into the new meter, exposure to outdoor advertising. At night, the meter is plugged into a cradle that transmits this data for analysis. But perhaps the real future of researching consumers' exposure to media will not entail monitoring the behavior of several thousand consumers wearing portable meters, but monitoring the media exposure of almost all consumers via digital cable set-top boxes that are now present in many homes and are likely to be placed in the majority of American homes, as digital TV

replaces analog broadcasts. Presently, digital cable boxes are primarily used to send signals to consumers' TVs in order to enable them to watch movies-on-demand. However, the digital boxes can easily record all the programs that consumers are tuned into, including, of course, channel surfing, attempts at avoiding commercial breaks, and recordings for later viewing, using devices such as TiVo or digital video recorders that cable companies increasingly offer to subscribers. So far, cable companies have been reluctant to use this data due to privacy concerns. However, some innovative companies are now developing methods that will transform data from digital cable boxes into information that can be used for precise targeting of consumers while still protecting privacy.[1] The portable people meters and the two-way digital cable boxes demonstrate the profound and dynamic changes that technology is bringing to consumer research. The numerous new technologies that are being developed will enable marketers to study consumers' media exposure much more precisely and collect data that will enable them to customize or *narrowcast* their promotional messages, and thus expend their advertising dollars more effectively.

For decades, marketers have purchased data from secondary data providers who collected data from **consumer panels**. The members of these panels were consumers who were paid for recording their purchases or media viewing habits in diaries that were then summarized and analyzed by the data providers. Today, online technologies enable companies to collect increasingly sophisticated data from respondents. For example, a manufacturer of customized snowboards had discovered that 10,000 snowboarding fans used its site to discuss their hobbies and buying habits, and also to rate different designs of snowboards. The snowboards marketer then started *selling* the data it collected from this online panel to other marketers interested in targeting the young, mostly male respondents who so enthusiastically revealed so much about themselves while discussing snowboards online. Similarly, GM is collecting data from 30,000 car buyers a month via an online site. One of the most important issues GM investigated was the point at which rising fuel prices significantly impact car buyers' priorities—data that can be used to alter production schedules as gas prices fluctuate and also in the design of future models.[2]

Obtaining secondary data before engaging in primary research offers several advantages. First, secondary data may provide a solution to the research problem and eliminate the need for primary research altogether. But even if this is not the case, secondary data, used in exploratory research, may help to clarify and redefine the objectives of the primary study and provide ideas for the methods to be used and the difficulties that are likely to occur during the full-scale study.

Although secondary information can be obtained more cheaply and quickly than primary data, it has some limitations. First, information may be categorized in units that are different from those that the researcher seeks (e.g., clustering consumers into the 15–20 and 21–25 age groups renders it useless to a researcher interested in consumers 17–24 years old). Some secondary data may not be accurate because of errors in gathering or analyzing the data for the original study or because the data had been collected in a biased fashion in order to support a particular point of view. Also, care must be taken not to use secondary data that may be outdated.

Designing primary research

The design of a research study is based on the purposes of the study. If descriptive information is needed, then a quantitative study is likely to be undertaken; if the purpose is to get new ideas (e.g., for positioning or repositioning a product), then a qualitative study is undertaken. Because the approach for each type of research differs in terms of method of data collection, sample design, and type of data collection instrument used, each research approach is discussed separately below.

Quantitative research designs

A quantitative research study consists of a research design, the data collection methods and instruments to be used, and the sample design. Three basic designs are used in quantitative research: observation, experimentation (in a laboratory or in the field, such as in a retail store), or survey (i.e., by questioning people).

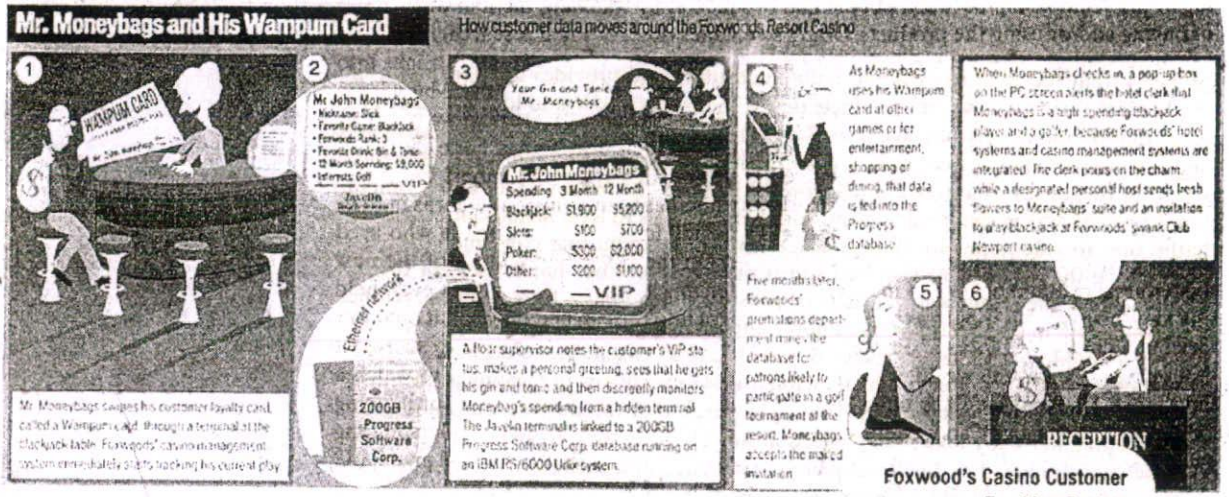
Observational Research **Observational research** is an important method of consumer research because marketers recognize that the best way to gain an in-depth understanding of the relationship between people and products is by watching them in the process of buying and/or using the products. Doing so enables observational researchers to comprehend what the product symbolizes to a consumer and provides greater insight into the bond between people and products that is the essence of brand loyalty. Many large corporations and advertising agencies use trained researchers/observers to watch, note, and sometimes videotape consumers in stores, malls, or their own homes. For example, in studying responses to a new mint-flavored Listerine, the Warner Lambert Company hired a research firm that paid 37 New York City families to let it install cameras in their bathrooms to videotape mouthwash usage. The study found that consumers who used Scope gave the product a swish and spit it out. On the other hand, users of the new Listerine kept the mouthwash in their mouths for much longer (one subject even held the mouthwash in his mouth as he left home and got into the car, and only spit it out after driving a couple of blocks).[3] Procter & Gamble (P&G) sent video crews to scores of households around the world, which enabled P&G executives in Cincinnati to watch a mother in Thailand feed her baby. They discovered that the mother was multitasking while feeding her baby and even glanced at her TV from time to time. Understanding such behavior can lead to the development of products and packages that will give P&G a strong competitive advantage in the marketplace.[4]

Mechanical observation uses a mechanical or electronic device to record customer behavior or response to a particular marketing stimulus. For example, when Duane Reade—a large chain of drugstores in New York City—considers a location for a new store, the company uses electronic beams or hand counters to count the numbers of passersby at different times and under different weather conditions.[5] Government planners use data collected from electronic EZ Pass devices in passenger cars to decide which roads should be expanded, and banks use security cameras to observe problems customers may have in using ATMs.

Increasingly, consumers use automated systems in their purchases because these instruments make purchases easier and often provide rewards for using them. For example, consumers who use supermarket frequency shopping cards often receive offers for promotional discounts tailored specifically for them at checkout counters. Moviegoers who order tickets online can pick them up at ATM-like devices at movie theaters and avoid waiting in line at the box office. As consumers use more and more highly convenient technologies, such as credit and ATM cards, EZ Passes, frequency cards, automated phone systems, and online shopping, there are more and more electronic records of their consumption patterns. As a consequence, observation of consumer behavior via electronic means has grown significantly and, as illustrated in the earlier discussion of portable people meters and two-way digital cable boxes, electronic observation of consumption behavior will become increasingly sophisticated.

Gambling casinos have been in the forefront of developing systems that track individual customer data collected during the various stages of a customer's visit, and cross-matching them with data collected on previous visits by that customer (including spending usage). They use this data to classify visitors into categories based on their "loyalty levels," and implement corresponding rewards that are delivered almost immediately. For example, normally about 50,000 people a day visit the Foxwood Casino in Connecticut. Most of them use magnetic cards called "frequent player cards." Sophisticated electronic network systems monitor the gaming patterns, eating habits, and room preferences of all visitors. When a player sits at a table, within seconds, the casino's manager can read the guest's history on the screen, including alcoholic beverages preferred and gaming habits. Because there are electronic tags in the chips issued to each player, when a player leaves the table, his or her record is updated instantly and made available at any contact point for that customer throughout the entire casino complex. Thus, the casino can instantly reward customers who are good for business by giving free meals and room upgrades and inviting them to gamble in designated VIP lounges. The customers love the frequency cards because they enable them to keep track of their spending, and the casinos benefit from each swipe of the card because it provides more information about customers. The casino

FIGURE 2.2 *Source:* Courtesy of Kim S. Nash, "Casinos Hit Jackpot with Customer Data," *Computer World*, July 2, 2001, 17.



has two identical computer systems and, if needed, can switch to a backup immediately and thus avoid the many thousands of dollars that may be lost during an even brief period of operating without computers.[6] Figure 2.2 depicts Foxwood's customer tracking system. More casinos are employing increasingly sophisticated software to create real-time and personal rewards to day-trippers who bet relatively small amounts of money—$50 to $100 per visit—but who visit the casinos frequently. Casinos have recognized that although these consumers wage little money per trip, they view gaming as their primary entertainment, and observing their behavior and immediately using the data to encourage them to spend more money is likely to increase profits greatly over time.[7]

An audit is another type of mechanical observation that entails monitoring the sales of products. A key component of Wal-Mart's competitive advantage is the retailing giant's use of technology in its product audits. At any given moment, the company knows what is selling, how fast, and how much of the product remains in its inventory. Maintaining small inventories and moving products quickly enables the company to lower its prices and attract more customers. Wal-Mart's record profits are derived from low per-item profits multiplied by selling billions of products quickly, and also moving products rapidly to where consumers are likely to buy them. For example, after observing that the sales of strawberry Pop-Tarts increased dramatically before a hurricane and that the top pre-seller before a hurricane was beer, the company quickly transports large quantities of these items to areas expected to be hit by an approaching storm.[8]

Marketers also use **physiological observation** devices that monitor respondents' patterns of information processing. For example, an electronic eye camera may be used to monitor the *eye movements* of subjects looking at a series of advertisements for various products, and electronic sensors placed on the subjects' heads can monitor the *brain activity* and attentiveness levels involved in viewing each ad. Neuroscientists monitoring cognitive functions in twelve different regions of the brain while consumers watched commercials for different products claimed that the data collected shows the respondents' levels of attention and the decoding and recall of the promotional messages.[9]

Experimentation It is possible to test the relative sales appeal of many types of variables, such as package designs, prices, promotional offers, or copy themes through experiments designed to identify cause and effect. In such experiments (called *causal research*), only some variables are manipulated (the *independent variables*), while all other elements are kept constant. A **controlled experiment** of this type ensures that any

difference in the outcome (the *dependent variable*) is due to different treatments of the variable under study and not to extraneous factors. For example, one study tested the effectiveness of using an attractive versus unattractive endorser in promoting two types of products: products that are used to enhance one's attractiveness (e.g., a men's cologne) and products that are not (e.g., a pen). The endorser used was a fictitious character named Phil Johnson who was described as a member of the U.S. Olympic water polo team. The photograph depicting the attractive endorser was a scanned image of an attractive athletic man, whereas the picture depicting the unattractive endorser was the same image graphically modified to reduce attractiveness. The subjects viewed each endorser-product combination for 15 seconds (simulating the viewing of an actual print ad) and then filled out a questionnaire that measured their attitudes and purchase intentions toward the products advertised. In this study, the combinations of the product (i.e., used/not used to enhance one's attractiveness) and the endorser's attractiveness (i.e., attractive/non-attractive endorser) were the *manipulated treatments* (i.e., the independent variables) and the combination of the attitudes and purchase intentions toward the product was the *dependent variable*. The study discovered that the attractive endorser was more effective in promoting both types of products.[10]

A major application of causal research is **test marketing**, in which, prior to launching a new product, elements such as package, price, and promotion are manipulated in a controlled setting in order to predict sales or gauge the possible responses to the product. Today some researchers employ *virtual reality methods*. For example, in a market test, respondents can view, on a computer screen, supermarket shelves that are stocked with many products, including different versions of the same product; they can "pick up" an item by touching the image, examine it by rotating the image with a track ball, and place it in a shopping cart if they decide to buy it. The researchers observe how long the respondents spend in looking at the product, the time spent in examining each side of the package, the products purchased, and the order of the purchases.

Surveys If researchers wish to ask consumers about their purchase preferences and consumption experiences, they can do so in person, by mail, by telephone, or online. Each of these survey methods has certain advantages and certain disadvantages that the researcher must weigh when selecting the method of contact (see Table 2.2).

Personal interview surveys most often take place in the home or in retail shopping areas. The latter, referred to as *mall intercepts*, are used more frequently than home interviews because of the high incidence of not-at-home working women and the reluctance of many people today to allow a stranger into their home.

Telephone surveys are also used to collect consumer data; however, evenings and weekends are often the only times to reach telephone respondents, who tend to be less responsive—even hostile—to calls that interrupt dinner, television viewing, or general relaxation. The difficulties of reaching people with unlisted telephone numbers have been

TABLE 2.2 Comparative Advantages and Disadvantages of Mail, Telephone, Personal Interview, and Online Surveys

	MAIL	TELEPHONE	PERSONAL INTERVIEW	ONLINE
Cost	Low	Moderate	High	Low
Speed	Slow	Immediate	Slow	Fast
Response Rate	Low	Moderate	High	Self-selected
Geographic Flexibility	Excellent	Good	Difficult	Excellent
Interviewer Bias	N/A	Moderate	Problematic	N/A
Interviewer Supervision	N/A	Easy	Difficult	N/A
Quality of Response	Limited	Limited	Excellent	Excellent

solved through random-digit dialing, and the costs of a widespread telephone survey are often minimized by using toll-free telephone lines. Other problems arise, however, from the increased use of answering machines and caller ID to screen calls. Some market research companies have tried to automate telephone surveys, but many respondents are even less willing to interact with an electronic voice than with a live interviewer.

Mail surveys are conducted by sending questionnaires directly to individuals at their homes. One of the major problems of mail questionnaires is a low response rate, but researchers have developed a number of techniques to increase returns, such as enclosing a stamped, self-addressed envelope, using a provocative questionnaire, and sending prenotification letters as well as follow-up letters. A number of commercial research firms that specialize in consumer surveys have set up panels of consumers who, for a token fee, agree to complete the research company's mail questionnaires on a regular basis. Sometimes panel members are also asked to keep diaries of their purchases.

Online surveys are sometimes conducted on the Internet. Respondents are directed to the marketer's (or researcher's) Web site by computer ads or home pages. Because the sample's respondents are self-selected, the results cannot be projected to the larger population. Most computer polls ask respondents to complete a profile consisting of demographic questions that enable the researchers to classify the responses to the substantive product or service questions.

Researchers who conduct computer polling believe that the anonymity of the Internet encourages respondents to be more forthright and honest than they would be if asked the same questions in person or by mail; others believe that the data collected may be suspect because some respondents may create new online personalities that do not reflect their own beliefs or behavior. Some survey organizations cite the inherent advantages of wide reach and affordability in online polling.

Quantitative research data collection instruments

Data collection instruments are developed as part of a study's total research design to systematize the collection of data and to ensure that all respondents are asked the same questions in the same order. Data collection instruments include questionnaires, personal inventories, and attitude scales. Data collection instruments are usually pretested and "debugged" to assure the validity and reliability of the research study. A study is said to have **validity** if it does, in fact, collect the appropriate data needed to answer the questions or objectives stated in the first (objectives) stage of the research process. A study is said to have **reliability** if the same questions, asked of a similar sample, produce the same findings. Often a sample is systematically divided in two, and each half is given the same questionnaire to complete. If the results from each half are similar, the questionnaire is said to have *split-half reliability*.

Questionnaires For quantitative research, the primary data collection instrument is the questionnaire, which can be sent through the mail to selected respondents for self-administration or can be administered by field interviewers in person or by telephone. In order to motivate respondents to take the time to respond to surveys, researchers have found that questionnaires must be interesting, objective, unambiguous, easy to complete, and generally not burdensome. To enhance the analysis and facilitate the classification of responses into meaningful categories, questionnaires include both substantive questions that are relevant to the purposes of the study and pertinent demographic questions.

The questionnaire itself can be *disguised* or *undisguised* as to its true purpose; a disguised questionnaire sometimes yields more truthful answers and avoids responses that respondents may think are expected or sought. Questions can be *open-ended* (requiring answers in the respondent's own words) or *closed-ended* (the respondent merely checks the appropriate answer from a list of options). Open-ended questions yield more insightful information but are more difficult to code and to analyze; closed-ended questions are relatively simple to tabulate and analyze, but the answers are limited to the alternative responses provided (i.e., to the existing insights of the questionnaire designer). For example, a survey of U.S. merchant mariners in the late 1970s included both open-ended and

TABLE 2.3 Guidelines for Wording Questions

1. *Avoid leading questions.* For example, a question such as "Do you often shop at such cost-saving stores as Staples?" or "Weren't you satisfied with the service you received at Staples today?" introduce bias into the survey
2. *Avoid two questions in one.* For example, "In your view, did you save money and receive good service when you last visited Staples?" is really two questions combined and they should be stated separately.
3. *Questions must be clear.* For example, "Where do you usually shop for your home-office supplies?" is unclear because the term "usually" is vague.
4. *Use words that consumers routinely use.* For example, do not use the verb "to rectify"; use the verb "to correct."
5. *Respondents must be able to answer the question.* For example, it is unlikely that any respondent can accurately answer a question such as "how many newspaper or TV ads for Staples did you read or see during the past month?"
6. *Respondents must be willing to answer the question.* Questions about money, health issues, personal hygiene, or sexual preferences can embarrass respondents and cause them not to answer. Sometimes, asking the question in a less personal fashion might help generate more responses. For example, rather than asking older consumers whether they experience incontinence, the researcher should ask "millions of Americans experience some level of incontinence. Do you or anyone you know experience this difficulty?"

closed-ended questions asking why the respondent first joined the merchant marine. The closed-ended question, which appeared toward the beginning of the 45-page questionnaire, resulted in a majority response that they were intrigued with the excitement and romance of the high seas. The open-ended question, which appeared toward the end of this very lengthy questionnaire, resulted in a preponderance of responses "to avoid the draft in World War II." This was an option the questionnaire designers never even contemplated.

Wording the questions represents the biggest challenge in constructing questionnaires; Table 2.3 includes guidelines for writing clear and effective questions. The sequence of questions is also important: The opening questions must be interesting enough to "draw" the respondent into participating, they must proceed in a logical order, and demographic (classification) questions should be placed at the end, where they are more likely to be answered. The format of the questionnaire and the wording and sequence of the questions affect the validity of the responses and, in the case of mail questionnaires, the number (rate) of responses received. Questionnaires usually offer respondents confidentiality or anonymity to dispel any reluctance about self-disclosure.

Attitude Scales Researchers often present respondents with a list of products or product attributes for which they are asked to indicate their relative feelings or evaluations. The instruments most frequently used to capture this evaluative data are called **attitude scales**. The most frequently used attitude scales are Likert scales, semantic differential scales, behavior intention scales, and rank-order scales.

The ***Likert scale*** is the most popular form of attitude scale because it is easy for researchers to prepare and to interpret, and simple for consumers to answer. They check or write the number corresponding to their level of "agreement" or "disagreement" with each of a series of statements that describes the attitude object under investigation. The scale consists of an equal number of agreement/disagreement choices on either side of a neutral choice. A principal benefit of the Likert scale is that it gives the researcher the option of considering the responses to each statement separately or of combining the responses to produce an overall score.

The ***semantic differential scale***, like the Likert scale, is relatively easy to construct and administer. The scale typically consists of a series of bipolar adjectives (such as good/bad, hot/cold, like/dislike, or expensive/inexpensive) anchored at the ends of an odd-numbered (e.g., five- or seven-point) continuum. Respondents are asked to evaluate a concept (or a product or company) on the basis of each attribute by checking the point on the continuum that best reflects their feelings or beliefs. Care must be taken to vary the location of positive and negative terms from the left side of the continuum to the right side to avoid consumer response bias. Sometimes an even-numbered scale is used to eliminate the option of a neutral answer. An important feature of the semantic differential scale is that it can be used to develop graphic consumer profiles of the concept under study. Semantic differential profiles are also used to compare consumer perceptions of competitive products and to indicate areas for product improvement when perceptions of the existing product are measured against perceptions of the "ideal" product.

The ***behavior intention scale*** measures the likelihood that consumers will act in a certain way in the future, such as buying the product again or recommending it to a friend. These scales are easy to construct, and consumers are asked to make subjective judgments regarding their future behavior.

With ***rank-order scales***, subjects are asked to rank items such as products (or retail stores or Web sites) in order of preference in terms of some criterion, such as overall quality or value for the money. Rank-order scaling procedures provide important competitive information and enable marketers to identify needed areas of improvement in product design and product positioning. Figure 2.3 provides examples of the attitude scales that are frequently utilized in consumer research.

Qualitative research designs and data collection methods

In selecting the appropriate research format for a qualitative study, the researcher has to take into consideration the purpose of the study and the types of data needed. Although the research methods used may differ in composition, they all have roots in psychoanalytic and clinical aspects of psychology, and they stress open-ended and free-response types of questions to stimulate respondents to reveal their innermost thoughts and beliefs.

The key data collection techniques for qualitative studies are depth interviews, focus groups, discussion guides, projective techniques, and metaphor analysis. These techniques are regularly used in the early stages of attitude research to pinpoint relevant product-related beliefs or attributes and to develop an initial picture of consumer attitudes (especially the beliefs and attributes they associate with particular products and services).

Depth Interviews A **depth interview** is a lengthy (generally 30 minutes to an hour), nonstructured interview between a respondent and a highly trained interviewer, who minimizes his or her own participation in the discussion after establishing the general subject to be discussed. (However, as noted earlier, interpretative researchers often take a more active role in the discussion.) Respondents are encouraged to talk freely about their activities, attitudes, and interests in addition to the product category or brand under study. Transcripts, videotapes, or audiotape recordings of interviews are then carefully studied, together with reports of respondents' moods and any gestures or "body language" they may have used to convey attitudes or motives. Such studies provide marketers with valuable ideas about product design or redesign and provide insights for positioning or repositioning the product. Sometimes, as part of depth interviews, researchers show respondents photos, videos, and audiotapes of their own shopping behavior and ask them to explicitly comment on their consumption actions.

Focus Groups A **focus group** consists of 8 to 10 respondents who meet with a moderator-analyst for a group discussion "focused" on a particular product or product category (or any other subject of research interest). Respondents are encouraged to discuss their interests, attitudes, reactions, motives, lifestyles, feelings about the product or product category, usage experience, and so forth.

Attitude Scales **FIGURE 2.3**

LIKERT SCALE

For each of the following statements, please record the number that best describes the extent to which you agree or disagree with each statement.

1. Strongly Agree
2. Somewhat Agree
3. Neither Agree nor Disagree
4. Somewhat Disagree
5. Strongly Disagree

_____ It's fun to shop online.
_____ I am afraid to give my credit card number online.

Two widely used applications of the Likert Scale to measure consumer attitudes are:

SATISFACTION MEASURES

Over all, how satisfied are you with Bank X's online banking? _____

1. Very Satisfied
2. Somewhat Satisfied
3. Neither Satisfied nor Dissatisfied
4. Somewhat Dissatisfied
5. Very Dissatisfied

IMPORTANCE SCALES

The following list of features are associated with shopping on the Internet. For each feature, please record the one alternative that best expresses how important or unimportant that feature is to you.

1. Extremely Important
2. Somewhat Important
3. Neither Important nor Unimportant
4. Somewhat Unimportant
5. Not at all Important

_____ Speed of downloading the order form
_____ Being able to register with the site

SEMANTIC DIFFERENTIAL SCALE

For each of the following features, please check one alternative that best expresses your impression of how that feature applies to **online banking:**

Competitive rates ⊢+-+-+-+-+-+-+-+-⊣ Noncompetitive rates
Reliable ⊢+-+-+-+-+-+-+-+-⊣ Unreliable

Note: The same semantic differential scale can be applied to two competitive offerings, such as online banking and regular banking, and a graphic representation of the profiles of the two alternatives, along with the bipolar adjectives included in the scale, can be easily constructed.

BEHAVIOR INTENTION SCALES

How likely are you to continue using Bank X's online banking for the next six months? _____

1. Definitely Will Continue
2. Probably Will Continue
3. Might or Might Not Continue
4. Probably Will Not Continue
5. Definitely Will Not Continue

How likely are you to recommend Bank X's online banking to a friend? _____

1. Definitely Will Recommend
2. Probably Will Recommend
3. Might or Might Not Recommend
4. Probably Will Not Recommend
5. Definitely Will Not Recommend

RANK ORDER SCALE

We would like to find out about your preferences regarding banking methods. Please rank the following banking methods by placing a "1" in front of the method that you prefer most, a "2" next to your second preference, and continuing until you have ranked all of the methods.

_____ Inside the bank
_____ ATM
_____ Online banking
_____ Banking by mail
_____ Banking by telephone

FIGURE 2.4

Selected Portions of a Discussion Guide

1. Why did you decide to use your current cellular company? (Probe)
2. How long have you used your current cellular company? (Probe)
3. Have you ever switched services? When? What caused the change? (Probe)
4. What do you think of the overall quality of your current service? (Probe)
5. What are the important criteria in selecting a cellular service? (Probe)

Examples of Probe questions:

a. Tell me more about that . . .
b. Share your thinking on this . . .
c. Does anyone see it differently . . .

Because a focus group takes about 2 hours to complete, a researcher can easily conduct two or three focus groups (with a total of 30 respondents) in one day, while it might take that same researcher five or six days to conduct 30 individual depth interviews. Analysis of responses in both depth interviews and focus groups requires a great deal of skill on the part of the researcher. Focus group sessions are invariably taped, and sometimes videotaped, to assist in the analysis. Interviews are usually held in specially designed conference rooms with one-way mirrors that enable marketers and advertising agency staff to observe the sessions without disrupting or inhibiting the responses.

Respondents are recruited on the basis of a carefully drawn consumer profile (called a **screener questionnaire**) based on specifications defined by marketing management, and usually are paid a fee for their participation. Sometimes users of the company's brands are clustered in one or more groups, and their responses are compared to those of nonusers interviewed in other groups.

Some marketers prefer focus groups to individual depth interviews because it takes less time overall to complete the study, and they feel that the freewheeling group discussions and group dynamics tend to yield a greater number of new ideas and insights than depth interviews. Other marketers prefer individual depth interviews because they feel that respondents are free of group pressure and thus are less likely to give socially acceptable (and not necessarily truthful) responses, are more likely to remain attentive during the entire interview, and—because of the greater personal attention received—are more likely to reveal private thoughts. Figure 2.4 presents a portion of a discussion guide that might be used in a focus-group session to gain insights into the attitudes of consumers toward various cellular service providers. The findings would be equally relevant to the positioning of a new cellular service provider or the repositioning of an existing provider.

Projective Techniques **Projective techniques** are designed to tap the underlying motives of individuals despite their unconscious rationalizations or efforts at conscious concealment. They consist of a variety of disguised "tests" that contain ambiguous stimuli, such as incomplete sentences, untitled pictures or cartoons, ink blots, word-association tests, and other-person characterizations. Projective techniques are sometimes administered as part of a focus group but more often are used during depth interviews. Because projective methods are closely associated with researching consumer needs and motivations they are more fully discussed in Chapter 4.

Metaphor Analysis In the 1990s, a stream of consumer research emerged suggesting that most communication is nonverbal and that people do not think in words but in images. If consumers' thought processes consist of series of images, or pictures in their minds, then it is likely that many respondents cannot adequately convey their feelings and attitudes about the research subject (such as a product or brand) through the use of

words alone. Therefore, it is important to enable consumers to represent their images in an alternate, nonverbal form—through the use, say, of sounds, music, drawings, or pictures. The use of one form of expression to describe or represent feelings about another is called a *metaphor*. A number of consumer theorists have come to believe that people use metaphors as the most basic method of thought and communication.

The **Zaltman Metaphor Elicitation Technique** (ZMET)—the first patented marketing research tool in the United States—relies on visual images to assess consumers' deep and subconscious thoughts about products, services, and marketing strategies. In one study about consumer perceptions of advertising, prescreened respondents were asked to bring into a depth interview pictures that illustrated their perceptions of the value of advertising. They were asked to bring pictures from magazines, newspapers, artwork, photos they took especially for the study or from existing collections, but not actual print advertisements. Each respondent participated in a two-hour videotaped interview (on average, each respondent brought in 13 images representing his or her impressions of the value of advertising). The interview used several methods that are part of the ZMET technique to elicit key metaphors and the interrelationships among them from the respondents. The interviews were then analyzed by qualified researchers according to the ZMET criteria. The findings revealed that the *ambivalent* respondents had both favorable (e.g., information and entertainment values) and unfavorable (e.g., misrepresentation of reality) impressions of advertising; *skeptics* had mostly negative, but some positive impressions of advertising; and *hostile* respondents viewed advertising as an all-negative force.[11]

Customer satisfaction measurement

Gauging the level of customer satisfaction and its determinants is critical for every company. Marketers can use such data to retain customers, sell more products and services, improve the quality and value of their offerings, and operate more effectively and efficiently. **Customer satisfaction measurement** includes quantitative and qualitative measures, as well as a variety of contact methods with customers.

Customer satisfaction surveys measure how satisfied the customers are with relevant attributes of the product or service, and the relative importance of these attributes (using an importance scale). Generally, these surveys use 5-point semantic differential scales ranging from "very dissatisfied" to "very satisfied." Research shows that customers who indicate they are "very satisfied" (typically a score of 5 on the satisfaction scale) are much more profitable and loyal than customers who indicate that they are "satisfied" (a score of 4). Therefore, companies that merely strive to have "satisfied" customers are making a crucial error.[12] Some marketers maintain that customers' satisfaction or dissatisfaction is a function of the difference between what they had *expected* to get from the product or service purchased and their perceptions of what they *received*. A group of researchers developed a scale that measures the performance of the service received against two expectation levels: *adequate* service and *desired* service, and also measures the customers' future intentions regarding purchasing the service.[13] This approach is more sophisticated than standard customer satisfaction surveys and more likely to yield results that can be used to develop corrective measures for products and services that fall short of customers' expectations.

Mystery shoppers are professional observers who pose as customers in order to interact with and provide unbiased evaluations of the company's service personnel in order to identify opportunities for improving productivity and efficiency. For example, one bank used mystery shoppers who, while dealing with a bank employee on another matter, dropped hints about buying a house or seeking to borrow college funds. Employees were scored on how quickly and effectively they provided information about the bank's pertinent products or services. A company that requires sales clerks to check youthful customers' IDs when they seek to buy video games with violent content may employ mystery shoppers to see whether their employees are actually doing so.

Analyzing customer complaints is crucial for improving products and customer service. Research indicates that only a few unsatisfied customers actually complain. Most unsatisfied customers say nothing but switch to competitors. A good **complaint analysis** system should encourage customers to (1) complain about an unsatisfactory product or

service and (2) provide suggestions for improvements by completing forms asking specific questions beyond the routine "how was everything?" and (3) establish "listening posts" such as hotlines where specially designated employees either listen to customers' comments or actively solicit input from them (e.g., in a hotel lobby or on checkout lines). Since each complaint, by itself, provides little information, the company must have a system in which complaints are categorized and analyzed so that the results may be used to improve its operations.

Analyzing customer defections consists of finding out *why* customers leave the company. Customer loyalty rates are important because it is generally much cheaper to retain customers than to get new ones. Therefore, finding out why customers defect, and also *intervening* when customers' behaviors show that they may be considering leaving is crucial. For example, one bank that was losing about 20% of its customers every year discovered that segmenting defecting customers along demographic and family life-cycle characteristics was ineffective in reducing defection rates. The bank then compared 500 transaction records of loyal customers with 500 transaction records of defectors, using such dimensions as number of transactions, frequency of transactions, and fluctuations in average balances. The bank then identified transaction patterns that may indicate future defection and started targeting potential defectors and encouraging them to stay.[14]

Sampling and data collection

Since it is almost always impossible to obtain information from *every* member of the *population* or *universe* being studied, researchers use samples. A **sample** is a subset of the population that is used to estimate the characteristics of the entire population. Therefore, the sample must be *representative* of the universe under study. As the well-established Nielsen Media Research company recently found out, suspicions that a sample may not be representative of its universe endanger the credibility of all the data collected, and therefore must be addressed promptly. Although Nielsen's TV ratings have been used to estimate TV audiences and calculate advertising rates for many decades, its clients recently charged that the Nielsen sample was no longer representative of the U.S. population because it did not reflect accurately America's changing demographics and the large numbers of consumers who use devices such as TiVo to "time shift" and to avoid commercials during both live and recorded programs. In response to these criticisms, Nielsen has redesigned its sample to include significantly more ethnic groupings and to reflect the changes in TV viewing habits.[15]

An integral component of a research design is the sampling plan. Specifically, the sampling plan addresses three questions: whom to survey (the sampling unit), how many to survey (the sample size), and how to select them (the sampling procedure). Deciding whom to survey requires explicit definition of the *universe* or boundaries of the market from which data are sought so that an appropriate sample can be selected (such as working mothers). The size of the sample is dependent both on the size of the budget and on the degree of confidence that the marketer wants to place in the findings. The larger the sample, the more likely the responses will reflect the total universe under study. It is interesting to note, however, that a small sample can often provide highly reliable findings, depending on the sampling procedure adopted. (The exact number needed to achieve a specific level of confidence in the accuracy of the findings can be computed with a mathematical formula that is beyond the scope of this discussion.)

There are two types of samples: in a **probability sample**, respondents are selected in such a way that every member of the population studied has a known, non-zero chance of being selected. In a **nonprobability sample**, specific elements from the population under study have been predetermined in a nonrandom fashion on the basis of the researcher's judgment or decision to select a given number of respondents from a particular group. Table 2.4 summarizes the features of various types of probability and nonprobability designs.

As indicated earlier, qualitative studies usually require highly trained social scientists to collect data. A quantitative study generally uses a field staff that is either recruited and trained directly by the researcher or contracted from a company that specializes in conducting field interviews. In either case, it is often necessary to verify whether the interviews have,

TABLE 2.4 Sampling

PROBABILITY SAMPLE	
Simple Random Sample	Every member of the population has a known and equal chance of being selected.
Systematic Random Sample	A member of the population is selected at random and then every "*n*th" person is selected.
Stratified Random Sample	The population is divided into mutually exclusive groups (such as age groups), and random samples are drawn from each group.
Cluster (area) Sample	The population is divided into mutually exclusive groups (such as blocks), and the researcher draws a sample of the groups to interview.
NONPROBABILITY SAMPLE	
Convenience Sample	The researcher selects the most accessible population members from whom to obtain information (e.g., students in a classroom).
Judgment Sample	The researcher uses his or her judgment to select population members who are good sources for accurate information (e.g., experts in the relevant field of study).
Quota Sample	The researcher interviews a prescribed number of people in each of several categories (e.g., 50 men and 50 women).

in fact, taken place. This is sometimes done by a postcard mailing to respondents asking them to verify that they participated in an interview on the date recorded on the questionnaire form. Completed questionnaires are reviewed on a regular basis as the research study progresses to ensure that the recorded responses are clear, complete, and legible.

Data analysis and reporting research findings

In qualitative research, the moderator or test administrator usually analyzes the responses received. In quantitative research, the researcher supervises the analysis: Open-ended responses are first coded and quantified (i.e., converted into numerical scores); then all of the responses are tabulated and analyzed using sophisticated analytical programs that correlate the data by selected variables and cluster the data by selected demographic characteristics.

In both qualitative and quantitative research, the research report includes a brief executive summary of the findings. Depending on the assignment from marketing management, the research report may or may not include recommendations for marketing action. The body of the report includes a full description of the methodology used and, for quantitative research, also includes tables and graphics to support the findings. A sample of the questionnaire is usually included in the appendix to enable management to evaluate the objectivity of the findings.

Conducting a research study

In designing a research study, researchers adapt the research processes described in the previous sections to the special needs of the study. For example, if a researcher is told that the purpose of the study is to develop a segmentation strategy for a new online dating service, he or she would first collect secondary data, such as population statistics (e.g., the number of men and women online in selected metropolitan areas within a certain age range, their marital status, and occupations). Then, together with the marketing manager, the researcher would specify the parameters (i.e., define the sampling unit) of the population to be studied (e.g., single, college-educated men and women between the ages of 18 and 45 who live or work within the Boston metropolitan area). A qualitative study (e.g., focus groups) might be undertaken first to gather information about the

target population's attitudes and concerns about meeting people online, their special interests, and the specific services and precautions they would like an online dating service to provide. This phase of the research should result in tentative generalizations about the specific age group(s) to target and the services to offer.

The marketing manager then might instruct the researcher to conduct a quantitative study to confirm and attach "hard" numbers (percentages) to the findings that emerged from the focus groups. The first-phase study should have provided sufficient insights to develop a research design and to launch directly into a large-scale survey. If, however, there is still doubt about any element of the research design, such as question wording or format, they might decide first to do a small-scale exploratory study. Then, after refining the questionnaire and any other needed elements of the research design, they would launch a full-scale quantitative survey, using a probability sample that would allow them to project the findings to the total population of singles (as originally defined). The analysis should cluster prospective consumers of the online dating service into segments based on relevant sociocultural or lifestyle characteristics and on media habits, attitudes, perceptions, and geodemographic characteristics.

ethics in consumer research

Consumer researchers must ensure that studies are objective and free of bias. Some studies are commissioned by organizations seeking to justify a particular position. For example, an organization opposed to the president of the United States may retain a research firm that will generate a national sample and ask respondents "do you believe that the president should be doing a better job in running the country?" Such a study may discover that, say, 65% of Americans believe that the president should be doing a better job. At the same time, another study using a national sample may ask respondents "do you approve or disapprove of the way the president is doing her job?" may also discover that 65% of Americans approve of the way the president is doing her job. The second study is more objective because the question was not stated in a biased fashion.

Researchers seeking to support a predetermined conclusion often do so by using biased samples and biased questions, manipulating statistical analyses, or ignoring relevant information. For example, a company offering a program for quitting smoking should not use only the successful graduates of its program in a study to be cited as evidence of the program's effectiveness.

Mistreating respondents is another ethical problem. Consumer researchers should avoid unnecessarily long interviews stemming from the logic that "as long as we are interviewing the person we may also try to find out. . . ." Lengthy interviews where consumers are held on the phone for 30 minutes (and often lied to when they ask how much longer the call is going to take) or mall-intercept surveys where respondents are asked "can we have a few minutes of your time" and later subjected to a 40-minute questioning must be avoided. Such methods severely hurt the credibility of consumer research because they cause more and more people to refuse to participate in studies. Another unethical approach is sales pitches from telemarketers disguised as research studies.

At the start of all surveys, interviewers must clearly identify themselves and the company for which they are working, explain what the survey entails, and state the true expected duration of the interview. They should reassure respondents that there are no right or wrong answers to the questions. If the respondents are being paid, they should be so notified at the start of the interview. Perhaps most importantly, the privacy of respondents must be protected and guaranteed. Regrettably, although interviewers routinely promise research subjects the confidentiality of responses and anonymity (i.e., not identifying respondents by name in data analysis or reports), some unethical consumer researchers have sold data about consumers to marketers seeking persons with specific characteristics that will be targeted as prospective buyers.

SUMMARY

The field of consumer research developed as an extension of the field of marketing research to enable marketers to predict how consumers would react in the marketplace and to understand the reasons they made the purchase decisions they did. Consumer research undertaken from a managerial perspective to improve strategic marketing decisions is known as positivism. Positivist research is quantitative and empirical and tries to identify cause-and-effect relationships in buying situations. It is often supplemented with qualitative research.

Qualitative research is concerned with probing deep within the consumer's psyche to understand the motivations, feelings, and emotions that drive consumer behavior. Qualitative research findings cannot be projected to larger populations but are used primarily to provide new ideas and insights for the development of positioning strategies. Interpretivism, a qualitative research perspective, is generally more concerned with understanding the act of consuming rather than the act of buying (consumer decision making). Interpretivists view consumer behaviour as a subset of human behavior, and increased understanding as a key to eliminating some of the ills associated with destructive consumer behavior.

Each theoretical research perspective is based on its own specific assumptions and uses its own research techniques. Positivists typically use probability studies that can be generalized to larger populations. Interpretivists tend to view consumption experiences as unique situations that occur at specific moments in time; therefore, they cannot be generalized to larger populations. The two theoretical research orientations are highly complementary and, when used together, provide a deeper and more insightful understanding of consumer behavior than either approach used alone.

The consumer research process—whether quantitative or qualitative in approach—consists of six steps: defining objectives, collecting secondary data, developing a research design, collecting primary data, analyzing the data, and preparing a report of the findings. The research objectives should be formulated jointly by the marketer and the person or company that will conduct the actual research. Findings from secondary data and exploratory research are used to refine the research objectives. The collection of secondary data includes both internal and external sources. Quantitative research designs consist of observation, experimentation or surveys, and, for the most part, questionnaires (that often include attitude scales) are used to collect the data.

Qualitative designs and data collection methods include depth interviews, focus groups, projective techniques, and metaphor analysis. Customer satisfaction measurement is an integral part of consumer research. In large, quantitative studies, the researcher must make every effort to ensure that the research findings are reliable (that a replication of the study would provide the same results) and valid (that they answer the specific questions for which the study was originally undertaken). The selection and design of the sample is crucial since the type of sample used determines the degree to which the results of the study are representative of the population. Following the data collection, the results are analyzed and specific analytic techniques applied respectively to qualitative or quantitative data. Consumer researchers must also observe specific ethical guidelines to ensure the integrity of their studies and the privacy of respondents.

DISCUSSION QUESTIONS

1. Have you ever been selected as a respondent in a marketing research survey? If yes, how were you contacted and where were you interviewed? Why do you think you, in particular, were selected? Did you know or could you guess the purpose of the survey? Do you know the name of the company or brand involved in the survey?
2. A consumer who rarely listens to music played on a portable device (e.g., an iPod) has purchased, on impulse and for $500, a pair of sunglasses with built-in earphones and the capability of playing MP3 files. Would the positivist or interpretivist research paradigm be a more appropriate way to study this consumption behavior? Explain your answer.
3. What is the difference between primary and secondary research? Under what circumstances might the availability of secondary data make primary research unnecessary? What are some major sources of secondary data?
4. What are the advantages and limitations of secondary data?
5. A manufacturer of a new product for whitening teeth would like to investigate the effects of package design and label information on consumers' perceptions of the product and their intentions to buy it. Would you advise the manufacturer to use observational research, experimentation, or a survey? Explain your choice.
6. Why might a researcher prefer to use focus groups rather than depth interviews? When might depth interviews be preferable?

7. Compare the advantages and disadvantages of mail, telephone, personal, and online surveys.
8. How would the interpretation of survey results change if the researcher used a probability sample rather than a nonprobability sample? Explain your answer.
9. Why is observation becoming a more important component of consumer research? Describe two new technologies that can be used to observe consumption behavior and explain why they are better to use than questioning consumers about the behavior being observed.

EXERCISES

1. Neutrogena is a manufacturer of personal care products for young adults. The company would like to extend its facial cleansers product line. Design (1) a qualitative and (2) a quantitative research design for the company focused on this objective.
2. A real-life customer tracking model is featured in Figure 2.2. Develop a similar model for tracking customers' visits to one of Disney's theme parks.
3. Using one of the customer satisfaction measures, construct an instrument to assess your fellow students' satisfaction with the technological support services provided by your university.
4. Using the scales in Figure 2.3, develop a questionnaire to measure students' attitudes toward the instructor in this course.
   a. Prepare five statements measuring students' attitudes via a Likert scale.
   b. Prepare five semantic differential scales to measure student attitudes. Can the same dimensions be measured by using either scaling technique? Explain your answer.

KEY TERMS

- **attitude scales**
- **complaint analysis**
- **consumer panel**
- **controlled experiment**
- **customer lifetime value profiles**
- **customer satisfaction measurement**
- **depth interview**
- **experimentation**
- **exploratory study**
- **focus group**
- **interpretivism**
- **mail surveys**
- **mechanical observation**
- **motivational research**
- **mystery shoppers**
- **nonprobability sample**
- **observational research**
- **online surveys**
- **personal interview survey**
- **physiological observation**
- **positivism**
- **primary data**
- **probability sample**
- **projective techniques**
- **qualitative research**
- **quantitative research**
- **reliability**
- **research objectives**
- **secondary data (internal and external)**
- **test marketing**
- **validity**

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chapter**three**

Market Segmentation

Market segmentation and diversity are complementary concepts. Without a diverse marketplace composed of many different peoples with different backgrounds, countries of origin, interests, needs and wants, and perceptions, there would be little reason to segment markets. Diversity in the global marketplace makes market segmentation an attractive, viable, and potentially highly profitable strategy. The necessary conditions for successful segmentation of any market are a large enough population with sufficient money to spend (general affluence) and sufficient diversity to lend itself to partitioning the market into sizable segments on the basis of demographic, psychological, or other strategic variables. The presence of these conditions in the United States, Canada, Western Europe, Japan, Australia, and other industrialized nations makes these marketplaces extremely attractive to global marketers.

When marketers provide a range of product or service choices to meet diverse consumer interests, consumers are better satisfied, and their overall happiness, satisfaction, and quality of life are ultimately enhanced. Thus, market segmentation is a positive force for both consumers and marketers alike.



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what is market segmentation?

Market segmentation can be defined as the process of dividing a market into distinct subsets of consumers with common needs or characteristics and selecting one or more segments to target with a distinct marketing mix. Before the widespread acceptance of market segmentation, the prevailing way of doing business with consumers was through **mass marketing**—that is, offering the same product and marketing mix to all consumers. The essence of this strategy was summed up by the entrepreneur Henry Ford, who offered the Model T automobile to the public "in any color they wanted, as long as it was black."

If all consumers were alike—if they all had the same needs, wants, and desires, and the same background, education, and experience—mass (undifferentiated) marketing would be a logical strategy. Its primary advantage is that it costs less: Only one advertising campaign is needed, only one marketing strategy is developed, and usually only one standardized product is offered. Some companies, primarily those that deal in agricultural products or very basic manufactured goods, successfully follow a mass-marketing strategy. Other marketers, however, see major drawbacks in an undifferentiated marketing approach. When trying to sell the same product to every prospective customer with a single advertising campaign, the marketer must portray its product as a means for satisfying a common or generic need and, therefore, often ends up appealing to no one. A refrigerator may fulfill a widespread need to provide the home with a place to store perishable food that needs to be kept either cold or frozen (so that it does not spoil), but a standard-size refrigerator may be too big for a grandmother who lives alone and too small for a family of six. Without market differentiation, both the grandmother and the family of six would have to make do with the very same model, and, as we all know, "making do" is a far cry from being satisfied.

The strategy of segmentation allows producers to avoid head-on competition in the marketplace by differentiating their offerings, not only on the basis of price but also through styling, packaging, promotional appeal, method of distribution, and superior service. Marketers have found that the costs of consumer segmentation research, shorter production runs, and differentiated promotional campaigns are usually more than offset by increased sales. In most cases, consumers readily accept the passed-through cost increases for products that more closely satisfy their specific needs.

Market segmentation is just the first step in a three-phase marketing strategy. After segmenting the market into homogeneous clusters, the marketer then must select one or more segments to target. To accomplish this, the marketer must decide on a specific marketing mix—that is, a specific product, price, channel, and/or promotional appeal for each distinct segment. The third step is **positioning** the product so that it is perceived by the consumers in each target segment as satisfying their needs better than other competitive offerings.

Who uses market segmentation?

Because the strategy of market segmentation benefits both the consumer *and* the marketer, marketers of consumer goods are eager practitioners. For example, Chevrolet (**www.chevrolet.com**) targets its new Cobalt automobile with its sporty styling, minimal rear seat, and small trunk to young singles; it targets its Impala, a much larger vehicle, at the family car buyer needing a roomier vehicle. Another example is the market segmentation of marketers of wristwatches. To illustrate, Fossil (**www.fossil.com**), a manufacturer of popular priced fashion-conscious wristwatches, makes wristwatches to appeal to the demographics and functional-lifestyle need of consumers. More specifically, Fossil's watches (and those of many other wristwatch manufacturers) can be segmented in terms of four segments: (1) *gender of the wearer* (e.g., adult male versus adult female users), (2) *age of users* (e.g., first or starter watches, children's watches, or adult watches); (3) *function or lifestyle* (business dress, runners' watches, swimmers or divers watches, cell phone watches, etc.), and (4) *price* (e.g., watches costing less than $100, $100–$200, more

than $200). Some limited edition and highly collectable wristwatches (e.g., some of those manufactured by firms like Carter, Rolex, and Patek Philippe) can cost $50,000 and up!

Hotels also segment their markets and target different chains to different market segments. For example, the Hilton Hotels family of brands (**www.hilton.com**) includes nine different hotel chains. A few examples of its lodging options and the prime target segments that Hilton is aiming at include *Embassy Suites Hotels* (for those desiring a two-room suite, cooked-to-order breakfast, and a nightly manager's reception), *Doubletree Hotels* (for those seeking contemporary, upscale accommodations), *Hampton Inns* (for price conscious travelers), *Homewood Suites* (for those seeking apartment-like accommodations for extended stays), and *Hilton Hotels* (stylish and sophisticated hotels for business and vacation travelers).

Industrial firms also segment their markets, as do not-for-profit organizations. For example, Peterbilt Motors Company (**www.peterbilt.com**) produces different models of trucks to meet the needs of long-haul truckers, construction projects, refuse collection companies, logging firms, and so on. The company's Web site offers a listing of its various vehicles by segment type. Charities such as the American Cancer Society (**www.cancer.org**) and UNICEF (**www.unicef.org**) frequently focus their fund-raising efforts on "heavy givers." Some performing arts centers segment their subscribers on the basis of *benefits sought* and have succeeded in increasing attendance through specialized promotional appeals.

How market segmentation operates

Segmentation studies are designed to discover the needs and wants of specific groups of consumers, so that specialized goods and services can be developed and promoted to satisfy each group's needs. Many new products have been developed to fill gaps in the marketplace revealed by segmentation research. For instance, Bayer Aspirin (**www.bayeraspirin.com**) has developed a variety of products that are designed to appeal directly to individuals with specific health issues (e.g., Bayer Rapid Headache Relief Formula, Bayer Back and Body Pain Formula, and Bayer Night Time Relief Formula).

In addition to filling product gaps, segmentation research is regularly used by marketers to identify the most appropriate media in which to place advertisements. Almost all media vehicles—from TV and radio stations to newspapers and magazines—use segmentation research to determine the characteristics of their audience and to publicize their findings in order to attract advertisers seeking a similar audience.

In some cases, if segments of customers are large enough and can attract enough advertising, the media will spin off separate programs or publications targeted to the specific segments. For example, *People* (**www.people.com**) has created a separate magazine for teenagers titled *Teen People* (**www.teenpeople.com**). In a somewhat similar fashion, *TIME* (**www.time.com**) targets different segments with special editions of its magazine. Not only does an advertiser have the choice of placing an ad in geographically based editions (e.g., international, U.S., regional, state, and spot market versions of each issue), but also some of the other editions offered by the magazine include a "Gold" edition for upscale mature adults, an "Inside Business" edition for top, middle, and technical management, and a "Women's" edition for affluent professional women. The magazine's Web site indicates that "there are more than 400 ways to buy advertising in *TIME*." New magazines, TV stations, and radio stations are constantly being created to meet the unfulfilled needs of specific market segments.

bases for segmentation

The first step in developing a segmentation strategy is to select the most appropriate base(s) on which to segment the market. Nine major categories of consumer characteristics provide the most popular bases for market segmentation. They include geographic factors, demographic factors, psychological factors, psychographic (lifestyle) characteristics, sociocultural variables, use-related characteristics, use-situation factors, benefits

sought, and forms of **hybrid segmentation**—such as demographic-psychographic profiles, geodemographic factors, and values and lifestyles. Hybrid segmentation formats each use a combination of several segmentation bases to create rich and comprehensive profiles of particular consumer segments (e.g., a combination of a specific age range, income range, lifestyle, and profession). For example, the Bump Fighter Shaving System, manufactured by the American Safety Razor Company (**www.asrco.com**), is a replaceable-blade razor designed specifically for African American males. The product line has been expanded to now include shaving gel, skin conditioner, a disposable version of the razor, and a treatment mask (to be applied prior to sleeping). Table 3.1 lists the nine segmentation bases, divided into specific variables with examples of each. The following section discusses each of the nine segmentation bases. (Various psychological and sociocultural segmentation variables are examined in greater depth in later chapters.)

TABLE 3.1 Market Segmentation Categories and Selected Variables

SEGMENTATION BASE	SELECTED SEGMENTATION VARIABLES
GEOGRAPHIC SEGMENTATION	
Region	Southwest, Mountain states, Alaska, Hawaii
City size	Major metropolitan areas, small cities, towns
Density of area	Urban, suburban, exurban, rural
Climate	Temperate, hot, humid, rainy
DEMOGRAPHIC SEGMENTATION	
Age	Under 12, 12–17, 18–34, 35–49, 50–64, 65–74, 75–99, 100+
Sex	Male, female
Marital status	Single, married, divorced, living together, widowed
Income	Under $25,000, $25,000–$34,999, $35,000–$49,999, $50,000–$74,999, $75,000–$99,999, $100,000–$149,000, $150,000 and over
Education	Some high school, high school graduate, some college, college graduate, postgraduate
Occupation	Professional, blue-collar, white-collar, agricultural, military
PSYCHOLOGICAL SEGMENTATION	
Needs-motivation	Shelter, safety, security, affection, sense of self-worth
Personality	Extroverts, novelty seekers, aggressives, innovators
Perception	Low-risk, moderate-risk, high-risk
Learning-involvement	Low-involvement, high-involvement
Attitudes	Positive attitude, negative attitude
PSYCHOGRAPHIC	
(Lifestyle) Segmentation	Economy-minded, couch potatoes, outdoors enthusiasts, status seekers
SOCIOCULTURAL SEGMENTATION	
Cultures	American, Greek, Chinese, German, Mexican, French, Pakistani
Religion	Catholic, Protestant, Moslem, Jewish, other

(Continued)

TABLE 3.1 Continued

Subcultures (race/ethnic)	African American, Caucasian, Asian, Hispanic
Social class	Lower, middle, upper
Family life cycle	Bachelors, young marrieds, full nesters, empty nesters
USE-RELATED SEGMENTATION	
Usage rate	Super heavy users, heavy users, medium users, light users, nonusers
Awareness status	Unaware, aware, interested, enthusiastic
Brand loyalty	None, some, strong
USE-SITUATION SEGMENTATION	
Time	Leisure, work, rush, morning, night
Objective	Personal, gift, snack, fun, achievement
Location	Home, work, friend's home, in-store
Person	Self, family members, friends, boss, peer
BENEFIT SEGMENTATION	
	Convenience, social acceptance, long lasting, economy, value-for-the-money
HYBRID SEGMENTATION	
Demographic/psychographic	Combination of demographic and psychographic profiles of consumer segments profiles
PRIZM NE (Geodemographics)	"Movers & Shakers," "New Empty Nests," "Boomtown Singles," "Bedrock America"
SRI VALS™	Innovators, Thinkers, Believer, Achievers, Strivers, Experiencer, Makers, Survivors

PRIZM NE is an example of a geodemographic profile. VALS™ is an example of a demographic/psychographic profile.

Geographic segmentation

In **geographic segmentation**, the market is divided by location. The theory behind this strategy is that people who live in the same area share some similar needs and wants and that these needs and wants differ from those of people living in other areas. To illustrate, certain supermarket and specialty related products sell better in one market, or a particular region, than in others. For example, whereas coffee-bean grinders are a "must have" in kitchens of people living in the Northwest, they are much less common anywhere else in the United States; and, similarly, Starbucks Coffee (**www.starbucks.com**) sells plenty of full-body coffees on the West Coast, but needed to introduce a line of Milder Dimensions® coffees to better satisfy its East Coast consumers (who tend to prefer a milder coffee than their West Coast counterparts).[1]

Some marketing scholars have argued that direct-mail merchandise catalogs, national toll-free telephone numbers, satellite television transmission, global communication networks, and especially the Internet have erased all regional boundaries and that geographic segmentation should be replaced by a single global marketing strategy. Clearly, any company that decides to put its catalog on the Internet makes it easy for individuals all over the world to browse and become customers. For example, vintage wristwatch dealers in New York, Boston, or Dallas (primarily selling 1940s–1970s high-end wristwatches to collectors) have posted their catalogs on the Web, advertise their Web addresses in *International Wristwatch* and other similar magazines, and gladly

accept orders from both U.S. and overseas customers. For the consumers who shop on the Internet, it often makes little difference if online retailers are around the corner or halfway around the world—the only factor that differs is the shipping charge.

Other marketers have, for a number of years, been moving in the opposite direction and developing highly regionalized marketing strategies. For example, Campbell's Soup (**www.campbellsoup.com**) segments its domestic market into more than 20 regions, each with its own advertising and promotion budget. Within each region, Campbell's sales managers have the authority to develop specific advertising and promotional campaigns geared to local market needs and conditions, using local media ranging from newspapers to church bulletins. They work closely with local retailers on displays and promotions and report that their **micromarketing** strategies have won strong consumer support.

Marketers have observed divergent consumer purchasing patterns among urban, suburban, and rural areas. Throughout the United States, more furs and expensive jewelry are sold in cities than in small towns. Even within a large metropolitan area, different types of household furnishings and leisure products are sold in the central city than in the suburbs. Convertible sofas and small appliances are more likely to be bought by city apartment dwellers; suburban homeowners are better prospects for lawn mowers and barbecue grills. Probably the best example of successful segmentation based on geographic density is the giant Wal-Mart operation (**www.walmart.com**). Historically, Wal-Mart's basic marketing strategy was to locate discount stores in small towns (often in rural areas) that other major retail chain operations were ignoring at the time. Now that Wal-Mart has become the largest retailer in the world with 3,600 stores in the United States and 1,500 stores outside the United States, the firm has opened new stores in more populated locales, such as San Diego, California, and the Long Island, New York suburban towns of Westbury and East Meadow (both suburbs of New York City).

In summary, geographic segmentation is a useful strategy for many marketers. It is relatively easy to find geographically based differences for many products. In addition, geographic segments can be easily reached through the local media, including newspapers, TV and radio, and regional editions of magazines.

Demographic segmentation

Demography refers to the vital and measurable statistics of a population. **Demographic characteristics**, such as age, sex, marital status, income, occupation, and education, are most often used as the basis for market segmentation. Demographics help to *locate* a target market, whereas psychological and sociocultural characteristics help to *describe* how its members *think* and how they *feel*. Demographic information is often the most accessible and cost-effective way to identify a target market. Indeed, most secondary data, including census data, are expressed in demographic terms. Demographics are easier to measure than other segmentation variables; they are invariably included in psychographic and sociocultural studies because they add meaning to the findings.

Demographic variables reveal ongoing trends that signal business opportunities, such as shifts in age, gender, and income distribution. For example, demographic studies consistently show that the "mature-adult market" (the 50+ market) has a much greater proportion of disposable income than its younger counterparts. This factor alone makes consumers over age 50 a critical market segment for products and services that they buy for themselves, for their adult children, and for their grandchildren.

Age

Product needs and interests often vary with consumers' age. For instance, younger investors (those in their 30s to late 40s) as might be expected, tend to seek long-term gains when they invest, whereas those over 55 years of age tend to be more cautious and place more importance on the intermediate gain and current income of a potential investment. Because of such age-motivated differences, marketers have found age to be a particularly useful demographic variable for market segmentation.

The largest demographic segment in the U.S. population consists of baby boomers, the 78 million consumers born between 1946 and 1964. They spend over $1 trillion annually.

TABLE 3.2 Segmenting Baby Boomers

SEGMENT NAME	LOOKING FOR BALANCE	CONFIDENT AND LIVING WELL	AT EASE	OVERWHELMED
Percent of Boomers	27%	23%	31%	19%
Characteristics	Very active and busy lifestyle. Money is important, but so is saving time.	Have highest incomes, are first to buy a new product or service. Technologically oriented, stylish, and trendy.	At peace with themselves and do not worry about the future. Lowest interest in luxury goods, and do not travel much. Most home-centric and family-oriented group.	Lowest income segment, worried about the future and financial security. Least active group—health is a big concern. Least social group. Do not use high-tech products.
Marketing Implications	Want great experiences—a market for travel-related businesses and food service businesses.	Travel is a favorite interest. Want luxury goods and services.	A good market for traditional household products and services. Like trusted brand names. Low interest in new products.	Opportunity for marketers of certain financial service and healthcare products/services.

Source: Dick Chay, "New Segments of Boomers Reveal New Mktg. Implications," *Marketing News*, March 15, 2005, 24.

and control 70 percent of the nation's wealth. While sometimes thought of as being "old" and "sickly," the reality is that 40 percent of all boomers believe that they are currently living the best years of their lives, and another 40 percent feel that the best years of their lives are still ahead of them. They are wealthy, optimistic, and have moved from a materialistic to a more experiential phase of their lives. Findings from a recent study, presented in Table 3.2 has segmented baby boomers into four subsegments—those "looking for balance," those "confident and living well," those "at ease," and those "overwhelmed."[2]

Many marketers have carved themselves a niche in the marketplace by concentrating on a specific age segment. For example, Heinz introduced EZ Squirt ketchup (which includes one version that is green in color) to better appeal to tweens,[3] and Aqua Velva, a 50-year-old brand of men's aftershave, is now targeting younger adult males with a new product, Ice Balm, which it advertises on both network and cable TV stations like Spike, ESPN, and the Speed Channel. Indeed, the men's grooming products category, which generates over $1 billion annually in sales, is experiencing a rapid expansion in terms of the number of new products being introduced each year. For instance, one firm, Sharps, positions itself as an outcast and tells users to "contemplate the goat" that appears on the product's package as part of the product usage instructions. It targets its products to young men who do not fit into a Hugo Boss or Calvin Klein category, and who view themselves as risk takers and marginally countercultural.[4] Still further, while four years ago McDonald's (**www.mcdonalds.com**) spent 80 percent of its advertising budget on prime-time television, today it spends less than half its budget on prime-time TV and has increased its spending on Internet portals in an effort to reach young customers online. Similarly, Coke is spending more than $3 million on interactive media in an attempt to better connect with 12- to 24-year-old consumers.[5]

Age, especially chronological age, implies a number of underlying forces. In particular, demographers have drawn an important distinction between *age effects* (occurrences due to chronological age) and *cohort effects* (occurrences due to growing up during a specific time period). Examples of the *age effect* are the heightened interest in leisure travel that often occurs for people (single and married) during middle age (particularly in their late

TABLE 3.3 Examples of Country-Specific or Region-Specific Cohort Defining Moments

EVENT*	DATE	COUNTRY AFFECTED
John Profumo scandal	1963	UK
Nelson Mandela's imprisonment and release	1964 and 1990	South Africa
Cultural Revolution	1966–1976	China
Six Days War	1967	Jordan, Israel, and Egypt
Khmer Rouge Rule	1975–1979	Cambodia and South East Asia
Assassination of Anwar Sadat	1981	Egypt
Falklands War	1982	UK and Argentina
Assassination of Olof Palme	1986	Sweden
Tiananmen Square massacre	1989	China
Manuel Noriega's arrest and extradition to USA	1989	Panama
Japanese Economic 'bubble' bursts	1991	Japan
Irish legalisation of divorce	1995	Ireland

* These events are not ranked in order of importance, but by date.

Source: Charles D. Schewe and Geoffrey Meredith, "Segmenting Global Markets by Generational Cohorts: Determining Motivations by Age," *Journal of Consumer Behavior*, 4, October 2004, 56.

fifties or early sixties) and the interest in learning to play golf. Although people of all ages learn to play golf, it is particularly prevalent among people in their fifties. These two trends are examples of age effects because they especially seem to happen as people reach a particular age category.[6]

In contrast, the nature of *cohort effects* is captured by the idea that people hold onto the interests they grew up to appreciate. If 10 years from today it is determined that many rock-and-roll fans are over 55, it would not be because older people have suddenly altered their musical tastes but because the baby boomers who grew up with rock and roll have become older. As Bill Whitehead, CEO of the advertising agency Bates North America, noted: "When baby boomers are 70, they'll still eat pizza and still listen to the [Rolling] Stones."[7] It is important for marketers to be aware of the distinction between age effects and cohort effects: One stresses the impact of aging, whereas the second stresses the influence of the period when a person is born and the shared experiences with others of the same age. Table 3.3 presents a sample of "defining moments" that shaped particular age cohorts in specific countries or regions. We must remember that cohort effects are ongoing and lifelong. To illustrate this point, Table 3.4 identifies and distinguishes among seven different American age cohort groupings.[8]

The selected age segments will receive more attention in our discussion of age as a subculture in Chapter 13.

Sex

Like age, gender is quite frequently a distinguishing segmentation variable. Some products and services are quite naturely associated more or less with males or females. For instance, women have traditionally been the main users of such products as hair coloring and cosmetics, and men have been the main users of tools and shaving preparations. However, sex roles have blurred, and gender is no longer an accurate way to distinguish consumers in some product categories. For example, women are buying household repair tools, and men have become significant users of skin care and hair products. It is becoming increasingly common to see magazine ads and TV commercials that depict men and women in roles traditionally occupied by the opposite sex. For example, many ads reflect the expanded child-nurturing roles of young fathers in today's society.

TABLE 3.4 Four Selected American Cohorts

Leading-edge baby boomer cohort (born from 1946–1954; came of age during the turmoil of the 1960s; aged 50–58 in 2004)	This group remembers the assassinations of John and Robert Kennedy and Martin Luther King, Jr. It was the loss of JFK that largely shaped this cohort's values. They became adults during the Vietnam War and watched as the first man walked on the moon. Leading-edge boomers were dichotomous: they championed causes (Greenpeace, civil rights, women's rights), yet were simultaneously hedonistic and self-indulgent (pot, 'free love,' sensuality).
Trailing-edge baby boomer cohort (born from 1955–1965; came of age during the first sustained economic downturn since the Depression; aged 39–49 in 2004)	This group witnessed the fall of Vietnam, Watergate Nixon's resignation. The oil embargo, the raging inflation rate, and the more than 30 percent decline in the S&P Index led these individuals to be less optimistic about their financial future than the leading-edge boomers.
Generation X cohort (born from 1965–1976; came of age during a time of instability and uncertainty; aged 28–38 in 2004)	These are the latchkey children of divorce who have received the most negative publicity. This cohort has delayed marriage and children, and they do not take these commitments lightly. More than other groups, this cohort accepts cultural diversity and puts quality of personal life ahead of work life. They are 'free agents' not 'team players.' Despite a rocky start into adulthood, this group shows a spirit of entrepreneurship unmatched by any other cohort.
N Generation cohort (born from 1977–?; came of age during the 'Information Revolution'; aged 27 and under in 2004)	The youngest cohort is called the 'N Generation' or 'N-Gen' because the advent of the Internet is a defining event for them, and because they will be the 'engine' of growth over the next two decades. While still a work in progress, their core value structure seems to be quite different from that of Gen-X. They are more idealistic and social-cause oriented, without the cynical, 'What's in it for me?' free-agent mindset of many Gen-Xers.

Source: Charles D. Schewe and Geoffrey Meredith, "Segmenting Global Markets by Generational Cohorts: Determining Motivations by Age," *Journal of Consumer Behavior*, 4, October 2004, 54.

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Much of the change in sex roles has occurred because of the continued impact of dual-income households. One consequence for marketers is that women are not as readily accessible through traditional media as they once were. Because working women do not have much time to watch TV or listen to the radio, many advertisers now emphasize magazines in their media schedules, especially those specifically aimed at working women (e.g., *Working Mother*). Direct marketers also have been targeting time-pressured working women who use merchandise catalogs, convenient 800 numbers, and Internet sites as ways of shopping for personal clothing and accessories, as well as many household and family needs. Recent research has shown that men and women differ in terms of the way they look at their Internet usage. Specifically, men tend to "click on" a Web site because they are "information hungry," whereas women click because "they expect communications media to entertain and educate."[9] Interestingly, analysis undertaken by Wal-Mart has revealed that more women than men shop their Web site, and that their typical online customer is a working mom who uses the Internet to satisfy a portion of her shopping needs.[10] Still further, the research indicates that 92 percent of Wal-Mart's online shoppers visit a Wal-Mart store at least once a month, and these online customers have higher income and education levels than their only in-store shopper counterparts. Table 3.5 presents additional male and female differences when it comes to using the Internet and compares some key usage situations and favorite Internet materials for men versus women.

Furthermore, when it comes to being "hungry," research shows that young men are "more likely than average to go to a quick service restaurant for breakfast." Burger

TABLE 3.5 Male and Female Segments of Internet Users

	KEY USAGE SITUATION	FAVORITE INTERNET MATERIALS
FEMALE SEGMENTS		
Social Sally	Making friends	Chat and personal Web page
New Age Crusader	Fighting for causes	Books and government information
Cautious Mom	Nurturing children	Cooking and medical facts
Playful Pretender	Role-playing	Chat and games
Master Producer	Job productivity	White pages and government information
MALE SEGMENTS		
Bits and Bytes	Computers and hobbies	Investments, discovery, software
Practical Pete	Personal productivity	Investments, company listings
Viking Gamer	Competing and winning	Games, chat, software
Sensitive Sam	Helping family and friends	Investments, government information
World Citizen	Connecting with world	Discovery, software, investments

Source: Scott Smith and David Whitlark, "Men and Women Online: What Makes Them Click," *Marketing Research*, Summer 2001, 22.

unconcerned about calories and fat content. Consequently, Burger King is now offering the *Enormous Omelet*, complete with 730 calories, 47 grams of fat, 415 mg of cholesterol, and 1,860 mg of sodium.[11] In contrast to both McDonalds and Burger King, Wendy's has tended to feature menu options like its *Fresh Fruit Bowl* that appeal to women.

Marital status

Traditionally, the family has been the focus of most marketing efforts, and for many products and services, the household continues to be the relevant consuming unit. Marketers are interested in the number and kinds of households that buy and/or own certain products. They also are interested in determining the demographic and media profiles of household decision makers (the persons involved in the actual selection of the product) to develop appropriate marketing strategies.

Marketers have discovered the benefits of targeting specific marital status groupings, such as singles, divorced individuals, single parents, and dual-income married couples. For instance, singles, especially one-person households with incomes greater than $50,000, comprise a market segment that tends to be above average in the usage of products not traditionally associated with supermarkets (e.g., cognac, books, loose tea) and below average in their consumption of traditional supermarket products (e.g., catsup, peanut butter, mayonnaise). Such insights can be particularly useful to a supermarket manager operating in a neighborhood of one-person households when deciding on the merchandise mix for the store. Some marketers target one-person households with single-serving foods (e.g., Bumble Bee tuna's 3 oz. easy-open cans, Pringles single serving-size cans, Orville Redenbacher's popcorn mini-bags, Campbell's Soup To Go!) and others with mini-appliances such as small microwave ovens and two-cup coffee makers. (The family as a consuming unit is discussed in greater detail in Chapter 10.)

Income, education, and occupation

Income has long been an important variable for distinguishing between market segments. Marketers commonly segment markets on the basis of income because they feel

that it is a strong indicator of the ability (or inability) to pay for a product or a specific model of the product. For instance, consider *Panache*, the lifestyle magazine of the Fort Worth (TX) *Star-Telegram*. It struggled for six years at 16 pages per issue, and was basically going nowhere. But then, using the PRIZM geodemographic segmentation scheme from Claritas (which will be discussed later in this chapter), *Panache*'s distribution was changed so that it was only delivered to the homes of subscribers with $100,000+ annual incomes. Advertisers become enthusiastic about the magazine, and within a few months it grew to a 40 page per issue publication.[12]

Income is often combined with other demographic variables to more accurately define target markets. To illustrate, high income has been combined with age to identify the important *affluent elderly* segment. It also has been combined with both age and occupational status to produce the so-called *yuppie* segment, a sought-after subgroup of the baby boomer market.

Education, occupation, and income tend to be closely correlated in almost a cause-and-effect relationship. High-level occupations that produce high incomes usually require advanced educational training. Individuals with little education rarely qualify for high-level jobs. Insights on Internet usage preferences tend to support the close relationship among income, occupation, and education. Research reveals that consumers with lower incomes, lower education, as well as those with blue-collar occupations, tend to spend more time online at home than those with higher income, higher education, and white-collar occupations.[13] One possible reason for this difference is that those in blue-collar jobs often do not have access to the Internet during the course of the workday.

Psychological segmentation

Psychological characteristics refer to the inner or intrinsic qualities of the individual consumer. Consumer segmentation strategies are often based on specific psychological variables. For instance, consumers may be segmented in terms of their *motivations, personality, perceptions, learning*, and *attitudes*. (Part 2 examines in detail the wide range of psychological variables that influence consumer decision-making and consumption behavior.)

Psychographic segmentation

Marketing practitioners have heartily embraced psychographic research, which is closely aligned with psychological research, especially personality and attitude measurement. This form of applied consumer research (commonly referred to as lifestyle analysis) has proven to be a valuable marketing tool that helps identify promising consumer segments that are likely to be responsive to specific marketing messages.

The psychographic profile of a consumer segment can be thought of as a composite of consumers' measured **activities, interests, and opinions (AIOs)**. As an approach to constructing consumer psychographic profiles, AIO research seeks consumers' responses to a large number of statements that measure activities (how the consumer or family spends time, e.g., camping, volunteering at a local hospital, going to baseball games), interests (the consumer's or family's preferences and priorities, e.g., home, fashion, food), and opinions (how the consumer feels about a wide variety of events and political issues, social issues, the state of the economy, ecology). In their most common form, AIO-psychographic studies use a battery of statements (a **psychographic inventory**) designed to identify relevant aspects of a consumer's personality, buying motives, interests, attitudes, beliefs, and values. Table 3.6 presents a portion of a psychographic inventory designed to gauge "techno-road-warriors," businesspeople who spend a high percentage of their workweek on the road, equipped with laptops, pagers, cellular telephones, and electronic organizers. Table 3.7 presents a likely psychographic profile of a techno-road-warrior. The appeal of psychographic research lies in the frequently vivid and practical profiles of consumer segments that it can produce (which will be illustrated later in this chapter).

TABLE 3.6 A Portion of an AIO Inventory Used to Identify Techno-Road-Warriors

Instructions: *Please read each statement and place an "x" in the box that best indicates how strongly you "**agree**" or "**disagree**" with the statement.*

	AGREE COMPLETELY						DISAGREE COMPLETELY
I feel that my life is moving faster and faster, sometimes just too fast.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
If I could consider the "pluses" and "minuses," technology has been good for me.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
I find that I have to pull myself away from e-mail.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Given my lifestyle, I have more of a shortage of time than money.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
I like the benefits of the Internet, but I often don't have the time to take advantage of them.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
I am generally open to considering new practices and new technology.	[1]	[2]	[3]	[4]	[5]	[6]	[7]

AIO research has even been employed to explore pet ownership as a segmentation base. One study has found that people who do ***not*** have pets are more conservative in nature, more brand loyal, and more likely to agree with statements such as "I am very good at managing money" and "It is important for me to look well dressed."[6] Such findings can be used by marketers when developing promotional messages for their products and services.[14]

The results of psychographic segmentation efforts are frequently reflected in firms' marketing messages. For instance, Asics running shoes (see Figure 3.1) are targeted to individuals (in this case, women) who thrive on the challenge of running (**www.asics.com**). Psychographic segmentation is further discussed later in the chapter, where we consider hybrid segmentation strategies that combine psychographic and demographic variables to create rich descriptive profiles of consumer segments.

Sociocultural segmentation

Sociological (group) and *anthropological* (cultural) variables—that is, **sociocultural variables**—provide further bases for market segmentation. For example, consumer markets have been successfully subdivided into segments on the basis of stage in the

TABLE 3.7 A Hypothetical Psychographic Profile of the Techno-Road-Warrior

- *Goes on the Internet more than six times a week*
- *Sends and/or receives 15 or more e-mail messages a week*
- *Regularly visits Web sites to gather information and/or to comparison shop*
- *Often buys personal items via 800 numbers and/or over the Internet*
- *May trade stocks and/or make travel reservations over the Internet*
- *Earns $100,000 or more a year*
- *Belongs to several rewards programs (e.g., frequent flyer programs, hotel programs, rent-a-car programs)*

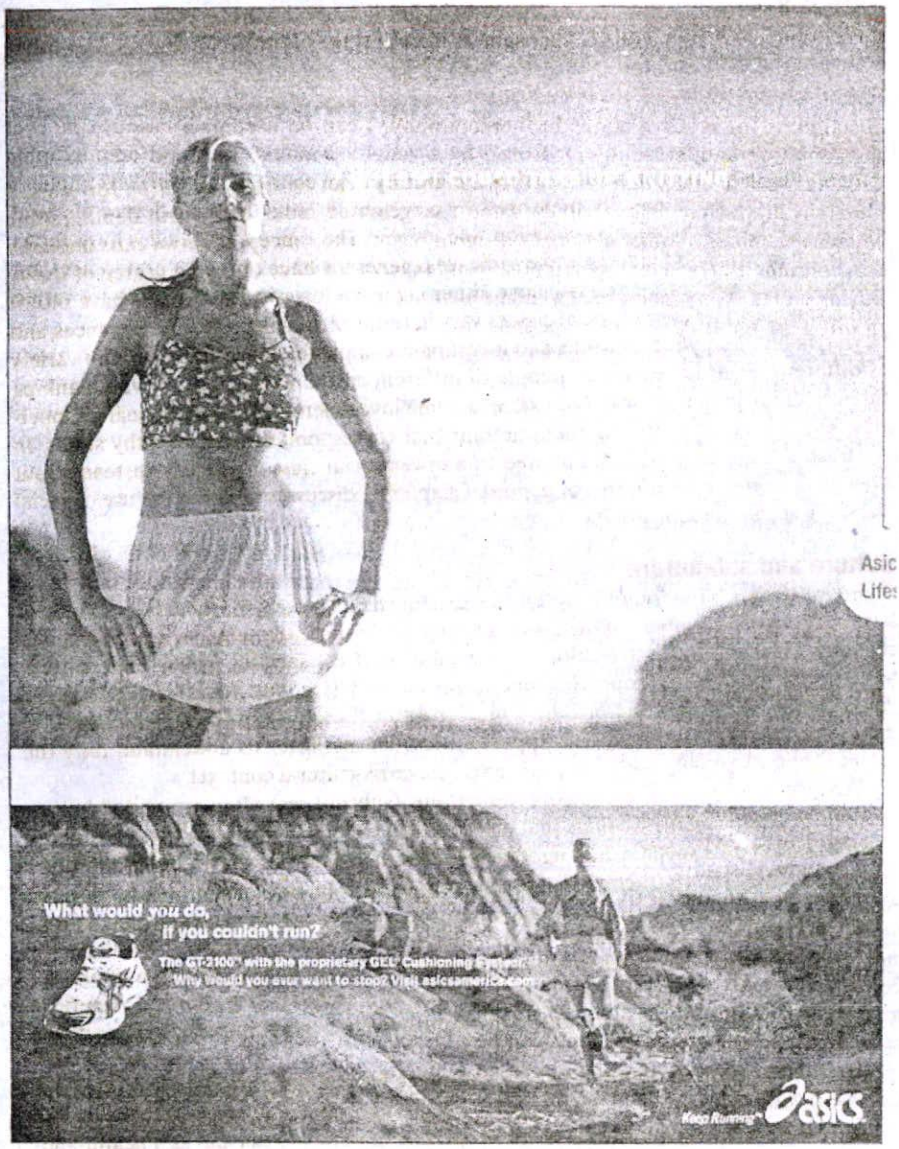


FIGURE 3.1

Source © asics

family life cycle, social class, core cultural values, subcultural memberships, and cross-cultural affiliation.

Family life cycle

Family life-cycle segmentation is based on the premise that many families pass through similar phases in their formation, growth, and final dissolution. At each phase, the family unit needs different products and services. Young single people, for example, need basic furniture for their first apartment, whereas their parents, finally free of child rearing, often refurnish their homes with more elaborate pieces. Family life cycle is a composite variable based explicitly on *marital* and *family status* but implicitly reflects *relative age, income,* and *employment status.* Each of the stages in the traditional family life cycle (*bachelorhood, honeymooners, parenthood, postparenthood,* and *dissolution*) represents an important target segment to a variety of marketers. For example, the financial services

industry frequently segments customers in terms of family life-cycle stages because families' financial needs tend to shift as they progress through the various stages of life. (Chapter 10 discusses the family life cycle in greater depth and shows how marketers cater to the needs and wishes of consumers in each stage of the life cycle.)

Social class

Social class (or relative status in the community) can be used as a base for market segmentation and is usually measured by a weighted index of several demographic variables, such as education, occupation, and income. The concept of *social class* implies a hierarchy in which individuals in the same class generally have the same degree of status, whereas members of other classes have either higher or lower status. Studies have shown that consumers in different social classes vary in terms of values, product preferences, and buying habits. Many major banks and investment companies, for example, offer a variety of different levels of service to people of different social classes (e.g., private banking services to the upper classes). For example, some investment companies appeal to upper-class customers with offering them options that correspond to their wealthy status. In contrast, a financial program targeted to a lower social class might talk instead about savings accounts or certificates of deposit. Chapter 11 discusses in depth the use of social class as a segmentation variable.

Culture and subculture

Some marketers have found it useful to segment their markets on the basis of cultural heritage because members of the same culture tend to share the same values, beliefs, and customs. Marketers who use cultural segmentation stress specific, widely held cultural values with which they hope consumers will identify (e.g., for American consumers, *youthfulness* and *fitness and health*). Cultural segmentation is particularly successful in international marketing, but it is important for the marketer to understand fully the target country's beliefs, values, and customs (the cross-cultural context).

Within the larger culture, distinct subgroups (subcultures) often are united by certain experiences, values, or beliefs that make effective market segments. These groupings could be based on a specific demographic characteristic (such as race, religion, ethnicity, or age) or lifestyle characteristic (teachers, joggers). In the United States, African Americans, Hispanic Americans, Asian Americans, and the elderly are important subcultural market segments. Research on subcultural differences, which will be discussed more fully in Chapter 13, tends to reveal that consumers are more responsive to promotional messages that they perceive relate to their own ethnicity (e.g., African American consumers tend to respond favorably to marketers who recognize and respond positively to their specific interests and background).[15]

Culturally distinct segments can be prospects for the same product but often are targeted more efficiently with different promotional appeals. For example, a bicycle might be promoted as an efficient means of transportation in parts of Asia and as a health-and-fitness product in the United States. Moreover, a recent study that divided China's urban consumers into four segments ("working poor," "salary class," "little rich," and "yuppies") found that for all four groups, television was the most popular medium of entertainment and information. However, the working poor spend the most time listening to radio, while yuppies and the little rich spend the most time reading newspapers and magazines.[16] (Chapters 12, 13, and 14 examine cultural, subcultural, and cross-cultural bases of market segmentation in greater detail.)

Cross-cultural or global marketing segmentation

As the world has gotten smaller and smaller, a true global marketplace has developed. For example, as you read this you may be sitting on an IKEA chair or sofa (Sweden), drinking Earl Grey tea (England), wearing a Swatch watch (Switzerland), Nike sneakers (China), a Polo golf shirt (Mexico), and Dockers pants (Dominican Republic). Some global market segments, such as teenagers, appear to want the same types of products, regardless of which nation they call home—products that are trendy, entertaining, and

image oriented. This global "sameness" allowed Reebok, for example, to launch its Instapump line of sneakers using the same global advertising campaign in approximately 140 countries.[17] (The issue of global or international marketing segmentation will be more fully discussed in Chapter 14.)

Use-related segmentation

An extremely popular and effective form of segmentation categorizes consumers in terms of product, service, or brand usage characteristics, such as level of usage, level of awareness, and degree of brand loyalty.

Rate of usage segmentation differentiates among heavy users, medium users, light users, and nonusers of a specific product, service, or brand. For example, research has consistently indicated that between 25 and 35 percent of beer drinkers account for more than 70 percent of all beer consumed. For this reason, most marketers prefer to target their advertising campaigns to heavy users rather than spend considerably more money trying to attract light users. This also explains the successful targeting of light beer to heavy drinkers on the basis that it is less filling (and, thus, can be consumed in greater quantities) than regular beer. Recent studies have found that heavy soup users were more socially active, creative, optimistic, witty, and less stubborn than light users and nonusers, and they were also less likely to read entertainment and sports magazines and more likely to read family and home magazines. Likewise, heavy users of travel agents in Singapore were more involved with and more enthusiastic about vacation travel, more innovative with regard to their selection of vacation travel products, more likely to travel for pleasure, and more widely exposed to travel information from the mass media.[18]

Marketers of a host of other products have also found that a relatively small group of heavy users accounts for a disproportionately large percentage of product usage; targeting these heavy users has become the basis of their marketing strategies. Other marketers take note of the gaps in market coverage for light and medium users and profitably target those segments. Table 3.8 presents an overview of a segmentation strategy especially suitable for marketers seeking to organize their database of customers into an action-oriented framework. The framework proposes a way to identify a firm's best customers by dividing the database into the following segments: (1) *LoLows* (low current share, low-consumption customers), (2) *HiLows* (high current share, low-consumption customers), (3) *LowHighs* (low current share, high-consumption customers), and (4) *HiHighs* (high current share, high-consumption customers). Moreover, the framework suggests the following specific strategies for each of the four segments: "starve" the *LoLows*, "tickle" the *HiLows*, "chase" the *LowHighs*, and "stroke" the *HiHighs*.[19]

In addition to segmenting customers in terms of rate of usage or other usage patterns, consumers can also be segmented in terms of their *awareness status.* In particular,

TABLE 3.8 A Framework for Segmenting a Firm's Database of Customers

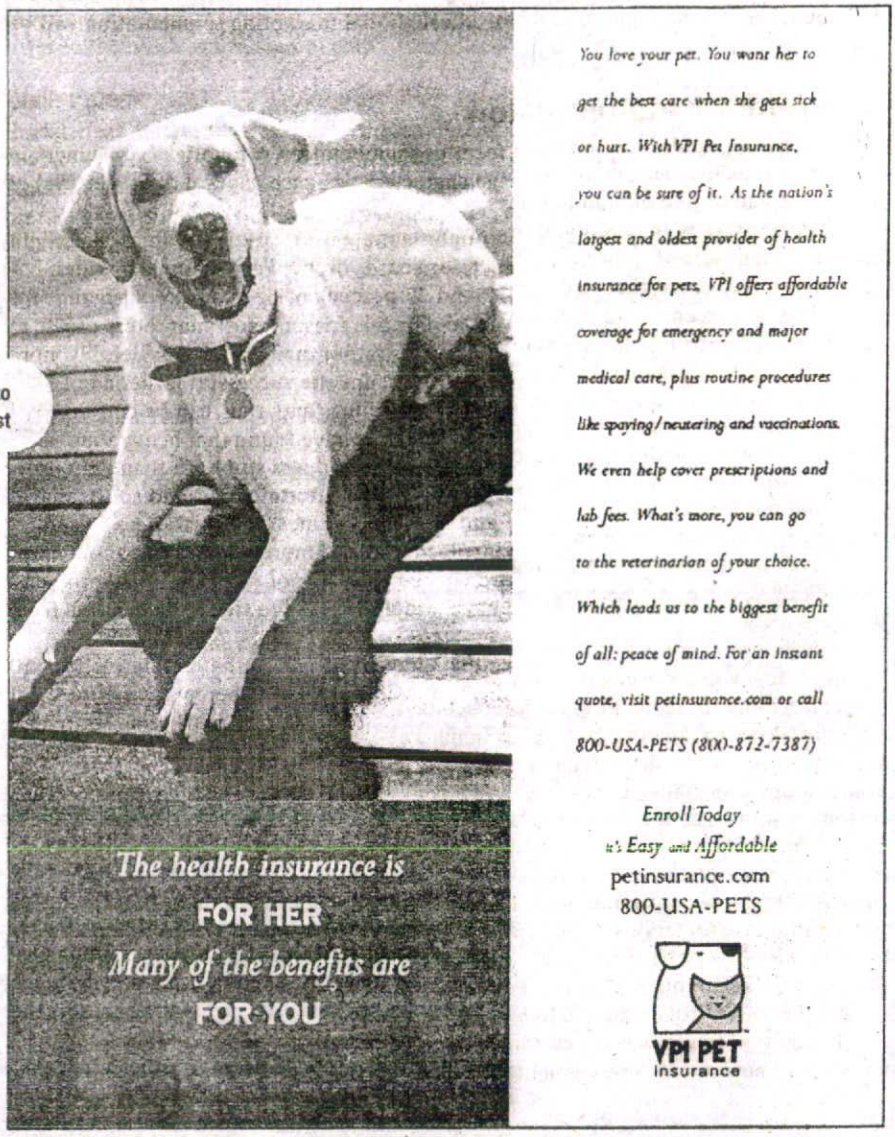
SEGMENT NAME	SEGMENT CHARACTERISTIC	COMPANY ACTION
LoLows	Low current share, low-consumption customers	Starve
HiLows	High current share, low-consumption customers	Tickle
LowHighs	Low current share, high-consumption customers	Chase
HiHighs	High current share, high-consumption customers	Stroke

Source: Richard G. Barlow, "How to Court Various Target Markets," *Marketing News*, October 9, 2000, 22.

FIGURE 3.2

Source: © Veterinary Pet Insurance Company.

VPI Pet Insurance Seeks to Create Awareness and Interest

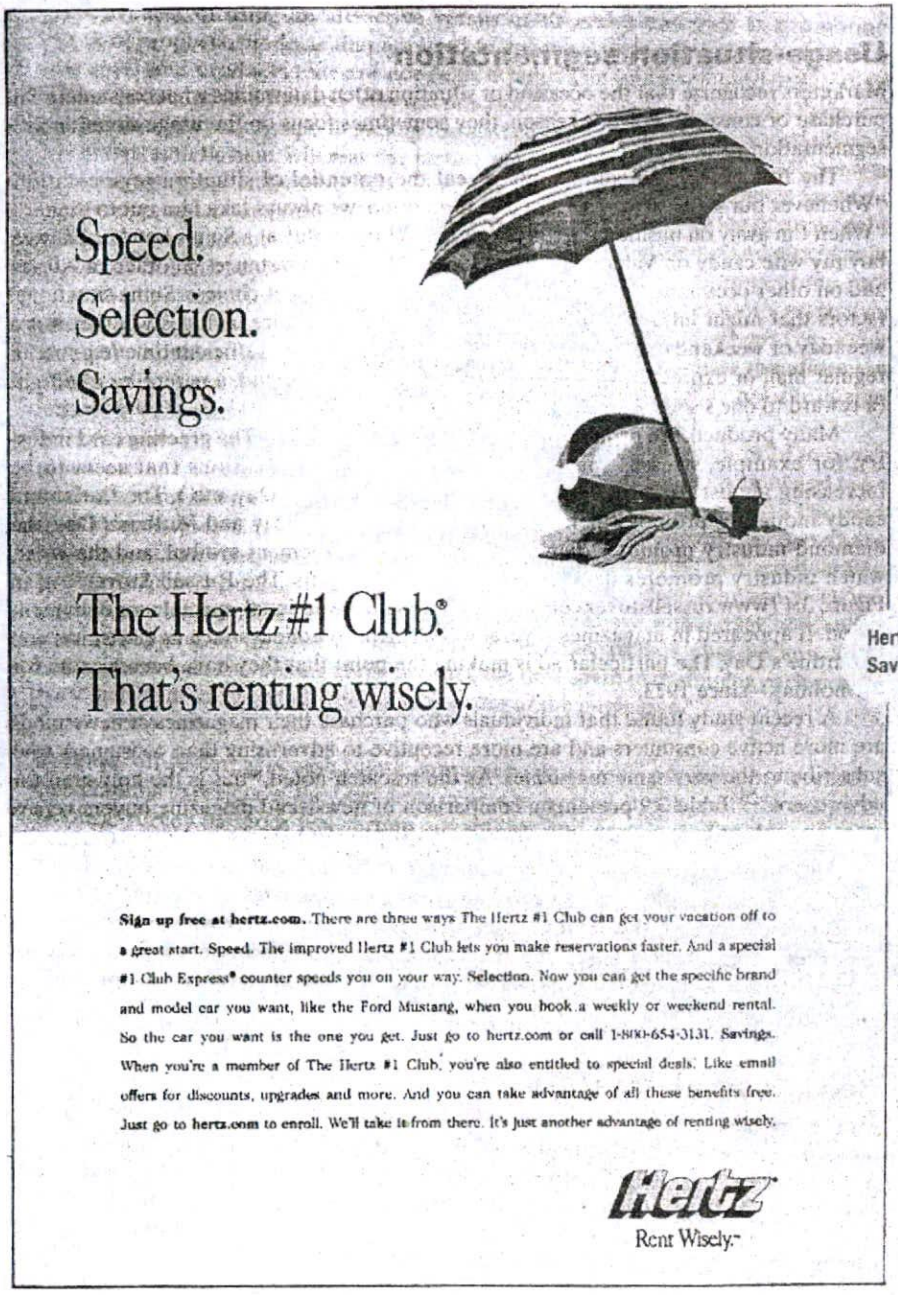


the notion of consumer awareness of the product, interest level in the product, readiness to buy the product, or whether consumers need to be informed about the product are all aspects of awareness. Figure 3.2 presents an ad for VPI Pet Insurance™ (**www.petinsurance.com**) that is designed to create both awareness and interest, among pet owners, for their pet insurance.

Sometimes *brand loyalty* is used as the basis for segmentation. Marketers often try to identify the characteristics of their brand-loyal consumers so that they can direct their promotional efforts to people with similar characteristics in the larger population. Other marketers target consumers who show no brand loyalty ("brand switchers") in the belief that such people represent greater market potential than consumers who are loyal to competing brands. Also, almost by definition, consumer innovators—often a prime

FIGURE 3.3

Source: © 2005 Hertz System, Inc. Hertz is a registered service mark and trademark of Hertz System, Inc.



Hertz—"Speed. Selection. Savings."

target for new products—tend *not* to be brand loyal. (Chapter 15 discusses the characteristics of consumer innovators.)

Increasingly, marketers stimulate and reward brand loyalty by offering special benefits to consistent or frequent customers. Such frequent usage or relationship programs often take the form of a membership club (e.g., Continental Airline's OnePass Platinum Elite Status, Hilton HHonors Diamond VIP Membership, Avis' Wizard Preferred Service Program). Relationship programs, such as The Hertz #1 Club® as in Figure 3.3, tend to

provide special accommodations and services, as well as free extras, to keep these frequent customers loyal and happy.

Usage-situation segmentation

Marketers recognize that the occasion or situation often determines what consumers will purchase or consume. For this reason, they sometimes focus on the **usage situation** as a segmentation variable.

The following three statements reveal the potential of situation segmentation: "Whenever our son Eric gets a raise or a promotion, we always take him out to dinner"; "When I'm away on business for a week or more, I try to stay at a Suites hotel"; "I always buy my wife candy on Valentine's Day." Under other circumstances, in other situations, and on other occasions, the same consumer might make other choices. Some situational factors that might influence a purchase or consumption choice includes whether it is a weekday or weekend (e.g., going to a movie); whether there is sufficient time (e.g., use of regular mail or express mail); whether it is a gift for a girlfriend, a parent, or a self-gift (a reward to one's self).

Many products are promoted for special usage occasions. The greeting card industry, for example, stresses special cards for a variety of occasions that seem to be increasing almost daily (Grandparents' Day, Secretaries' Day, etc.). The florist and candy industries promote their products for Valentine's Day and Mother's Day, the diamond industry promotes diamond rings as an engagement symbol, and the wristwatch industry promotes its products as graduation gifts. The Russell Stover® ad in Figure 3.4 (**www.russellstover.com**) is an example of situational, special usage segmentation. It appeared in magazines several weeks prior to holidays such as Christmas and Valentine's Day. The particular ad is making the point that they have been around for the holiday—since 1923.

A recent study found that individuals who purchase their magazines at newsstands are more active consumers and are more receptive to advertising than consumers who subscribe to the very same magazines. As the research noted, "this is the holy grail for advertisers."[20] Table 3.9 presents a comparison of newsstand magazine buyers versus magazine subscribers.

Situational factors as a base for segmentation have also been studied in relation to retailing. For example, in situations where the shopper has ample time, shopping atmosphere, stocking the right brands, and general familiarity with the retailer are important. Conversely, a shopper with less time wants to shop where a large selection of merchandise is immediately available, with no transaction hassles (i.e., for clothing, the ability to touch and try on merchandise).[21]

Benefit segmentation

Marketing and advertising executives constantly attempt to identify the one most important benefit of their product or service that will be most meaningful to consumers. Examples of benefits that are commonly used include *cleaner teeth* (Oral-B), *financial security* (Transamerica), *protection of data* (Norton Antivirus), *soft skin* (Olay), *allergy relief* (Allegra), and *peace of mind* (Liberty Mutual Insurance Company).

In targeting Indian consumers in terms of benefits sought, research revealed that an important segment of Indian consumers of Dettol soap were hygiene-conscious and seeking protection from germs and contamination, rather than more common benefits of beauty, fragrance, freshness, or economy.[22] Still further, a segmentation study examining what drives consumer preferences for micro or craft beer, identified the following five strategic brand benefits: (1) functional (i.e., quality), (2) value for the money, (3) social benefit, (4) positive emotional benefits, and 5) negative emotional benefits.[23]



FIGURE 3.4

Source: © Russell Stover Candies. Inc. Used with permission. All rights reserved.

An Example of One Russell Stover Candy's Special Holiday Promotion

Changing lifestyles also play a major role in determining the product benefits that are important to consumers and provide marketers with opportunities for new products and services. For example, the microwave oven was the perfect solution to the needs of dual-income households, where neither the husband nor the wife has the time for lengthy meal preparation. Food marketers offer busy families the *benefit* of breakfast products that require only seconds to prepare.

Benefit segmentation can be used to position various brands within the same product category.[24] The classic case of successful benefit segmentation is the market for toothpaste, and a recent article suggested that if consumers are socially active, they want a toothpaste that can deliver white teeth and fresh breath; if they smoke, they want a

TABLE 3.9 Newsstand Magazine Buyers versus Magazine Subscribers

Consumers who buy magazines on the newsstand are:

- Two times as likely to enjoy reading ads in magazines
- 63 percent more likely to remember products advertised in magazines when they are shopping
- 48 percent more likely to shop frequently
- 50 percent more likely to buy things on the spur of the moment
- Twice as likely to spend more money on cosmetics than subscribers
- 58 percent more likely to buy leading cosmetic brands
- Nearly twice as likely to enjoy shopping for clothes
- 50 percent more likely to try new alcoholic drinks than subscribers
- 58 percent more likely to drink super-premium vodka
- Four times more likely to download music than subscribers
- More than twice as likely to purchase video games in the last 12 months
- Twice as likely to purchase designer jeans

Source: "New Study Reveals Newsstand Magazine Buyers to be More Active Consumers and More Receptive to Advertising," *Business Wire*, September 8, 2004, 1.

toothpaste to fight stains; if disease prevention is their major focus, then they want a toothpaste that will fight germs; and if they have children, they want to lower their dental bills[25] (see Figure 3.5).

Hybrid segmentation approaches

Marketers commonly segment markets by combining several segmentation variables rather than relying on a single segmentation base. This section examines three hybrid segmentation approaches that provide marketers with richer and more accurately defined consumer segments than can be derived from using a single segmentation variable. These include psychographic-demographic profiles, geodemographics, VALS, and Yankelovich's Mindbase Segmentation.

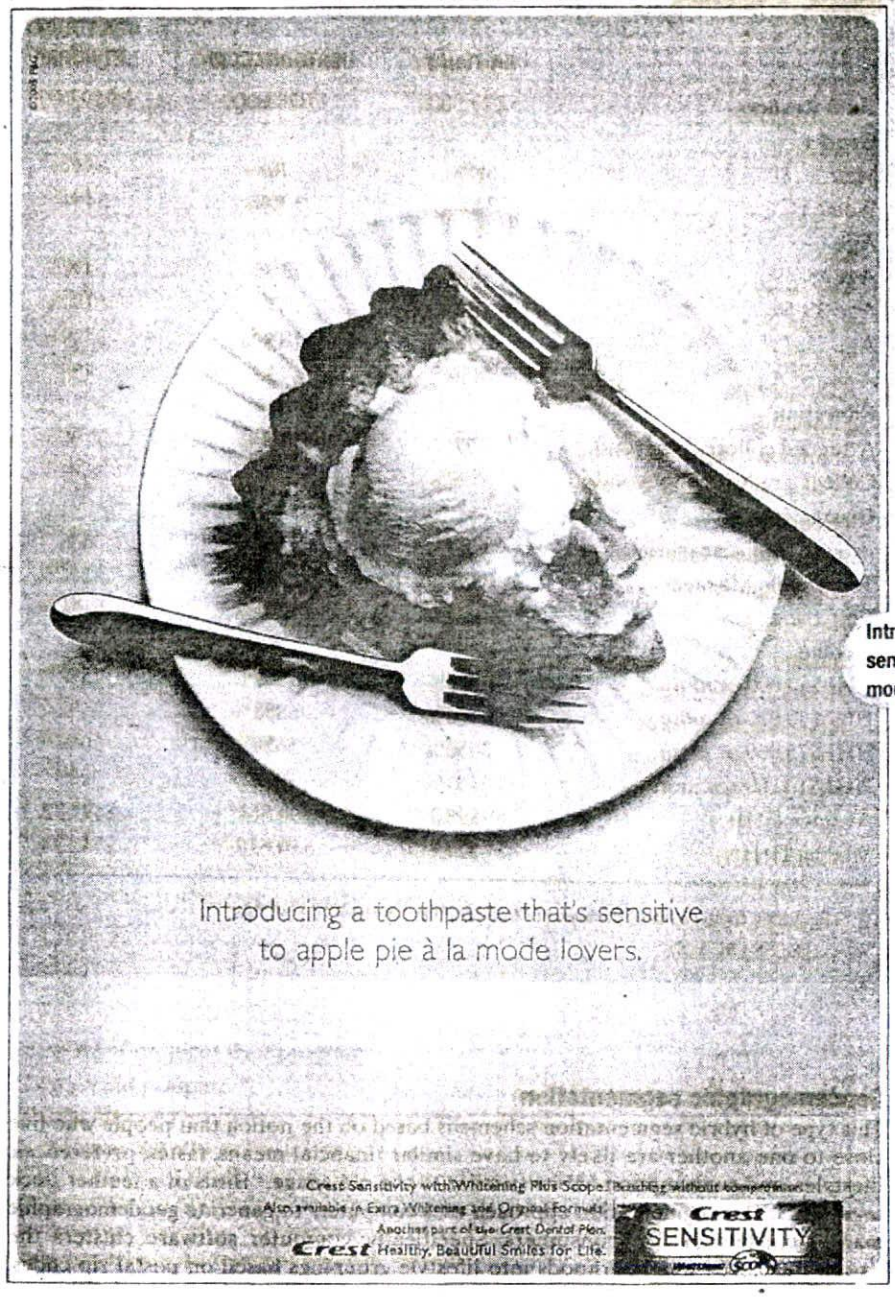
Psychographic, lifestyle, and demographic profiles

Psychographic (including lifestyles) and demographic profiles are highly complementary approaches that work best when used together. By combining the knowledge gained from including both demographic and psychographic factors, marketers are provided with powerful information about their target markets.

Demographic-psychographic profiling has been widely used in the development of advertising campaigns to answer three questions: "Whom should we target?" "What should we say?" "Where should we say it?" To help advertisers answer the third question, many advertising media vehicles sponsor demographic-lifestyle research on which they base very detailed *audience profiles*. Tables 3.10 and 3.11 present a portion of the demographic and psychographic-lifestyle profiles of *USA Today* (i.e., its newspaper, its Web site, and both) that is independently prepared by MMI (i.e., an audience research firm that prepares profiles of many magazine and newspaper readers). In the case of *USA Today*, such information is made available in the form of advertising information kits or alternatively is available on their Web sites (**www.usatoday.com**). *USA Today*, as well as many other newspapers and magazines, provide potential and current advertisers with such profiles to assist advertisers in making decisions as to where they are going to

FIGURE 3.5

Source: Courtesy of Procter & Gamble Co



Introducing a toothpaste that's sensitive to apple pie à la mode lovers

spend their advertising budgets. By offering media advertisers such carefully defined profiles of their audiences, mass media publishers and broadcasters make it possible for advertisers to select media whose audiences most closely resemble their target markets.

Finally, advertisers are increasingly designing ads that depict in words and/or pictures the essence of a particular target-market lifestyle or segment that they want to reach. In this spirit, Dream Catcher is seeking to inform its target audiences—about its cost effective destination club (see Figure 3.6).

TABLE 3.10 Selected Demographic Profile of USA Today

	USA TODAY	USATODAY.COM	USA TODAY NETWORK*
Total Readers	5,227,000	1,870,000	6,219,000
Gender			
Men	66%	70%	66%
Women	34%	30%	34%
Age			
Age 18–49	62%	73%	64%
Age 25–54	65%	78%	67%
Age 55+	27%	18%	25%
Average Age	45	43	45
Education			
Attended college or beyond	77%	83%	77%
College graduate or beyond	55%	65%	56%
Occupation			
Professional/Managerial	34%	52%	36%
Top/Middle Manager	33%	36%	32%
Employed	80%	85%	81%
Income			
HHI $50,000 or more	75%	79%	75%
HHI $60,000 or more	66%	68%	65%
HHI $75,000 or more	50%	56%	50%
HHI $100,000 or more	31%	30%	30%
Average HHI	$91,210	$90,861	$89,572
Median HHI	$74,715	$80,628	$74,838

* Unduplicated combined daily audience for USA TODAY and USATODAY.com.

Source: Fall 2004 MRI

Geodemographic segmentation

This type of hybrid segmentation scheme is based on the notion that people who live close to one another are likely to have similar financial means, tastes, preferences, lifestyles, and consumption habits (similar to the old adage, "Birds of a feather flock together"). This segmentation approach uses computers to generate geodemographic market clusters of like consumers. Specifically, computer software clusters the nation's 250,000+ neighborhoods into lifestyle groupings based on postal zip codes. Clusters are created based on consumer lifestyles, and a specific cluster includes zip codes that are composed of people with similar lifestyles widely scattered throughout the country. Marketers use the cluster data for direct-mail campaigns, to select retail sites and appropriate merchandise mixes, to locate banks and restaurants, and to design marketing strategies for specific market segments. For example, Eddie Bauer (**www.eddiebauer.com**) has employed Claritas demographics (**www.claritas.com**) to evaluate new retail store locations and is PRIZM coding current customers, and Duke Energy Corporation (**www.duke-energy.com**) has profiled its residential and small business customers with Claritas's databases as part of its customer retention program.[26] Table 3.12 presents four examples of geodemographic clusters.

TABLE 3.11 Selected Lifestyle Profile of USA Today

	% COMP	INDEX
Tech Savvy Readers		
Use Internet more than once a day	32%	174
Internet access at home	79%	128
Online purchase for business or personal use in past 30 days	40%	182
Household owns a PC	84%	119
Own a digital camera	22%	130
Leisure Activities		
Attended movies in last 6 months	73%	120
Bought music CDs/tapes in last 12 months	46%	126
Attended live music performance in last 12 months	29%	123
Book reading	45%	120
Entertain friends or relatives at home in last 12 months	48%	123
Household subscribes to cable	69%	112
Sports Enthusiasts		
Golf—personally participated last 12 months	21%	185
Walking for exercise	30%	107
Engage in regular exercise program (2+ times a week)	50%	126
Personally participate in any sports in past 12 months	77%	120
Attend any sports events	48%	152
Watch any sports events on TV	79%	120
Financially Aware		
Tracked investments or traded securities online in past 30 days	26%	246
Banked via PC/Internet in last 12 months	26%	159
Own securities	30%	133
Own mutual funds	25%	143
Have retirement savings plan (401K, IRA, Keogh)	31%	139
Domestic and Foreign Travelers		
Any foreign travel in last 3 years	27%	118
Any domestic travel in past year	63%	117
Member of frequent flyer program	30%	173
Own a valid passport	31%	120

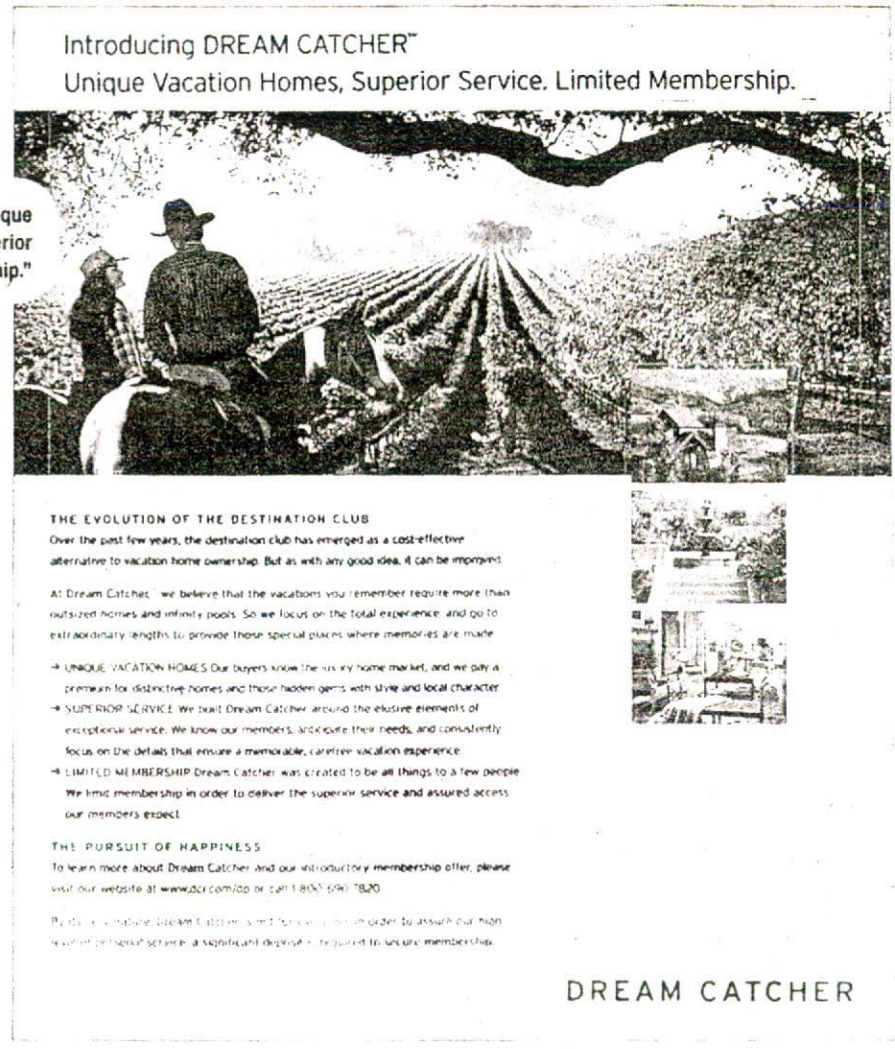
Source: Spring 2004 MRI

Over the past 25 years, as the firm that started the clustering phenomenon, Claritas has increased the number of segments in American society from the 40 segments used in the 1970s and 1980s to the 66 segments it uses today. The Claritas search engine will pick the top five lifestyle clusters for each zip code; you can find out about your zip code by visiting **www.yawyl.claritas.com**.

While cross-cultural or global marketing segmentation was discussed earlier in the chapter, it is of interest to note that Claritas recently extended its geodemographic segmentation tool, PRIZM, to the Canadian marketplace. Prism CE (CE = Canadian Edition) lists 66 different consumer "clusters," including 28 urban groups, 11 ethnic groups, and 15 francophone categories.[27]

FIGURE 3.6

Source: © Dream Catcher. Used with permission. All rights reserved (www.dcr.com/dp).



Dream Catcher—"Unique vacation homes, superior service, limited membership."

Geodemographic segmentation is most useful when an advertiser's or marketer's best prospects (in terms of consumer personalities, goals, and interests) can be isolated in terms of where they live. However, for products and services used by a broad cross section of the American public, other segmentation schemes may be more productive.

SRI consulting business intelligence's (SRIC–BI's) and VALS™ system

Drawing on Maslow's need hierarchy (see Chapter 4) and the concept of social character (see Chapter 5), in the late 1970s researchers at SRI International (**www.sric-bi.com**) developed a generalized segmentation scheme of the American population known as the values and lifestyle (**VALS™**) system. This original system was designed to explain the dynamics of societal change, was based on social values, and was quickly adapted as a marketing tool.

In 1989 the VALS system was revised to focus more explicitly on explaining consumer purchasing behavior. The VALS typology classifies the American adult population into eight distinctive subgroups (segments) based on consumer responses to both

TABLE 3.12 Four PRISM NE Geodemographic Segments

MOVERS & SHAKERS

- 1.59% of U.S. households
- Median household income: $95,372
- Predominant employment: Professional
- Social group: Elite suburbs
- Lifestage group: Midlife success
- Key education level: College grad+
- Adult age range: 35–64

CHARACTERISTICS: Movers & Shakers is home to America's up-and-coming business class: a wealthy suburban world of dual-income couples who are highly educated, typically between the ages of 35 and 54 and often with children. Given its high percentage of executives and white-collar professionals, there's a decided business bent to this segment: Movers & Shakers rank number-one for owning a small business and having a home office.

LIFESTYLE TRAITS:

- Go scuba diving/snorkeling
- Plan travel on the Internet
- Read *PC Magazine*
- Listen to adult contemporary radio
- Drive a Porsche

NEW EMPTY NESTS

- 1.05% of U.S. households
- Median household income: $65,832
- Predominant employment: Professional, white-collar
- Social group: The Affluentials
- Lifestage group: Conservative classics
- Key education level: College Grad+
- Adult age range: 65+

CHARACTERISTICS: With their grown-up children recently out of the house, New Empty Nests is composed of upscale older Americans who pursue active—and activist—lifestyles. Nearly three-quarters of residents are over 65 years old, but they show no interest in a rest-home retirement. This is the top-ranked segment for all-inclusive travel packages; the favorite destination is Italy.

LIFESTYLE TRAITS:

- Choose all-inclusive travel pkg.
- Belong to a fraternal order
- Read *Smithsonian*
- Watch *Meet the Press*
- Drive a Buick Park Avenue

BOOMTOWN SINGLES

- 1.22% of U.S. households
- Median household income: $37,407
- Predominant employment: White-collar, service
- Social group: City Centers
- Lifestage group: Young Achievers

(Continued)

TABLE 3.12 Continued

- Key education level: H.S./College
- Adult age range: Under 35

CHARACTERISTICS: Affordable housing, abundant entry-level jobs and a thriving singles scene—all have given rise to the Boomtown Singles segment in fast-growing satellite cities. Young, single and working-class, these residents pursue active lifestyles amid sprawling apartment complexes, bars, convenience stores, and laundromats.

LIFESTYLE TRAITS:

- Buy alternative music
- Play soccer
- Read *Muscle & Fitness*
- Watch MTV
- Drive a Daewoo

BEDROCK AMERICA

- 1.79% of U.S. households
- Median household income: $26,037
- Predominant employment: Service, BC, Farm
- Social group: Rustic living
- Lifestage group: Sustaining Families
- Key education level: Elementary/H.S.
- Adult age range: Under 35

CHARACTERISTICS: Bedrock America consists of young, economically challenged families in small, isolated towns located throughout the nation's heartland. With modest educations, sprawling families, and blue-collar jobs, many of these residents struggle to make ends meet. One quarter live in mobile homes. One in three haven't finished high school. Rich in scenery, Bedrock America is a haven for fishing, hunting, hiking, and camping.

LIFESTYLE TRAITS:

- Go freshwater fishing
- Buy kids' bicycles
- Read baby magazines
- Watch *Days of Our Lives*
- Drive a Chevy S10 pickup

Source: Courtesy of Claritas Inc.

attitudinal and demographic questions. Figure 3.7 depicts the current VALS classification scheme. Examining the scheme, from left to right (Figure 3.7), the diagram identifies three *primary motivations*: the *ideals motivated* (these consumer segments are guided by knowledge and principles), the *achievement motivated* (these consumer segments are looking for products and services that demonstrate success to their peers), and the *self-expression motivated* (these consumer segments desire social or physical activity, variety, and risk).[28] Furthermore, each of these three major self-motivations represents distinct attitudes, lifestyles, and decision-making styles. Refocusing and examining Figure 3.7, from top to bottom, the diagram reveals a kind of continuum in terms of resources and innovation—that is, *high resources-high innovation* (on the top) to *low resources-low* innovation (on the bottom). This range of resources/innovation (again, from most to

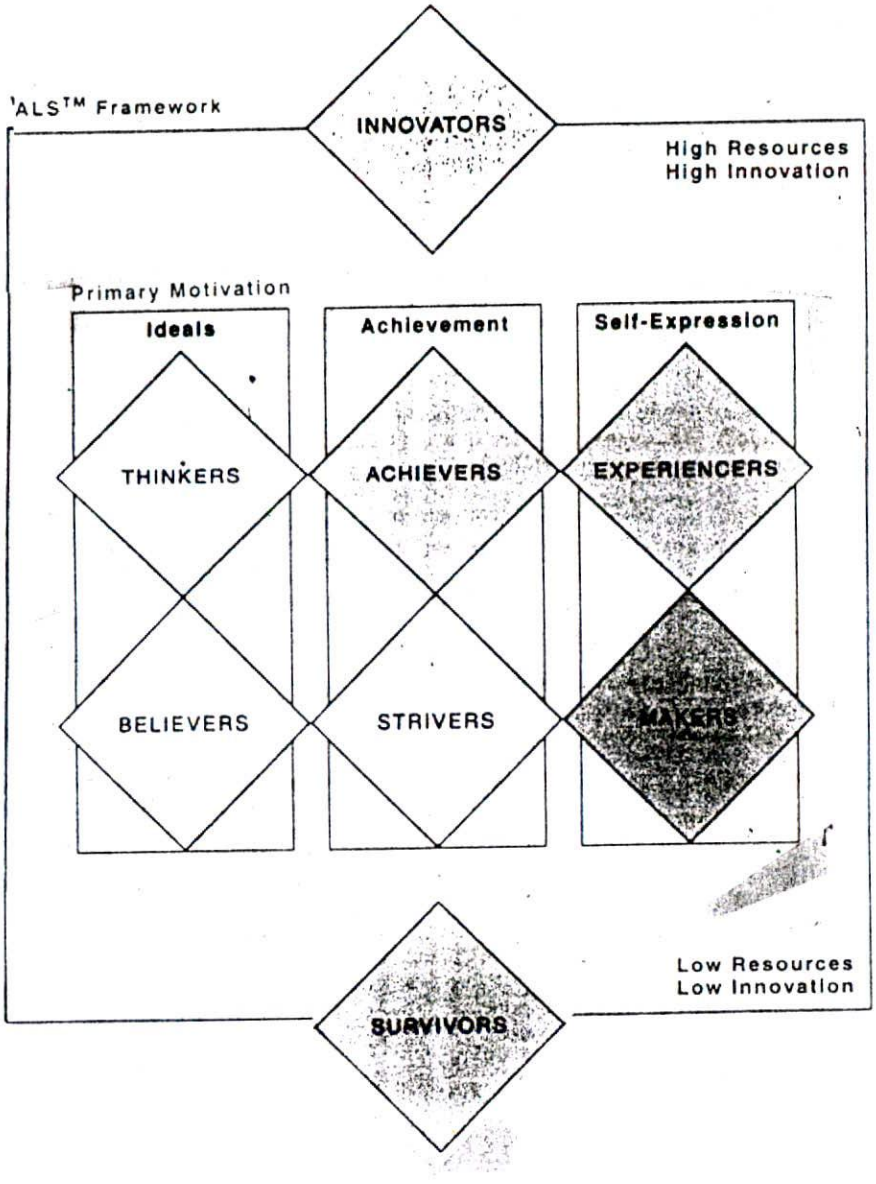


FIGURE 3.7

Summary Diagram of SRI VALS™ Segments

Source: Reprinted with permission of SRI Consulting Business Intelligence.

least) include the range of psychological, physical, demographic, and material means and capacities consumers have to draw upon, including education, income, self-confidence, health, eagerness to buy, and energy level, as well as the consumer's propensity to try new products.

All eight VALS segments (defined in Table 3.13) contain between 10 and 17 percent of the U.S. adult population, with Believers, at 17 percent, being the largest VALS group. In terms of consumer characteristics, the eight VALS segments differ in some important ways. For instance, *Believers* tend to buy American-made products and are slow to alter their consumption-related habits, whereas *Innovators* are drawn to top-of-the-line and new products, especially innovative technologies. Therefore, it is not surprising that

TABLE 3.13 A Brief Description of the Eight VALS™ New Edition Segments

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. Their purchases reflect cultivated tastes for upscale, niche products and services.

THINKERS* Motivated by ideals; high resources

Thinkers are mature, satisfied, comfortable, and reflective. They tend to be well educated and actively seek out information in the decision-making process. They favor durability, functionality, and value in products.

BELIEVERS Motivated by ideals; low resources

Believers are strongly traditional and respect rules and authority. Because they are fundamentally conservative, they are slow to change and technology averse. They choose familiar products and established brands.

ACHIEVERS Motivated by achievement; high resources

Achievers have goal-oriented lifestyles that center on family and career. They avoid situations that encourage a high degree of stimulation or change. They prefer premium products that demonstrate success to their peers.

STRIVERS Motivated by achievement; low resources

Strivers are trendy and fun loving. They have little discretionary income and tend to have narrow interests. They favor stylish products that emulate the purchases of people with greater material wealth.

EXPERIENCERS Motivated by self-expression; high resources

Experiencers appreciate the unconventional. They are active and impulsive, seeking stimulation from the new, offbeat, and risky. They spend a comparatively high proportion of their income on fashion, socializing, and entertainment.

MAKERS Motivated by self-expression; low resources

Makers value practicality and self-sufficiency. They choose hands-on constructive activities and spend leisure time with family and close friends. Because they prefer value to luxury, they buy basic products.

SURVIVORS

Survivors lead narrowly focused lives. Because they have the fewest resources, they do not exhibit a primary motivation and often feel powerless. They are primarily concerned about safety and security, so they tend to be brand loyal and buy discounted merchandise.

*VALS™ segments the U.S. English-speaking population age 18 or older into eight consumer groups. Their primary motivation and ability to express themselves in the marketplace distinguish the groups.

Source: Reprinted with permission of SRI Consulting Business Intelligence.

marketers of intelligent in-vehicle technologies (e.g., global positioning devices) must first target *Innovators*, because they are early adopters of new products.

In addition to the U.S. VALS system, there is a Japan VALS system and a U.K. VALS system. GeoVALS™ estimates the proportion of the eight U.S. VALS types by U.S. zip code and by block group.

TABLE 3.14 Representative VALS™ Projects

COMMERCIALIZATION

- A European luxury automobile manufacturer used VALS to identify online, mobile applications that would appeal to affluent, early-adopter consumers within the next five years. VALS research identified early-adopter groups and explored their reactions to a variety of mobile services for use in automobiles. The VALS analysis enabled the company to prioritize applications for development and determine the best strategic alliances to pursue.
- A major telecommunications-product company used VALS to select an early-adopter target for a new telecommunications concept. VALS enabled the company to develop the product prototype and prioritize features and benefits, with a focus on the early-adopter target. The company used VALS to select the best name and logo, choose an overall positioning strategy, and set an initial price point.

POSITIONING

- A major stockbrokerage firm focused on providing excellent service to a select group of affluent consumers used VALS to redefine its image and develop a new corporate slogan. Within 18 months, advertising recall scores increased dramatically from 8% to 55%.
- A Minnesota medical center planned to offer a new line of service: cosmetic surgery. It used VALS to identify target consumers (those most interested and able to afford the service). By understanding the underlying motivations of the target, the center and its ad agency were able to develop a compelling selling proposition. The resulting advertising was so successful that just a few weeks into the campaign, the center exceeded its scheduling capabilities.

COMMUNICATIONS

- U.S. long-distance carrier used VALS to select its spokesperson in a major television campaign to increase its customer base. By understanding consumers who are heavy users of long-distance service, the company was able to select a spokesperson to whom the target could relate.
- An electric utility used VALS to increase participation in its energy-conservation program by developing a targeted direct mail campaign. Two distinctly different VALS segments were key targets. By developing unique strategies for each audience and identifying ZIP codes with high percentages of each target, the utility reported a 25% increase in participation.

Source. Reprinted with permission of SRI Consulting Business Intelligence.

To conclude our discussion of VALS, Table 3.14 presents a brief description of a number of different strategic applications of VALS.

Yankelovich mindbase® segmentation

Starting with their Monitor Survey of American Values and Attitudes, Yankelovich researchers have over the years created a number of different market segmentation methodologies that focus on household consumers (**see www.yankelovich.com**). A relatively recent effort has been the revision of the Yankelovich Mindbase,® which consists of eight consumer segments (see Table 3.15), and additional three smaller subsegments for each of the eight segments (for a total of 24 segments). A particularly attractive direct marketing feature of this segmentation framework is that it has been employed to categories the members of selected consumer databases (which contain the names and addresses of consumers who have been categories in terms of their Mindbase segmentation membership).

TABLE 3.15 An Overview Profile of the Eight Yankelovich Mindbase® Segments

SEGMENT 1—EXPRESSIVE CONSUMERS (11.1% OF THE U.S. POPULATION)

Personal Motto "Carpe Diem"

Profile:

Members of this segment see themselves as stylish, daring, and intense. They make an effort to live life to the fullest. They strive to reveal who they are to those they come in contact with—"It's who I am and I'm not afraid to express myself."

As shoppers they are open to the opinions of their friends; however, they personally look for brands that show their friends that they are "in the know." The interest in identifying "hot styles," and search magazines and online, and specialty stores and catalogs for what is new and in-style.

They are open to marketers who will entertain them, offer them "Stuff" that's new and that fits their personal definition of style.

Traits that sum them up:

-Bold

-Fun over work

-Active imagination

-Seek novelty

Their Demographics:

-Median age is 22

-Median income is $56,000

-Not married—68%

-Have children—37%

SEGMENT 2—DRIVEN CONSUMERS (14.9% OF THE U.S. POPULATION)

Personal Motto "Nothing ventured, nothing gained"

Profile:

Members of this segment are ambitious and working towards achieving their personal dreams and goals. They have an entrepreneurial spirit and seek to be the best in what they do at home and at work. They are well organized and self motivated to accomplish what they set out to do. They have a "life plan" and they are always working towards reaching it.

As consumers they especially like tools that help them achieve and accomplish. They like electronic gadgets because they are fun and because they are also useful.

They are open to marketers who will help them reach their dreams and goals.

Traits that sum them up:

-Looking for ways to excel

-Value education and personal growth

-See themselves as "workaholics"

-Wants to be seen as "unconventional"

Their Demographics:

-Median age is 22

-Median income is $56,000

-Married—57%

-Have children—58%

(Continued)

TABLE 3.15 Continued

SEGMENT 3—AT CAPACITY (12.0% OF THE U.S. POPULATION)

Personal Motto "Time is of the essence"

Profile:

This third segment consists of individuals who see their lives as busy and hectic and wish to simplify and take control of things. Besides reducing their obligations, a high priority is to invest in themselves and be more available to their families.

When shopping, online or in stores, convenience is especially important. They also demand excellent service, variety or choices, and even bargain.

Traits that sum them up:

-Seek control

-Crave to simplify and eliminate the nonessential

-Ambitious in their careers and desiring a more flexible work schedule

-Wish to be involved in their communities

Their Demographics:

-Median age is 32

-Median income is $50,000

-Married—67%

-Have children—75%

SEGMENT 4—ROCK STEADY CONSUMERS (11.3% OF THE U.S. POPULATION)

Personal Motto "Do the Right Thing"

Profile:

Members of this segment see themselves living a "contented life." They are content with themselves and their families. They see themselves as "dependable" and "generous" people, who are dedicated to enhancing their homes (by decorating and do-it-yourself projects).

As shoppers they do not like to be pressured nor do they pay much attention to "marketing tactics," rather they select retailers that give them a sense of providing quality products and good value.

Traits that sum them up:

-Happily married and spend their time at home

-Easygoing people

-They follow the rules

-They trust their instincts

Their Demographics:

-Median age is 45

-Median income is $67,000

-Married—80%

-Have children—85%

SEGMENT 5—DOWN TO EARTH CONSUMERS (12.8% OF THE U.S. POPULATION)

Personal Motto "Easy on down the road"

Profile:

Members of this fifth segment seek to define their own path (their future) and want to maintain control over their own destiny. They are respectful of an individual having

(*Continued*)

TABLE 3.15 Continued

the right to have their own point of view. They are satisfied with their own lives and take every day as it comes. They are venturesome and interested in exploring other viewpoints, as well as new experiences.

In terms of consuming, members of this segment seek to "treat" themselves by buying "little things" (e.g., buying a piece of jewelry) or relaxing at home, possibly listening to music.

Traits that sum them up:

-Seek to "stretch" themselves

-Enjoy people with different viewpoints

-Don't do things just because they are "mainstream"

-Relax and take it easy on the weekends

Their Demographics:

-Median age is 44

-Median income is $55,000

-Married—64%

-Have children—76%

SEGMENT 6—SOPHISTICATED CONSUMERS (11.8% OF THE U.S. POPULATION)

Personal Motto "Sense and sensibility"

Profile:

This segment perceives themselves as being "intelligent," "confident," "sensitive," and as creative and expressive. Their work consumes most of their time and they define much of who they are through their work. Outside of work they seek to rejuvenate themselves by traveling, cooking, and spending time with their pets. For them new experiences tend to be more important than acquiring more "things."

They see themselves as being demanding consumers—they research what to buy and they expect the best in terms of quality, convenience, and service. They are also very vocal if a shopping experience falls short of what they were expecting.

Traits that sum them up:

-Value integrity

-Work to reduce personal stress

-Want to be a role model for others

-Are open-minded and seek new experiences

Their Demographics:

-Median age is 48.

-Median income is $56,000

-Married—59%

-Have children—70%

SEGMENT 7—MEASURE TWICE (11.9% OF THE U.S. POPULATION)

Personal Motto "An ounce of prevention"

Profile:

Segment 7 people are careful planners. They plan when it comes to their health, their financial well-being, and their future security. They remain open to new ideas as to ways to improve their lives, even to start a new career when they retire. They like to

(*Continued*)

TABLE 3.15 Continued

be up-to-date in terms of current events, and are active with regard to their hobbies and leisure-time pursuits.

They favor department stores and catalog shopping.

Traits that sum them up:

-On top of taking care of their health and financial security

-They have found a balanced life

-They are open to a new career when they retire

-They see themselves as "good citizens"

Their Demographics:

-Median age is 65

-Median income is $52,000

-Married—65%

-Have children—85%

SEGMENT 8—DEVOTED CONSUMERS (14.2% OF THE U.S. POPULATION)

Personal Motto "Home is where the heart is"

Profile:

The eighth and final segment is made up of individuals who see themselves as being "traditional" people. They are content with their lives, and do not feel that they are really missing anything. Their lives appear to be what they expected their lives to be. They are quite spiritual and have a great deal of faith in their religion. They hesitate to try something different, especially new technology; rather they are comfortable with what is familiar, especially their homes.

When shopping they favor familiar establishments with low prices.

Traits that sum them up:

-Share religious values with others

-Prefer things that are already proven trustworthy

-Feel closer to people with the same background

-Seen as feeling "complete"

Their Demographics:

-Median age is 67

-Median income is $32,000

-Married—60%

-Have children—85%

Source: "Yankelovich Mindbase® Segment Profiles, Introductory Information," PDF files supplied by Yankelovich, January 2005.

criteria for effective targeting of market segments

The previous sections have described various bases on which consumers can be clustered into homogeneous market segments. The next challenge for the marketer is to select one or more segments to target with an appropriate marketing mix. To be an effective target, a market segment should be (1) identifiable, (2) sufficient (in terms of size), (3) stable or growing, and (4) accessible (reachable) in terms of both media and cost.

Identification

To divide the market into separate segments on the basis of a series of *common* or *shared* needs or characteristics that are relevant to the product or service, a marketer must be able to identify these relevant characteristics. Some segmentation variables, such as *geography* (location) or *demographics* (age, gender, occupation, race), are relatively easy to identify or are even observable. Others, such as *education, income*, or *marital status*, can be determined through questionnaires. However, other characteristics, such as *benefits sought* or *lifestyle*, are more difficult to identify. A knowledge of consumer behavior is especially useful to marketers who use such intangible consumer characteristics as the basis for market segmentation.

Sufficiency

For a market segment to be a worthwhile target, it must consist of a sufficient number of people to warrant tailoring a product or promotional campaign to its specific needs or interests. To estimate the size of each segment under consideration, marketers often use secondary demographic data, such as that provided by the United States Census Bureau (available at many libraries and online via the Internet), or they undertake a probability survey whose findings can be projected to the total market. (Consumer research methodology was described in Chapter 2.)

Stability

Most marketers prefer to target consumer segments that are relatively stable in terms of demographic and psychological factors and are likely to grow larger over time. They prefer to avoid "fickle" segments that are unpredictable in embracing fads. For example, teens are a sizable and easily identifiable market segment, eager to buy, able to spend, and easily reached. Yet, by the time a marketer produces merchandise for a popular teenage fad, interest in it may have waned.

Accessibility

A fourth requirement for effective targeting is accessibility, which means that marketers must be able to reach the market segments they want to target in an economical way. Despite the wide availability of special-interest magazines and cable TV programs, marketers are constantly looking for new media that will enable them to reach their target markets with minimum waste of circulation and competition. One way this can be accomplished is via the Internet. Upon the request of the consumer, a growing number of Web sites periodically send e-mail messages concerning a subject of special interest to the computer user. For example, a resident of Houston, Texas, who likes to take short vacation trips, might have Continental Airlines e-mail her the coming weekend's special airfare, hotel, and rent-a-car deals.

implementing segmentation strategies

Firms that use market segmentation can pursue a *concentrated* marketing strategy or a *differentiated* marketing strategy. In certain instances, they might use a **countersegmentation** strategy.

Concentrated versus differentiated marketing

Once an organization has identified its most promising market segments, it must decide whether to target one segment or several segments. The premise behind market segmentation is that each targeted segment receives a specially designed marketing mix, that is

a specially tailored product, price, distribution network, and/or promotional campaign. Targeting several segments using individual marketing mixes is called **differentiated marketing**; targeting just one segment with a unique marketing mix is called **concentrated marketing**.

Differentiated marketing is a highly appropriate segmentation strategy for financially strong companies that are well established in a product category and competitive with other firms that also are strong in the category (e.g., soft drinks, automobiles, or detergents). However, if a company is small or new to the field, concentrated marketing is probably a better bet. A company can survive and prosper by filling a niche not occupied by stronger companies. For example, Viadent toothpaste has become a leader in the small but increasingly important submarket of the overall tooth care market that focuses on products that fight gingivitis and other gum diseases.

Countersegmentation

Sometimes companies find that they must reconsider the extent to which they are segmenting their markets. They might find that some segments have contracted over time to the point that they do not warrant an individually designed marketing program. In such cases, the company seeks to discover a more generic need or consumer characteristic that would apply to the members of two or more segments and recombine those segments into a larger single segment that could be targeted with an individually tailored product or promotional campaign. This is called a *countersegmentation* strategy. Some business schools with wide course offerings in each department were forced to adopt a countersegmentation strategy when they discovered that students simply did not have enough available credits to take a full spectrum of in-depth courses in their major area of study. As a result, some courses had to be canceled each semester because of inadequate registration. For some schools, a countersegmentation strategy effectively solved the problem (e.g., by combining *advertising, publicity, sales promotion*, and *personal selling* courses into a single course called Promotion).

SUMMARY

Market segmentation and diversity are complementary concepts. Without a diverse marketplace, composed of many different peoples with different backgrounds, countries of origin, interests, needs, and wants, there really would be little reason to segment markets.

Before the widespread adoption of the marketing concept, mass marketing (offering the same product or marketing mix to everyone) was the marketing strategy most widely used. Market segmentation followed as a more logical way to meet consumer needs. Segmentation is defined as the process of dividing a potential market into distinct subsets of consumers with a common need or characteristic and selecting one or more segments to target with a specially designed marketing mix. Besides aiding in the development of new products, segmentation studies assist in the redesign and repositioning of existing products, in the creation of promotional appeals, and the selection of advertising media.

Because segmentation strategies benefit both marketers and consumers, they have received wide support from both sides of the marketplace. Market segmentation is now widely used by manufacturers, retailers, and the nonprofit sector.

Nine major classes of consumer characteristics serve as the most common bases for market segmentation. These include geographic factors, demographic factors, psychological factors, psychographic characteristics, sociocultural variables, use-related characteristics, use-situation factors, benefits sought, and hybrid forms of segmentation (e.g., psychographic-demographic profiles, such as VALS™, and geodemographic factors, such as PRIZM™). Important criteria for segmenting markets include identification, sufficiency, stability, and accessibility. Once an organization has identified promising target markets, it must decide whether to target several segments (differentiated marketing) or just one segment (concentrated marketing). It then develops a positioning strategy for each targeted segment. In certain instances, a company might decide to follow a countersegmentation strategy and recombine two or more segments into one larger segment.

DISCUSSION QUESTIONS

1. What is market segmentation? How is the practice of market segmentation related to the marketing concept?
2. How are market segmentation, targeting, and positioning interrelated? Illustrate how these three concepts can be used to develop a marketing strategy for a product of your choice.
3. Discuss the advantages and disadvantages of using demographics as a basis for segmentation. Can demographics and psychographics be used together to segment markets? Illustrate your answer with a specific example.
4. Many marketers have found that a relatively small group of heavy users accounts for a disproportionately large amount of the total products consumed. What are the advantages and disadvantages of targeting these heavy users?
5. Under which circumstances and for what types of products should a marketer segment the market on the basis of (a) awareness status, (b) brand loyalty, and (c) usage situation?
6. Some marketers consider benefit segmentation as the segmentation approach most consistent with the marketing concept. Do you agree or disagree with this view? Why?
7. Club Med is a prominent company in the vacation and travel industry. Describe how the company can use demographics and psychographics to identify TV shows and magazines in which to place its advertisements.
8. How can a marketer for a chain of health clubs use the VALS™ segmentation profiles to develop an advertising campaign? Which segments should be targeted? How should the health club be positioned to each of these segments?
9. For each of the following products, identify the segmentation base that you consider best for targeting consumers: (a) coffee, (b) soups, (c) home exercise equipment, (d) portable telephones, and (e) nonfat frozen yogurt. Explain your choices.
10. Apply the criteria for effective segmentation to marketing a product of your choice to college students.

EXERCISES

1. Select a product and brand that you use frequently and list the benefits you receive from using it. Without disclosing your list, ask a fellow student who uses a different brand in this product category (preferably, a friend of the opposite sex) to make a similar list for his or her brand. Compare the two lists and identify the implications for using benefit segmentation to market the two brands.
2. Does your lifestyle differ significantly from your parents' lifestyle? If so, how are the two lifestyles different? What factors cause these differences?
3. Do you anticipate any major changes in your lifestyle in the next five years? If so, into which VALS segment are you likely to belong five years from now? Explain.
4. The owners of a local health-food restaurant have asked you to prepare a psychographic profile of families living in the community surrounding the restaurant's location. Construct a 10-question psychographic inventory appropriate for segmenting families on the basis of their dining-out preferences.
5. Find three print advertisements that you believe are targeted at a particular psychographic segment. How effective do you think each ad is in terms of achieving its objective? Why?

KEY TERMS

- **AIOs (activities, interests, opinions)**
- **benefit segmentation**
- **concentrated marketing**
- **countersegmentation**
- **demographic characteristics**
- **demographic segmentation**
- **differentiated marketing**
- **geographic segmentation**
- **hybrid segmentation**
- **mass marketing**
- **market segmentation**
- **micromarketing**
- **positioning**
- **psychographic inventory**
- **psychographic segmentation**
- **psychological segmentation**
- **repositioning**
- **sociocultural variables**
- **use-related segmentation**
- **usage situation**
- **VALS**

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