

MARKETING MANAGEMENT

4th European edition

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but the eye has agreed to look for what the brain wants.'²⁹

Forecasting and demand measurement

One major reason for undertaking marketing research is to identify market opportunities. Once the research is complete, the company must measure and forecast the size, growth and profit potential of each market opportunity. Sales forecasts are used by finance departments to raise the necessary cash for investment and operations, by the manufacturing department to establish capacity and output levels, by purchasing to acquire the right amount of supplies and by human resources to hire the necessary number of workers. Marketing is responsible for preparing the sales forecasts. If its forecast is far off the mark, the company will face excess or inadequate inventory.

Sales forecasts are based on estimates of demand. Managers need to define what they mean by market demand. For example, Sweden's Autoliv is a market leader in state-of-the-art automotive safety systems. However, Autoliv does not see itself as having more than 40 per cent of the world market for side airbags. Rather, the company evaluates the brand far more broadly in terms of the entire €24.1 billion automobile occupant restraint market.³⁰

The measures of market demand

Companies can prepare as many as 90 different types of demand estimates for six different product levels, five space levels and three time periods (see [Figure 6.3](#)).

Each [market demand](#) measure serves a specific purpose. A company might forecast short-run demand for a particular product for the purpose of ordering raw materials, planning production and borrowing cash. It might forecast regional demand for its major product line to decide whether to set up regional distribution.

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The size of a market hinges on the number of buyers who might exist for a particular market offer. But there are many productive ways to break down the market:

- The **potential market** is the set of consumers professing a sufficient level of interest in a market offer. However, consumer interest is not enough to define a market for marketers unless they also have sufficient income and access to the product.
- The **available market** is the set of consumers with interest, income and access to a particular offer. For some market offers, the company or government may restrict sales to certain groups. For example, a particular country might ban alcohol sales to anyone under 18 years of age. Eligible adults constitute the qualified available market – the set of consumers with interest, income, access and qualifications for the particular market offer.
- The **target market** is the part of the qualified available market the company decides to pursue. The company might decide to concentrate its marketing and distribution effort in southern Europe.
- The **penetrated market** is the set of consumers buying the company's product.

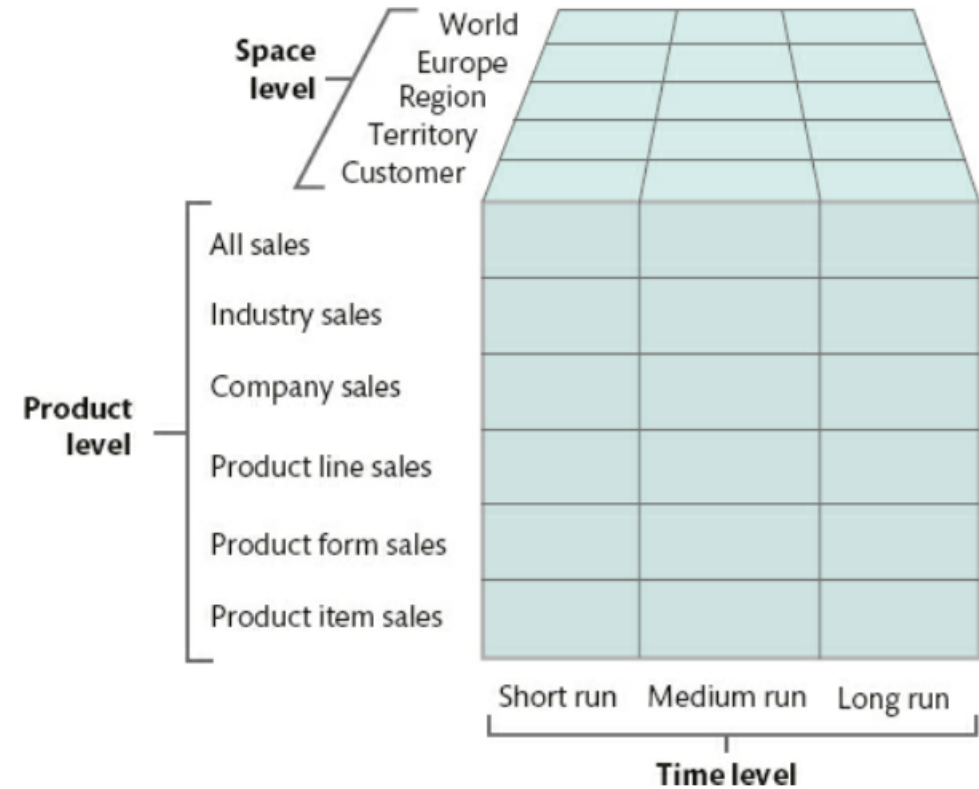


Figure 6.3 Ninety types of demand measurement (6 × 5 × 3)

These definitions are a useful tool for market planning. If the company is not satisfied with its current sales, it can take a number of actions. It can try to attract a larger percentage of buyers from its target market. It can lower the qualifications for potential buyers. It can expand its available market by opening distribution elsewhere or lowering its price, or it can reposition itself in the minds of its customers.

Estimating current demand

Marketing executives want to estimate total market potential, area market potential, and total industry sales and market shares.

Total market potential

Total market potential is the maximum amount of sales that might be available to all the firms in an industry during a given period, under a given level of industry marketing effort and environmental conditions. A common way to estimate total market potential is to multiply the potential number of buyers by the average quantity each purchases, times the price. The average quantity of buyer purchases may be estimated based on existing company sales data and/or on primary data collected for this purpose.

If 100 million people buy books each year, and the average book buyer buys three books a year, and the average price of a book is €20, then the total market potential for books is €6 billion (100 million × 3 × €20). The most difficult component to estimate is the number of buyers for the specific product or market. We can always start with the total population in the EU(28), which was 512.6 million people in 2018. ³¹

Next we eliminate groups that obviously would not buy the product. Assume that illiterate people and children under 12 don't buy books and constitute 20 per cent of the population. This means 80 per cent of the population, or 410 million people, are in the potentials pool. We might do further research and find that people belonging to the 20 per cent of the EU population with the lowest income and/or with lower secondary education (or less) don't read books, and they constitute more than 30 per cent of the potentials pool. Eliminating them, we arrive at a prospect pool of approximately 287 million book buyers. We use this number of prospective buyers to calculate total market potential.

A variation on this method is the *chain-ratio method*, which multiplies a base number by several adjusting percentages. Suppose a brewery is interested in estimating the mar-

ket potential for a new light beer. It can make an estimate with the following calculation:

$$\begin{array}{l} \text{Demand} \\ \text{for the} \\ \text{new light} \\ \text{beer} \end{array} = \text{Population} \times \begin{array}{l} \text{Average} \\ \text{percentage} \\ \text{of personal} \\ \text{income per} \\ \text{capita spent} \\ \text{on food} \end{array} \times \begin{array}{l} \text{Average} \\ \text{percentage} \\ \text{of amount} \\ \text{spent on} \\ \text{food that} \\ \text{is spent on} \\ \text{beverages} \end{array} \times \begin{array}{l} \text{Average} \\ \text{percentage of} \\ \text{amount spent} \\ \text{on beverages} \\ \text{that is spent} \\ \text{on alcoholic} \\ \text{beverages} \end{array} \times \begin{array}{l} \text{Average} \\ \text{percentage of} \\ \text{amount spent} \\ \text{on alcoholic} \\ \text{beverages that} \\ \text{is spent on} \\ \text{beer} \end{array} \times \begin{array}{l} \text{Expected} \\ \text{percentage} \\ \text{of amount} \\ \text{spent on} \\ \text{beer that will} \\ \text{be spent on} \\ \text{light beer} \end{array}$$

Area market potential

Because companies must allocate their marketing budget optimally among their best territories, they need to estimate the market potential of different cities, states and nations. Two major methods of assessing area market potential are the market-buildup method, used primarily by business marketers, and the multiple-factor index method, used primarily by consumer marketers.

Market-buildup method

The **market-buildup method** calls for identifying all the potential buyers in each market and estimating their potential purchases. This method produces accurate results if we have a list of all potential buyers and a good estimate of what each will buy. Unfortunately, such information is not always easy to gather.

Consider a machine-tool company that wants to estimate the area market potential for its wood lathe in Greece. Its first step is to identify all potential buyers of wood lathes in the area, primarily manufacturing establishments that shape or ream wood as part of their operations. The company could compile a list from a directory of all manufacturing establishments in Greece. Then it could estimate the number of lathes each industry might purchase, based on the number of lathes per thousand employees or per €1 million of sales in that industry.

An efficient method of estimating area market potentials makes use of the statistical classification of economic activities in the European Union (Nomenclature des Activités Economiques, NACE), consisting of a six-digit code. The first four digits of the code are the same in all European countries. The two last digits might vary from country to country. On 1 January 2008, the classification changed considerably with the implementation of the NACE Regulation 1893/2006 (Rev. 2).³²

The NACE classifies all manufacturing into 21 major industry sectors and further breaks each sector into a six-digit, hierarchical structure:

C	Industry sector (manufacturing)
10	Industry subsector (food)
10.3	Industry group (fruit and vegetables)
10.3.2	Industry (fruit and vegetable juice)
10.3.2.00	(Country specific, the fruit and vegetable juice industry in this country has no sub-industries as illustrated by the last two digits, '00').

To use the NACE, the lathe manufacturer must first determine the NACE codes that represent products whose manufacturers are likely to require lathe machines. To get a full picture of NACE industries that might use lathes, the company can: (1) determine past customers' NACE codes; (2) go through the NACE manual and check off all the six-digit industries that might have an interest in lathes; (3) mail questionnaires to a wide range of companies enquiring about their interest in wood lathes.

The company's next task is to determine an appropriate base for estimating the number of lathes that each industry will use. Suppose customer industry sales are the most appropriate base. Once the company estimates the rate of lathe ownership relative to the

customer industry sales, it can compute the market potential.

Multiple-factor index method

Like business marketers, consumer companies also need to estimate area market potentials, but the customers of consumer companies are too numerous to list. The method most commonly used in consumer markets is a straightforward index method. A drug manufacturer, for example, might assume that the market potential for drugs is directly related to population size. If Sweden has 1.83 per cent of the EU population, the company might assume that Sweden would be a market for 1.83 per cent of total drugs sold in the EU.

A single factor, however, is rarely a complete indicator of sales opportunity. Regional drug sales are also influenced by per capita income and the number of physicians per 10,000 people. Thus it makes sense to develop a multiple-factor index, with each factor assigned a specific weight. The numbers are the weights attached to each variable. For example, suppose Sweden has 2.50 per cent of the EU disposable personal income, 2.60 per cent of EU retail sales and 1.83 per cent of the EU population, and the respective weights are 0.5, 0.3 and 0.2. The buying-power index for Sweden is then 2.40 $[0.5(2.50) + 0.3(2.60) + 0.2(1.83)]$. Thus 2.40 per cent of the EU drug sales (not 1.83 per cent) might be expected to take place in Sweden.

The weights in the buying-power index are somewhat arbitrary and companies can assign others if appropriate. A manufacturer might also want to adjust the market potential for additional factors, such as competitors' presence in that market, local promotional costs, seasonal factors and local market idiosyncrasies.

Many companies compute other area indexes as a guide to allocating marketing resources. Suppose the drug company is reviewing the six cities listed in [Table 6.4](#). The first two columns show its percentage of EU brand and category sales in these six cities. Column 3 shows the [brand development index](#) (BDI), which is the index of brand sales to category sales. London, for example, has a BDI of 114 because the brand is relatively more

developed than the category in that city. Paris has a BDI of 65, which means that the brand in Paris is relatively underdeveloped. Normally, the lower the BDI, the higher the market opportunity, in that there is room to grow the brand. However, other marketers would argue the opposite – that marketing funds should go into the brand's *strongest* markets, where it might be important to reinforce loyalty or more easily capture additional brand share.

Industry sales and market shares

Besides estimating total potential and area potential, a company needs to know the actual industry sales taking place in its market. This means identifying competitors and estimating their sales.

The industry trade association will often collect and publish total industry sales, although it does not usually list individual company sales separately. With this information, however, each company can evaluate its own performance against the whole industry. If a company's sales are increasing by 5 per cent a year, and industry sales are increasing by 10 per cent, the company is losing its relative standing in the industry.

Another way to estimate sales is to buy reports from a marketing research firm that audits total sales and brand sales. Nielsen Media Research audits retail sales in various product categories in supermarkets and drugstores and sells this information to interested companies. These audits let a company compare its performance to the total industry or to any particular competitor to see whether it is gaining or losing share, either overall or on a brand-by-brand basis.

Table 6.4 Calculating the brand development index (BDI)

Territory	(a) Percentage of EU brand	(b) Percentage of EU category	BDI
	Sales	Sales	$(a \div b) \times 100$
London	3.09	2.71	114
Paris	6.74	10.41	65
Berlin	3.49	3.85	91
Madrid	0.97	0.81	120
Rome	1.13	0.81	140
Amsterdam	3.12	3.00	104

Because distributors typically will not supply information about how much of the competitors' products they are selling, business-goods marketers operate with less knowledge of their market share results.

Estimating future demand

The few products or services that lend themselves to easy forecasting generally enjoy an absolute level or a fairly constant trend and competition that is either non-existent (public utilities) or stable (pure oligopolies). In most markets, in contrast, good forecasting is a key factor in success.

Companies commonly prepare a macroeconomic forecast first, followed by an industry forecast, followed by a company sales forecast. The macroeconomic forecast calls for projecting inflation, unemployment, interest rates, consumer spending, business investment, government expenditures, net exports and other variables. Some researchers believe that it is the macroeconomic and industry-specific conditions more than the microeconomic conditions that may constitute the main determinants of success and failure for most businesses.³³ The end result is a forecast of gross national product, which

the firm uses (along with other environmental indicators) to forecast industry sales. The company derives its sales forecast by assuming that it will win a certain market share.

How do firms develop their forecasts? They may create their own or buy forecasts from outside sources such as marketing research firms, which interview customers, distributors and other knowledgeable parties. All forecasts are built on one of three information bases: what people say, what people do, or what people have done. Using what people say requires surveying the opinions of buyers or those close to them, such as sales people or outside experts, with surveys of buyers' intentions, composites of sales force opinions and expert opinion. Building a forecast on what people do means putting the product into a test market to measure buyer response. To use the final basis – what people have done – firms analyse records of past buying behaviour or use time-series analysis or statistical demand analysis.

Survey of buyers' intentions

Forecasting is the art of anticipating what buyers are likely to do under a given set of conditions. For major consumer durables such as appliances, several research organisations conduct periodic surveys of consumer buying intentions and ask questions such as: 'Do you intend to buy a car within the next six months?' and put the answers on a [purchase probability scale](#):

0.00	0.20	0.40	0.60	0.80	1.00
No chance	Slight possibility	Fair possibility	Good possibility	High possibility	Certain

Surveys also inquire into consumers' present and future personal finances and their expectations about the economy. They combine various bits of information into a consumer confidence measure (e.g. European Commission Consumer Surveys, ACNielsen Consumer Confidence Index). The European Commission indicator is based on a monthly

survey conducted across the countries of the European Union and those in the euro currency area (EA), with a total sample size of more than 32,000 consumers. It is based on answers to questions about expectations of the financial situation of households, the general economic situation, the unemployment situation and savings. The ACNielsen six-monthly survey is conducted online with 21,000 consumers across Europe.³⁴

For business buying, research firms can carry out buyer-intention surveys regarding plant, equipment and materials. Estimates (of demand) are then based on buyers' *intentions*, meaning that some degree of deviance from actual behaviour will necessarily exist. Such estimates tend to fall within a 10 per cent error band around the actual level of demand/sales. Buyer-intention surveys are particularly useful in estimating demand for industrial products, consumer durables, product purchases where advanced planning is required, and new products. The value of a buyer-intention survey increases to the extent that buyers are few, the cost of reaching them is low, and they have clear intentions that they willingly disclose and implement.

Composite of sales force opinions

When buyer interviewing is impractical, the company may ask its sales representatives to estimate their future sales. Few companies use sales force estimates without making some adjustments. Sales representatives might be pessimistic or optimistic, they might not know how their company's marketing plans will influence future sales in their territory, and they might deliberately underestimate demand so the company will set a low sales quota. To encourage better estimating, the company could offer incentives or assistance, such as information about marketing plans or past forecasts compared with actual sales.

Sales force forecasts bring a number of benefits. Sales reps might have better insight into developing trends than any other group, and forecasting might give them greater confidence in their sales quotas and more incentive to achieve them. Also, a 'grassroots' forecasting procedure provides detailed estimates broken down by product, territory, customer and sales rep.

Expert opinion

Companies can also obtain forecasts from experts, including dealers, distributors, suppliers, marketing consultants and trade associations. Dealer estimates are subject to the same strengths and weaknesses as sales force estimates. Many companies buy economic and industry forecasts from well-known economic-forecasting firms that have more data available and more forecasting expertise.

Occasionally, companies will invite a group of experts to prepare a [market forecast](#). The experts exchange views and produce an estimate as a group (*group discussion method*) or individually, in which case another analyst might combine them into a single estimate (*pooling of individual estimates*). Further rounds of estimating and refining follow (this is the Delphi method).³⁵

Past sales analysis

Firms can develop sales forecasts on the basis of past sales. *Time-series analysis* breaks past time series into four components (trend, cycle, seasonal and erratic) and projects them into the future. *Exponential smoothing* projects the next period's sales by combining an average of past sales and the most recent sales, giving more weight to the latter. *Statistical demand analysis* measures the impact of a set of causal factors (such as income, marketing expenditure and price) on the sales level. Finally, *econometric analysis* builds sets of equations that describe a system and statistically derives the different parameters that make up the equations.

Market-test method

When buyers don't plan their purchases carefully, or experts are unavailable or unreliable, a direct-market test can help forecast new-product sales or established-product sales in a new distribution channel or territory.

Levels of market segmentation

The starting point for discussing segmentation is [mass marketing](#). In mass marketing, the seller engages in the mass production, mass distribution and mass marketing communication of one market offering for all buyers. Henry Ford epitomised this strategy when he offered the Model-T Ford in one colour: black.

The argument for mass marketing is that it creates the largest potential market, which leads to the lowest costs, which in turn can lead to lower prices or higher margins. This is the [least cost production paradigm](#) that has served many firms well for several decades. However, in contemporary buyers' markets in which the

number of providers exceeds the likely customer uptake, companies are faced with new challenges. Increasing levels of competition present customers with a wide choice of possible suppliers. This results in them wanting more for their money. There has been a transformation in the concept of value from a factor that was largely determined by suppliers to one that is now heavily influenced by buyers. Firms now have to provide market offerings that their customers perceive to possess the right value standard. Also, many markets display an increasing trend towards breaking up into several segments. Fewer standardised perceived-value packages can be offered to customers. Thus, the use of mass marketing is in decline and most companies are turning to [micromarketing](#) at one of four levels: segments, niches, local areas or individuals (see [Figure 10.1](#)).

Segment group marketing

A *market segment* consists of a group of customers who share a similar set of needs and wants. Rather than creating the segments, the marketer's task is to identify them and to decide which one(s) to target. The company can then devise a market offering that can be positively differentiated from the competition. If strategy is the art of allocating scarce resources, then segmentation – and the understanding it provides about customer groups – is part of the science informing that allocation.

However, such a segment is partly a fiction, in that not everyone in the segment wants exactly the same offering. Business-to-business marketing experts Anderson and Narus have urged marketers to present flexible market offerings to all members

of a segment.³ **Flexible market-perceived value offering** features: a *naked solution* containing the market offering attributes and benefits that all segment members value, and *discretionary value options* that some segment members require. Each customer-perceived option might carry an additional charge: for example, Siemens' Electrical Apparatus Division sells metal-clad boxes to small manufacturers at prices that include free delivery and a warranty. It also offers installation, tests and communication peripherals as extra-cost options. Ryanair offers all economy passengers a seat and soft drinks, and charges extra for alcoholic beverages, baggage handling and snacks.

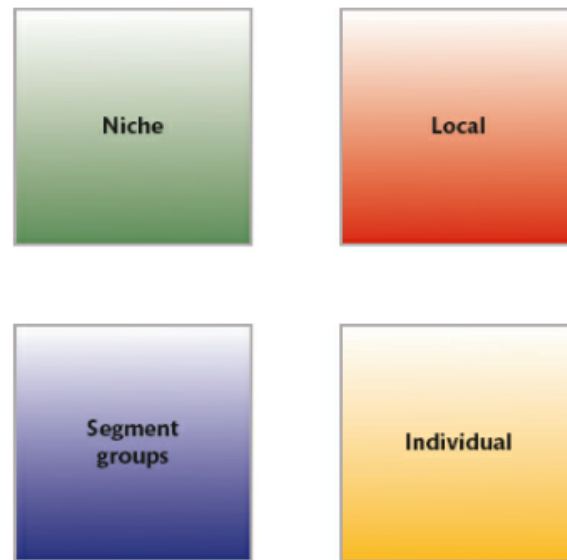


Figure 10.1 Levels of market segmentation

Source: M. R. V. Goodman, *AJM Managing Development*.

Market segments can be characterised in different ways.

One approach is to identify preference segments. **Homogeneous**

preferences exist when all customers have roughly the same preferences. At the other extreme, customers with **diffused preferences** vary greatly in their requirements. If several brands are in the market, they are likely to provide market offerings that appeal to specific consumer preferences. Finally, **clustered preferences** result when natural market segments emerge from groups of customers with shared preferences. Marketers should classify customers into groups based only on needs and factors that drive purchase decisions. A common mistake is to segment customers based on peripheral characteristics that, while interesting, provide no help in achieving the fundamental goal of segmentation: selling more market offerings profitably.

Bases for segmenting consumer markets

Two broad groups of variables are used to segment consumer markets. Some researchers seek to define segments by looking at descriptive characteristics: geographic, demographic and psychographic. Then they examine whether these customer segments exhibit different needs or company responses. For example, they might study the differing attitudes of 'professionals', 'blue-collar workers' and other groups towards, say, 'safety' as a customer-perceived benefit when considering the purchase of a new car.

Other researchers try to define segments by looking at behavioural considerations, such as customer responses to benefits, use occasions or brands. The researcher then sees whether different characteristics are associated with each consumer-response segment. For example, do people who want 'quality' rather than 'low price' in a clothes purchase differ in their geographic, demographic and psychographic characteristics?

Regardless of which type of segmentation scheme is used, the key is adjusting the marketing programme to recognise customer differences. The major segmentation variables for Europe – geographic, demographic, psychographic and behavioural segmentation – are summarised in [Table 10.1](#).

Geographic segmentation

Geographic segmentation calls for dividing the market into different geographical units, such as nations, states, regions, counties, cities or neighbourhoods. The company can operate in one or a few areas, or operate in all but pay attention to local variations. White goods manufacturers have to cater for variations in demand across European frontiers. Top-loading washing machines are needed for the French market, front loading for the UK market, slow spin speeds for the Italian market (as they have plenty of sunshine) and ecologically efficient machines for northern European markets. Geographic segmentation

can also be used to assist marketers to study 'service' markets. In order to understand the different requirements of European visitors to the tourist attractions on the Danish island of Funen, tourists were segmented by nationality.

Regional marketing means marketing right down to a specific postcode. Many companies use mapping software to show the geographic locations of their customers. It is important to note that for both global and local markets, differences in regional, rural and urban characteristics are highly significant. Some approaches combine geographic and demographic data to yield even richer descriptions of customers and neighbourhoods. This has become known as *geodemographic segmentation* – 'the analysis of people by where they live'.¹² A number of specialist companies offer a variety of [geodemographic](#) databases. [Table 10.2](#) presents some of the leading companies and classification systems that can be accessed in the United Kingdom.

An example of Experian's Mosaic profile is given in [Table 10.3](#).

Table 10.1 Major segmentation variables for consumer markets

Geographic

Eastern Europe

Northern Europe

Southern Europe

City or metro size 100,000–250,000; 250,000–500,000; 500,000–1,000,000;
1,000,000–4,000,000; over 4,000,000

Location Urban, suburban, rural

Demographic

Age	Under 5, 5–10, 11–19, 20–34, 35–49, 50–64, over 65
Family unit size	1–2, 3–4, 5 and over
Family life cycle	Young, single; young, married, no children; young, married, youngest child under 5; young, married, youngest child 6 or over; older, married, with children; older, married, no children under 18; older, single; other
Gender	Male, female
Income	Under 10,000; 10,000–20,000; 21,000–29,000; 30,000–39,000; 40,000–49,000; 50,000–59,000; 60,000–69,000; 70,000–79,000; 80,000–89,000; 90,000–99,000; over 100,000
Occupation	Professional and technical; managers, officials and proprietors; clerical sales; craftspeople; operatives; supervisors; retired; students; homemakers; farmers; unemployed
Education	Primary, secondary, college, university
Religion	Catholic, Protestant, Jewish, Muslim, Hindu, other
Race	White, Black, Asian, Arab
Generation	Baby boomers, Generation Xers
Nationality	E.g. Danish, German, Italian
Social class	Lower, middle, upper middle, aristocrat

Psychographic lifestyle	Culture orientated, outdoor orientated, sports orientated
Personality	Introverted, extroverted
Behavioural	
Benefits sought	Quality, service, economy, speed, value
User status	Non-user, ex-user, potential user, first-time user, regular user
Usage rate	Light, medium, heavy
Loyalty status	None, medium, strong, absolute
Readiness stage	Unaware, aware, informed, interested, desirous, intending to buy
Attitude to market offer	Enthusiastic, positive, indifferent, negative, hostile

Table 10.2 Leading Geodemographic sources in the UK

Source agency/company	Classification	Approach
Beacon Dodsworth	Prospex	Lifestyle data mapping
CACI	Acorn, Acorn Family	Lifestyle data analysis
Claritas	Mosiac, Prizm	Lifestyle data analysis
ONS/University of Leeds	SAPAC	Census data analysis
Output Area Classification	OAC	Census data analysis

Tesco	Crucible	Store, local data
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Note: The Market Research Society's demographics group maintains a database of leading sources in the UK and overseas.

Source: M. R V. Goodman of AJM Management Development in March 2019.

Table 10.3 MOSAIC Group H: stylish singles

Nearly 1.3 million households, representing 5.5 per cent of all UK households:

- 2.8 million people in this group
- students and young professionals
- first-time openers of savings and mortgage accounts
- frequent visitors to the cinema, concerts and exhibitions
- like weekend breaks to European capital cities
- prefer the *Guardian*, *Independent* and *Observer* newspapers
- television viewing is light: current affairs and late films preferred
- shop for food at convenience stores late in the day
- convenience more important than price
- prefer the city to the outer suburbs
- enjoy living in diverse, cosmopolitan, multicultural environment
- big spenders on mobile phones, music, sports equipment, audio and computer equipment

Source: F. Brassington and S. Petit (2003) *After Principles of Marketing*, 3rd edn, Harlow, UK: Pearson Education., © Pearson Education Ltd.

All of these databases have numerous sub-segment variations, but they should be used with caution. There are many uncertainties, such as the reliability and validity of the data and its freshness – CACI makes a selling point out of its claim to update its databases every two years. While this is to be welcomed, these relational databases should be continually updated throughout the year.

Geodemographic services are now available in a variety of microsegments for smaller

firms because, as database costs decline, tablets and smartphones proliferate, software becomes easier to use and data integration increases.¹³

Demographic segmentation

The key demographic group segments are listed in [Table 10.4](#).

In demographic segmentation, the market is divided into groups on the basis of variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality and social class. One reason why demographic variables are so popular with marketers is that they are often associated with customer needs and wants. Another is that they are easy to measure. Even when the target market is described in non-demographic terms (say, by personality type) it may be necessary to link back to demographic characteristics in order to estimate the size of the market and the media necessary to reach it efficiently.

Here is how certain demographic variables have been used to segment markets.

Age and life cycle stage

Consumer wants and abilities change with age. Toothpaste brands such as Crest and Colgate offer three main toothpaste lines to target children, adults and older consumers. McDonald's segments by age, and targets advertisements to different segments: the Ronald McDonald advertisements are directed at children; advertisements for a quick breakfast before work are aimed at adults. Age segmentation can be even more refined. Pampers divides its market into pre-natal, new baby (0–5 months), baby (6–12 months), toddler (13–23 months) and pre-school (24 months plus). LEGO divides its market into Duplo (pre-school), Lego (early mid-school age) and Legotechnic (mid-school to senior school). The Saga brand is designed to appeal to the over-50s.

Table 10.4 Key demographic segments

Segment	Example
Age and life cycle change	Saga Group
Life stage	Scottish Widows
Gender	Procter & Gamble cosmetics
Income	Rolex, Rolls-Royce, Walmart
The new consumer	Apple, smartphone firms
Generation	Co-operative firms
Social class	Prestigious universities, e.g. Oxford and Cambridge

Marketing in action

Gathering geodemographic data

Prizm (trade name for a geodemographic index marketed by Claritas Europe) is an example of pan-European lifestyle segmentation. This and other similar tools such as Acorn (trade name for A Classification of Residential Neighbourhoods) and Mosaic (trade name for a geodemographic system that is popular in the UK and owned by the US-based Experian Group, a global services information company) function by assuming that residents of each postal unit form a distinct segment. Claritas, which markets Prizm, claims that it can be used to:

- assess market potential or demand for a given area;
- develop customer loyalty and value by identifying the most attractive customers;
- reveal emerging niche markets;
- identify and target customers most likely to defect in order to reduce customer turnover (churn).

Source: Based on F. Brassington and S. Pettitt (2003) *Principles of Marketing*, Harlow: Prentice Hall and Claritas Europe.

Nevertheless, age and life cycle can be tricky variables. Sometimes the target market may be the psychologically young – for example, the Mini Cooper appeals to enthusiasts in several age groups.

Life stage

People in the same part of the life cycle may differ in their life stage. Life stage defines a person's major concern, such as going through a divorce, going into a second marriage, taking care of an older parent, deciding to cohabit, deciding to buy a new home and so on. These life stages present opportunities for marketers.



Memories for baby boomers and a cool car for 20-year-olds

Source: Grisha Bruev/Shutterstock.

The growing proportion of retired people in the affluent European countries has created new market segments and requirements in existing markets, such as senior travel services. The trend towards single-adult households (i.e. the unmarried, divorced, widowed or single-parent families) has stimulated the market for foodstuffs that are marketed in small portions. The trend towards more working women has stimulated the market sectors for time-saving items such as microwave ovens, internet shopping, easy-to-prepare foods and fast-food restaurants. The wedding industry attracts marketers who are keen to market to wedding guests as well as seeking to help newlyweds set up home.

Gender

Men and women have different attitudes and behave differently, based partly on genetic make-up and partly on socialisation.¹⁴ For example, women tend to be more community minded, men tend to be more self-expressive and goal directed. Women tend to take in more of the data in their immediate environment, men tend to focus on things that will help them to achieve a goal. A research study examining how men and women shop found that men often need to be invited to touch an item, while women are likely to pick it up without prompting. Men often like to read product information; women may relate to a product on a more personal level.¹⁵

In many European countries, women are increasingly influencing buying decisions and exercise a considerable influence in the purchase of new homes. Gender differentiation has long been applied in clothing, hairstyling, cosmetics and magazines. Avon has built a successful business selling beauty products to women. Some products have been positioned as more masculine or feminine. Most beers are designed to attract men. Gillette's Venus is the most successful female shaving line ever, with over 70 per cent of the market, and has appropriate design, packaging and advertising cues to reinforce a female image.

However, it is not enough to present a market offering as simply masculine or feminine. Hyper-segmentation is now occurring within both male and female personal care segments. Unilever earned kudos by targeting women who may be worried about ageing skin by stressing in its Dove 'Campaign for Real Beauty' that true beauty is timeless.



Gillette's Venus shaving line, 'for women who care about their image'

Source: Sheila Fitzgerald/Shutterstock

Dove

Dove's Campaign for Real Beauty features women of all shapes, sizes and colours posing proudly in their underwear. The company claims that the advertising series, developed by Ogilvy & Mather, was not just a vehicle to sell more soap but 'aims to change the status quo and offer in its place a broader, healthier, more democratic view of beauty'. The springboard was a global study sponsored by Dove that researched women's attitudes towards themselves and beauty. Only 2 per cent of women in the study considered themselves beautiful, so not only women, but everyone, took notice when the pictures of beaming full-figured or average-looking women began appearing.

Source: (2005) Dove: 'celebrating curves', WARC Case Study, Henley-on-Thames: World Advertising Centre; E. Wong (2009) P&G, Dial, Unilever target the middle man, *Brandweek*, 50(20), 8; K. Bisseeil and A. Rask (2010) Real women on real beauty: Self-discrepancy, internalisation of the thin ideal, and perceptions of attractiveness and thinness in Dove's Campaign for Real Beauty, *International Journal of Advertising*, 29(4), 643–668.

Media have emerged to make gender targeting easier. Marketers can reach women more easily in celebrity, fashion and household women's magazines and through social media. Men can be targeted by advertisements on the sporting satellite channels and through popular male magazines.

Some traditionally more male-orientated markets, such as the car industry, are beginning to recognise gender segmentation and are changing the way they design and sell cars.¹⁶ Women shop differently than men for cars – they are more interested in environmental impact, care more about interior than exterior styling, and view safety in terms of features that help survive an accident rather than handling to avoid an accident. Men

are usually more interested in 'go-fast' designs, technical specifications and performance statistics.

Income

Income segmentation is a long-standing practice in such categories as cars, clothing, cosmetics, financial services and travel. However, income does not always predict the best customers. Apparently, blue-collar workers were among the first purchasers of colour television sets as it was cheaper for them to buy these sets than to go to the cinema and theatre.

Many marketers are deliberately targeting lower-income groups, in some cases discovering fewer competitive pressures or greater consumer loyalty.¹⁷ In the UK, Matalan and Primark offer a range of cheap clothing lines and Boundary Mill and TK Maxx offer designer labels at bargain prices.



Low price Matalan store.

Source: Tupungato/Shutterstock

Yet, at the same time, other marketers are finding success with premium-priced offers, as is the case with Pellegrino mineral water and Moët et Chandon champagne. The growing number of dual-income households commanding high levels of disposable income has boosted the sales of premium goods such as innovative and expensive Dyson multi-cyclone battery vacuum cleaners. Of particular note are the DINKYs (double income no kids yet). The growing number of dual-income households commanding high levels of disposable income has also boosted the sales of premium merchandise and exotic service offers.

Companies are increasingly finding that their markets are becoming ‘hourglass shaped’, as middle-market consumers migrate towards both discount and premium purchases.¹⁸ Companies that miss out on this new market risk being ‘trapped in the middle’ and seeing their market share decline steadily. The ‘Marketing insight’ box describes the factors creating this trend and what it means to marketers.

The new consumer

New consumers defy traditional marketing identification. In reaction to a synthetic, processed and packaged world, their main drive is for an ‘authentic experience’ as a means for the individual to define themselves. For them, consumption is as much about services, experiences and citizenship as it is about the acquisition of goods. These new consumers are a potent economic force and increasingly companies are adapting their standard market offers to meet their requirements.

Marketing insight

Trading up (and down) – the new consumer

While the new consumer growth trends are stronger in the United States than in Europe, European countries are undergoing the same demographic changes.

A new pattern in consumer customer behaviour has emerged in recent years, according to Silverstein and Fiske, the authors of *Trading Up*. In unprecedented numbers, middle-market customers are periodically trading up to what Silverstein and Fiske call ‘new luxury’ products and services ‘that possess higher levels of quality, taste, and aspiration than other goods in the category but are not so expensive as to be out of reach’. Customers might buy an expensive imported French wine, use a premium skin cream or stay in a luxury hotel.

As a result of the trading-up trend, new luxury goods sell at higher volumes than traditional luxury goods, while being priced higher than conventional mid-market items. The authors identify three main types of new luxury product:

- 1 Accessible super-premium products**, such as designer-label clothes. Kettle gourmet potato crisps carry a significant premium over middle-market brands, yet consumers can readily trade up to them because they are a relatively low-price item in an affordable category.
- 2 Old luxury brand extensions**, which extend historically high-priced brands down market while retaining their cachet, such as the Mercedes-Benz C-Class and Kenwood audio equipment.
- 3 Prestige goods**, such as fine wines, which are priced between average middle-market brands and super-premium old luxury brands. They are ‘always based on emotions, and consumers have a much stronger emotional engagement with them than with other goods’.

The authors note that in order to trade up on the brands that offer these emotional benefits, customers often ‘trade down’ by shopping at discount stores such as Aldi and Lidl (for staple food items) and at TK Maxx (for goods that confer no emotional benefit but still deliver quality and functionality).

Sources: M. J. Silverstein and N. Fiske (2003) *Trading Up: The New American Luxury*, New York: Portfolio; M. J. Silverstein (2006) *Treasure Hunt: Inside the Mind of the New Consumer*, New York: Portfolio; J. Cioletti (2006) Moving on up, *Beverage World*, June, 20; W. Smith (2012) Consumer behavior: From trading up to trading off, *Branding Strategy Insider*, 29 January, www.brandingstrategyinsider.com/2012/01/from-trading-up-to-trading-off.html#.U3oeIl6FlZ8; M. Ritson (2008) In with the old luxury, out with the new, *Campaign*, 29 January, www.brandrepublic.com/opinion/780294/Mark-Ritson-branding-old-luxury-new/?DCMP=ILC-Search.

Generation

Each generation is influenced by the age in which it is reared – the music, films, politics and defining events of that period. Demographers call these generational groups **cohorts**. Members share the same major cultural, political and economic experiences and have similar outlooks and values. Marketers often advertise to a cohort by using the icons and images prominent in its experiences. Citroën has used Transformer images in its advertising to attract male customers in the United Kingdom who have nostalgic memories of the popular Transformer toys of their childhood. The ‘Marketing insight’ box provides insight into the present key age cohorts.

Although distinctions can be made between the different generational cohorts, they also influence each other. The same products that appeal to 21-year-olds are appealing to youth-obsessed baby boomers. Here are two examples of the rejuvenilisation phenomenon:

- 1 Adult gadgets, such as mobile phones, cars and even houseware, have been transformed from purely utilitarian to toy-like. Vacuum cleaners come in different primary colours, cars in lemon yellow – Mini Coopers look as if they have been designed for the toddler set.
- 2 Half the adults who visit Disney World every day do so without children. Disney enthusiasts return to the Magic Kingdom to recapture the safety and serenity of childhood.¹⁹

Marketing insight

Marketing cohorts

Marketers have classified potential consumers in the following generation cohorts:

Cohort	Birth date
Silent	1928–1945
Boomers	1946–1964
Generation X	1965–1980
Millennials	1981–1996
Generation Z	post-1996

The influences that shaped the cohorts are incredibly important to marketers because they will shape consumer and business markets for years to come. Born between 1965 and 1996, the Generation Xers and Millennials will outnumber the post-Second World War baby boomers. They will command an awesome annual spending power and will probably live (barring any unforeseen catastrophe) well into their eighties and nineties.

Exercise

Search ‘marketing to Generation X and Millennial cohorts’ on the internet.

Sources: <http://uk.businessinsider.com/generation-you-are-in-by-birth-year-millennial-gen-x-baby-boomer-2018-3>; see also D. Pitta (2012) guest editorial, The challenges and opportunities of marketing to Millennials, *Journal of Consumer Marketing*, 29(20); C. Gurău (2012) A life-stage analysis of consumer loyalty profile: Comparing Generation X and Millennial consumers, *Journal of Consumer Marketing*, 29(2), 103–113; M. Lipokski and I. Bondos (2018) The influence of perceived media richness of marketing channels on online channel usage: Intergenerational differences, *Baltic Journal of Management*, 13(2), p 169–190.

Marketing in action

Key trends in the social and cultural environment

Grey market

Marketers keep a close eye on the key trends in the social and cultural environment in the countries in which they do business. The changing environment causes a continuous change in social attitudes and perceived values. Improving living standards has a significant effect on the ways in which customers spend their disposable income.

In the developed West, the so-called [grey market](#) of the over-60s makes up over 20 per cent of the population and this figure is expected to rise to around 30 per cent by 2050. The segment constitutes an attractive target market for several perceived-value offerings. Increasingly, it will become a significant target for marketing communications activities.

Youth market

As Generation X, the *status quo* weary and cynical youth, gives way to Generation Y, the European youth market will change as they start to experience relatively declining levels of disposable income in the opening decades of the twenty-first century. This is because most of the developed European economies will experience relatively lower growth levels. The rebellious attitudes of Generation X will mutate with the changing fortunes of this market. While fad and fashion will always be attractive to this segment, declining levels of purchasing power will impact on the offerings of the leading clothing companies such as Monsoon, Next and Hugo Boss, whose businesses will become increasingly price dependent.

Ethnic market

Following the rapid expansion of the European Union (which has been a marked feature since 2000), coupled with an increased tendency for ethnic migration, the developed West will be characterised by rising multi-ethnic societies. As the different cultures have distinct value sets, marketers will develop a strong interest in ethnic marketing programmes. In the United Kingdom, the Halifax Building Society's 'Harvey' character has pioneered the regular use of ethnic actors in TV advertising.

Social class

Social class can be classified using macro-criteria such as profession, education, family income and property value. In Europe, the ESOMAR association (an organisation for encouraging, advancing and elevating market research worldwide), in an attempt to standardise many different national classifications, has developed a model that is based on property, occupation, education and the principal earning power of the main contributor to the household income. Each social class tends to share a mix of common values that has a strong influence on purchasing decisions. Many companies target social class segments and design cars, clothing, home furnishings, leisure activities and so on to suit their preferences. The tastes of these social classes change over time.

Psychographic segmentation

[Psychographics](#) is the science of using psychology and demographics to better understand consumer markets. In *psychographic segmentation*, buyers are divided into different groups on the basis of psychological/personality traits, lifestyle or values. People within the same demographic group can exhibit different psychographic profiles and therefore display different lifestyles. Psychographic profiles are typically developed with reference to three variables, known as the [AIO factors](#), which describe individual lifestyles:

- 1 activities;
- 2 interests;

3 opinions.

Using these factors as a base, a marketer can determine how a particular group of customers will respond to the launch of a new product. This form of segmentation should not be confused with demographic segmentation, as demographic segmentation primarily takes into consideration the age and the gender of the targeted customer group. [Figure 10.3](#) illustrates the synthesising of demographic and psychological factors that guide marketers in customising market offerings to targeted consumers.

Lifestyle studies enhance basic socio-demographic descriptions and aid understanding of customer-perceived value preferences. The main psychographic profiles are general lifestyle studies and product-specific studies. The former classifies the total population into groups according to common characteristics such as ‘receptivity to innovation’, ‘family centred’, ‘ecologically aware’, etc. The latter specifies the importance of such characteristics in consumer purchasing decisions. The French International Research Institute on Social Change has identified ten social-cultural variables that greatly influence the development of European society (see [Table 10.5](#)).

Another European typology has been developed by Sinus GmbH and identifies five social classes and value perspectives, as shown in [Table 10.6](#).

One of the most popular commercially available classification systems based on psychographic measurements is the Stanford Research Institute’s Consulting Business Intelligence’s (SBI) VALS framework. VALS, signifying values and lifestyles, classifies US adults into eight primary groups based on responses to a questionnaire featuring four demographic and 35 attitudinal questions. The VALS system is continually updated with new data from more than 80,000 surveys per year.²⁰

Table 10.5 The factors shaping social change and lifestyles

Factors	Influences
1 Environment	climatic and physical

2 Demographic	age,sex
3 Economic	income
4 Cultural	diversity
5 Political/legal	level of social regulation, religious beliefs
6 Socio-cultural	expected cultural group values, fashion
7 Ethics	social tolerance of others
8 Individuality	desire to express individuality
9 Technology	impact on life's necessities and luxuries
10 Ecological	desire to limit damage to the natural environment

Note: The mix and interaction of these factors determines individual perceived value and provides the key data for public and private organisations to customise their responses.

Source: M. R V. Goodman of AJM Management Development in March 2019.

Table 10.6 SINUS typology

1	<i>Basic orientation:</i> traditional – to preserve.
2	<i>Basic orientation:</i> materialist – to have.
3	<i>Changing values:</i> hedonism – to indulge.
4	<i>Changing values:</i> post-materialism – to be.
5	<i>Changing values:</i> postmodernism – to have, to be and to indulge.

The main dimensions of the VALS segmentation framework are customer motivation (the horizontal dimension) and customer resources (the vertical dimension). Customers are inspired by one of three primary motivations: ideals, achievement and self-expression. Those primarily motivated by ideals are guided by knowledge and principles. Those motivated by achievement look for purchases that demonstrate success to their peers. Customers whose motivation is self-expression desire social or physical activity, variety and risk. Personality traits such as energy, self-confidence, intellectualism, novelty seeking, innovativeness, impulsiveness, leadership and vanity – in conjunction with key demographics – determine an individual's resources. Different levels of resources enhance or constrain a person's expression of primary motivation.

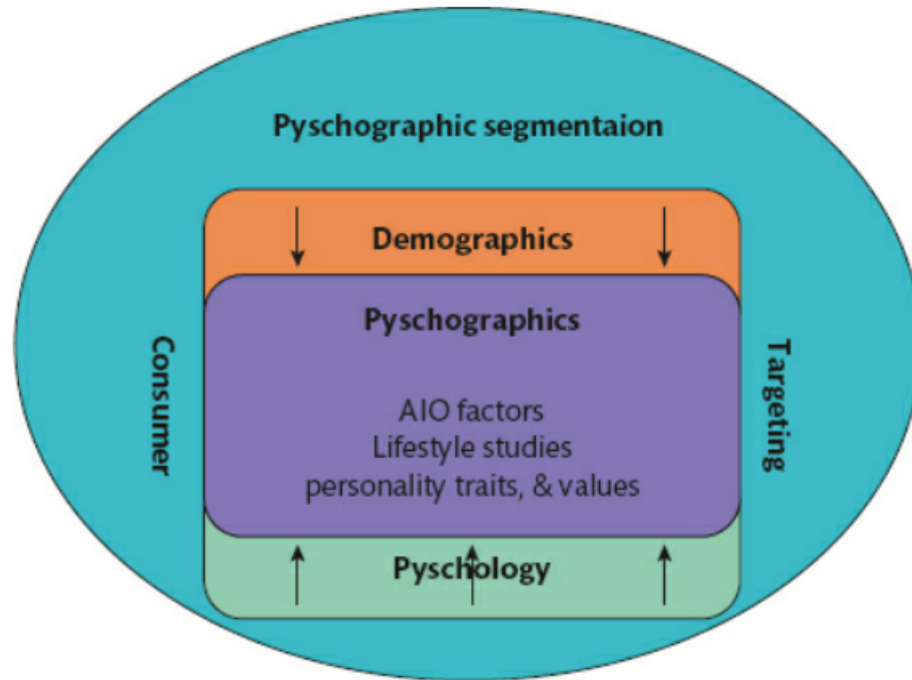


Figure 10.3 Psychographic segmentation and consumer targeting

Source: M. R. V. Goodman, AJM Managing Development.

The four groups with higher resources are:

- 1 **Innovators:** successful, sophisticated, active, 'take-charge' people with high self-esteem. Purchases often reflect cultivated tastes for relatively upscale, niche-oriented products and services.
- 2 **Thinkers:** mature, satisfied and reflective people who are motivated by ideals and who value order, knowledge and responsibility. They seek durability, functionality and value in products.
- 3 **Achievers:** successful goal-orientated people who focus on career and family. They greatly value products that demonstrate success to their peers.
- 4 **Experiencers:** young, enthusiastic, impulsive people who seek variety and excitement. They spend a comparatively high proportion of income on fashion, entertainment and socialising.

The four groups with lower resources are:

- 1 **Believers:** conservative, conventional and traditional people with concrete beliefs. They prefer familiar, domestic products and are loyal to established brands.
- 2 **Strivers:** trendy and fun-loving people who are resource constrained. They like stylish products that emulate the purchases of those with greater material wealth.
- 3 **Makers:** practical, down-to-earth, self-sufficient people who like to work with their hands. They seek domestic products with a practical or functional purpose.
- 4 **Survivors:** elderly, passive people who are concerned about change. They are loyal to their favourite brands.

Psychographic segmentation schemes are often customised by culture. The Japanese version of VALS, Japan VALS, divides society into ten consumer segments on the basis of two key concepts: life orientation (traditional ways, occupations, innovation and self-expression) and attitudes to social change (sustaining, pragmatic, adapting and innovating).

Marketers can apply their understanding of psychographic profiles to marketing planning. For example, Martini advertising has been targeted at individuals on the basis of what lifestyle they would like to have. It appeals to 'aspirational lifestyle segments'. While psychographic profiles can greatly assist marketers, they do suffer from a number of drawbacks. They are expensive to maintain, update and develop, and they can obscure the relationship between segment characteristics and brand performance.²¹

Behavioural segmentation

In behavioural segmentation, marketers place buyers into groups on the basis of their knowledge of, attitude towards, use of or response to a product/service or market offering package.

Decision roles

In Europe, men normally choose their shaving equipment and women choose their tights, but even here marketers must be careful in making their targeting decisions because buying roles change. For example, in the UK, Marks & Spencer found that it was women who usually purchased underpants for their men folk.²² When Dulux discovered that women made 60 per cent of decisions on the brand of household paint, it decided to advertise to women.²³

People play five roles in a buying decision: initiator, influencer, decider, buyer and user. For example, assume that a wife initiates a purchase by requesting a modern coffee maker for her birthday. The husband may then seek information from many sources, including his best friend who has a Nespresso and is a key influencer in what models to consider. After presenting the alternatives to his wife, he then purchases her preferred model which, as it turns out, is a Nespresso that ends up being used by the entire family. Different people are playing different roles, but all are crucial in the buying decision process and ultimate consumer satisfaction.

Behavioural variables

Many marketers believe behavioural variables – occasions, benefits, user status, usage rate, buyer-readiness stage, loyalty status and attitude – are the best starting points for constructing market segments.

Occasions

Occasions can be defined in terms of the time of day, week, month or year, or in terms of other well-defined temporal aspects of a consumer's life. Buyers can be distinguished according to the occasions when they develop a need, make a purchase or use a market offering (product/service) package. For example, cereals have traditionally been marketed as a breakfast-related food item. Kellogg's has always encouraged consumers to eat breakfast cereal on the 'occasion' of getting up. Recently, however, it has tried to extend the consumption of cereals by promoting them as an ideal 'any time' snack food, while Nestlé markets cereals as a health food.

Marketers can also extend activities associated with certain holidays to other times of the year. While Christmas, Mother's Day and Valentine's Day are the major gift-giving holidays, these and other events account for just over half of givers' budgets. That leaves the rest available throughout the year for occasions such as birthdays, weddings, anniversaries, house warming and the arrival of babies.

Benefits

Not everyone who buys a product/service market offering wants the same benefits from it. This is recognised by the high-street commercial banks, which target their finance packages on the one hand to people who want a high return in the short term and on the other hand to those investors who are looking for an attractive return on their money over the longer term. Research in the toothpaste market has found four main '**benefit segments**' – economic, medicinal, cosmetic and taste.

User status

Every purchase has its non-users, ex-users, potential users, first-time users and regular users. Blood banks cannot rely only on regular donors to supply blood; they must also recruit first-time donors and contact former donors, with a different marketing strategy for each. The key to attracting potential users, or even possibly non-users, is understanding the reasons why they are not buying. Do they have deeply held attitudes, beliefs or behaviours, or do they simply lack knowledge of the product/service offer and its brand attributes, benefits and usage?

Included in the potential-user group are consumers who will become users in connection with some life stage or life event. Mothers-to-be are potential users who will turn into heavy users. Producers of child merchandise, such as Danone's Cow & Gate, push forward their brand names by maintaining close relationships with clinics and doctors, showering potential users with free samples and targeting them with advertisements to capture a share of their future purchases. Market-share leaders tend to focus on attracting potential users because they have the most to gain. Smaller firms focus on trying to attract current users away from the market leader.

Usage rate

Markets can be segmented into light, medium and heavy users. Heavy users are often a small percentage of the market but account for a high percentage of total consumption. For example, heavy beer drinkers account for 87 per cent of the beer consumed – almost seven times as much as light drinkers.²⁴ Marketers would rather attract one heavy user than several light users. A potential problem, however, is that heavy users are often either extremely loyal to one brand or never loyal to any brand and always looking for the lowest price. They may also have less room to expand their purchase and consumption.

Buyer-readiness stage

Some people are unaware of a market offering, some are aware, some are informed, some are interested, some desire it and some intend to buy. To help characterise how many people are at different stages and how well they have converted people from one stage to another, some marketers employ a marketing funnel. [Figure 10.4](#) displays a funnel for two hypothetical brands, A and B. Brand A performs poorly compared with Brand B at converting one-time triers to more recent triers.

The relative numbers of customers at different stages make a big difference in designing the marketing programme. Suppose a health agency wants to encourage women to have an annual cervical smear to detect possible cervical cancer. At the beginning, most women may be unaware of the smear test. The marketing effort should go into awareness-building advertising using a simple message. Later, the advertising should dramatise the benefits of the test and the risks of not taking it.

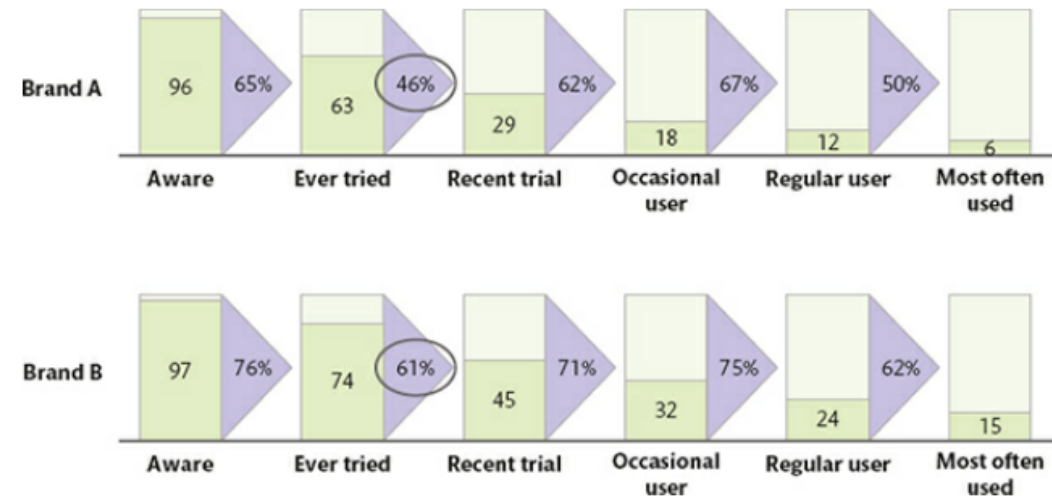


Figure 10.4 Brand funnel

Loyalty status

Marketers usually envision four groups based on brand loyalty status:

- 1 **Hard-core loyals:** consumers who buy only one brand all the time.
- 2 **Split loyals:** consumers who are loyal to two or three brands at a time.
- 3 **Shifting loyals:** consumers who shift loyalty from one brand to another.
- 4 **Switchers:** consumers who show no loyalty to any brand.²⁵

A company can learn a great deal by analysing the degrees of brand loyalty. Hard-core loyals can help identify the products' strengths, split loyals can show the firm which brands are most competitive with its own, and by looking at customers who are shifting away from its brand, the company can learn about its marketing weaknesses and attempt to correct them. One note of caution: what appear to be brand-loyal purchase patterns may reflect habit, indifference, a low price, a high switching cost or the unavailability of other brands.

Attitude

Five attitudes about product purchase are enthusiastic, positive, indifferent, negative and hostile. Door-to-door workers in a political campaign use voter attitude to determine how much time to spend with that voter. They thank enthusiastic voters and remind them to vote; they reinforce those who are positively disposed; they try to win the votes of indifferent voters; and they spend no time trying to change the attitudes of negative and hostile voters.

Combining different behavioural bases can help to provide a more comprehensive and cohesive view of a market and its segments. [Figure 10.5](#) depicts one possible way to break down a target market by various behavioural segmentation bases.

The Conversion Model

The Conversion Model measures the strength of customers' psychological commitment to brands and their openness to change. To determine how easily a customer can be converted to another choice, the model assesses commitment based on factors such as cus-

tom attitudes towards, and satisfaction with, current brand choices in a category, and the importance of the decision to select a brand in the category.²⁶

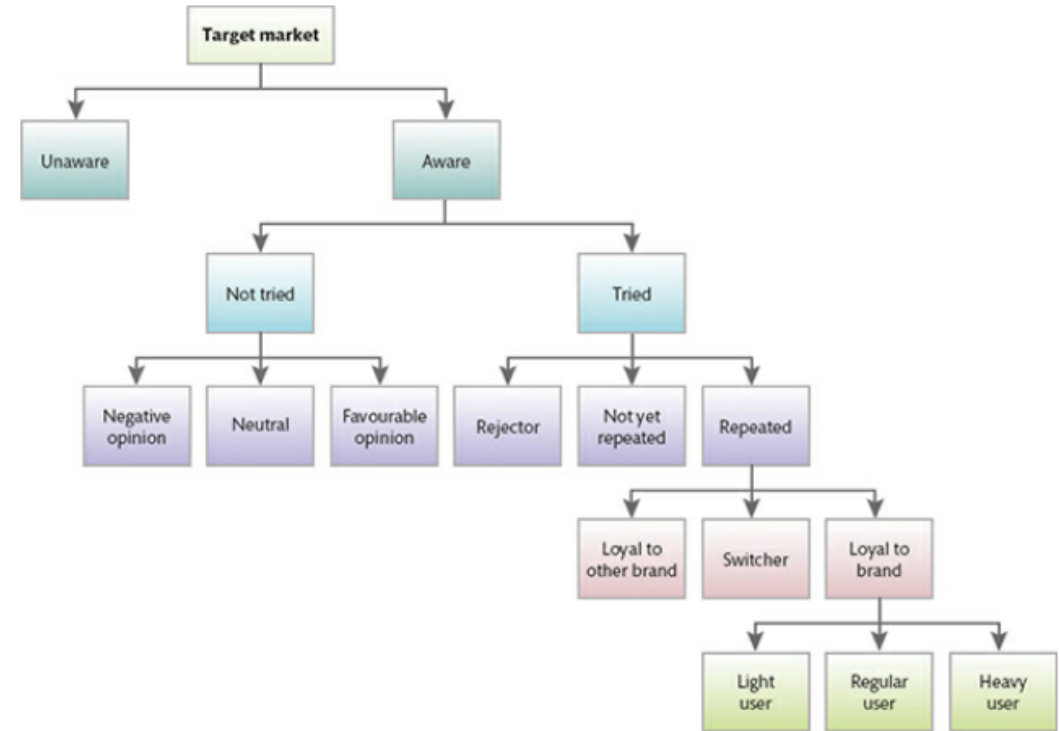


Figure 10.5 Behavioural segmentation breakdown

The model segments *users* of a brand into four groups based on strength of commitment, from low to high, as follows:

- 1 **Convertible:** most likely to defect.
- 2 **Shallow:** uncommitted to the brand and could switch – some are actively considering alternatives.
- 3 **Average:** committed to the brand they are using, but not as strongly – they are unlikely to switch brands in the short term.

- 4 **Entrenched:** strongly committed to the brand they are currently using – they are highly unlikely to switch brands in the foreseeable future.

The model also classifies *non-users* of a brand into four other groups based on their ‘balance of disposition’ and openness to trying the brand, from low to high, as follows:

- 1 **Strongly unavailable:** unlikely to switch to the brand – their preference lies strongly with their current brands.
- 2 **Weakly unavailable:** not available to the brand because their preference lies with their current brand, although not strongly.
- 3 **Ambivalent:** as attracted to the brand as they are to their current brands.
- 4 **Available:** most likely to be acquired in the short run.

In an application of the Conversion Model, TSB (a UK high-street bank) discovered that the profitability of its ‘least committed’ clients had fallen by 14 per cent in a 12-month period, whereas for the ‘most committed’ it had increased by 9 per cent. The ‘committed’ clients were 20 per cent more likely to increase the number of products they held during the 12-month period. As a result, the bank took action to attract and retain high-value committed customers, which resulted in increased profitability.

Finally, a related method of behavioural segmentation has recently been proposed that looks more at the expectations a customer brings to a particular kind of transaction and locates those expectations on a ‘gravity of decision spectrum’. At the shallow end of the spectrum, consumers seek products and service market offerings that they think will save them time, effort and money, such as toiletries and snacks. Segmentation for these items would tend to measure customers’ price sensitivity, habits and impulsiveness. At the other end of the spectrum, the deep end, are those decisions in which customers’ emotional investment is greatest and their core values most engaged, such as deciding on a healthcare facility for an ageing relative or buying a new home. Here the marketer would seek to determine the core values and beliefs related to the buying decision. As the model suggests, focusing on customers’ relationships and involvement with products and offer-

ings can often reveal where and how the firm should market to customers.²⁷

Bases for segmenting business markets

Business-to-business markets can be segmented with the same variables that are used in consumer markets, such as geography, benefits sought and usage rate. As it is common to find a one-to-one relationship between buyer and seller, segmentations are closely fashioned to the needs of individual organisations. [Table 10.7](#) shows one set of variables that can be applied to segment the business market. The demographic variables are the most important, followed by the operating variables – down to the personal characteristics of the buyer.

Table 10.7 Major segmentation variables for business markets

Demographic

- 1 *Industry:* Which industries should we serve?
- 2 *Company size:* What size companies should we serve?
- 3 *Location:* What geographical areas should we serve?

Operating variables

- 4 *Technology:* What customer technologies should we focus on?
- 5 *User or non-user status:* Should we serve heavy users, medium users, light users or non-users?
- 6 *Customer capabilities:* Should we serve customers needing many or few services?

Purchasing approaches

- 7 *Purchasing-function organisation:* Should we serve companies with highly centralised or decentralised purchasing organisation?

8 *Power structure*: Should we serve companies that are engineering dominated, financially dominated and so on?

9 *Nature of existing relationship*: Should we serve companies with which we have strong relationships or simply go after the most desirable companies?

10 *General purchasing policies*: Should we serve companies that prefer leasing? Service contract? Systems purchases? Sealed bidding?

11 *Purchasing criteria*: Should we serve companies that are seeking quality? Service? Price? **Situational factors**

12 *Urgency*: Should we serve companies that need quick and sudden delivery or service?

13 *Specific application*: Should we focus on a certain application of our product rather than all applications?

14 *Size of order*: Should we focus on large or small orders?

Personal characteristics

15 *Buyer-seller similarity*: Should we serve companies whose people and values are similar to ours?

16 *Attitude towards risk*: Should we serve risk-taking or risk-avoiding customers?

17 *Loyalty*: Should we serve companies that show high loyalty to their suppliers?

Source: Adapted from T. V. Bonoma and B. P. Shapiro (1983) *Segmenting the Industrial Market*, Lexington, MA: Lexington Books.

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The table lists major questions that business marketers should ask in determining which segments and customers to serve. A tyre company, for instance, can sell to manufacturers of cars, trucks, farm tractors, forklift trucks or aircraft. Within a selected target industry, a company can further segment by company size.

Within a given target industry and customer size, a company can segment further by purchase criteria. For example, government laboratories need low prices and service contracts for scientific equipment; university laboratories need equipment that requires little service; industrial laboratories need equipment that is highly reliable and accurate.

Business marketers generally identify segments through a sequential process. Consider an aluminium company. The company first undertook macro-segmentation. It looked at which end-use market to serve: automobile, residential or beverage containers. It chose the residential market and it needed to determine the most attractive product application: semi-finished material, building components or aluminium mobile homes. Deciding to focus on building components, it considered the best customer size and chose large customers. The second stage consisted of micro-segmentation. The company distinguished among customers buying on price, service or quality. Because the aluminium company had a high-service profile, it decided to concentrate on the service-motivated segment of the market.