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# Target marketing and segmentation: valid and useful tools for marketing

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Discusses Wright's recent attack on targeting and segmentation theory. Proposes that, although Wright has some valid criticisms about specific applications of the concepts, targeting and segmentation are acceptable and defensible marketing strategies if properly designed. Gives some indications of possible methods for segmenting that may meet Wright's criticisms.

Recently, Malcom Wright presented a daunting challenge to the marketing discipline[1] – to justify the ongoing use of segmentation and target marketing. Although his article was written in response to what he characterized as a “startling” argument by Mitchell that zodiac signs be used for segmentation[2], he used the occasion to attack the concepts of segmentation and targeting *per se*.

Although Mitchell's example of zodiacal segmentation was perhaps light-hearted, his argument is not. Mitchell posits, as do most marketing academics and practitioners, that the firm will be better off – in terms of greater unit sales at (possibly) higher prices and/or lower cost of sales – by emphasizing our approach to certain groups of people and de-emphasizing our approach to others.

## Wright's argument

In essence, Wright totally denies the validity of segmentation and targeting on two grounds. The first ground is that, for segmentation to have validity, the segments are associated with a stable set of preferences. The second ground is that, even if segmentation works, we need to prove that targeting these segments provides a superior return to the firm than does shotgun marketing. He holds[1] that neither ground has been proven, either by Mitchell or by marketers in general. But is he correct?

## Target marketing defined and explained

Not all customers are alike. As unprofound as this statement may appear, it is one which needs to be repeated frequently. Hallberg makes the point succinctly by making it the title of his book[3]. He further makes the point bluntly in stating that the Pareto Principle holds – and the 20 per cent (or whatever the percentage actually is) who are your most profitable customers are going to be the only group that holds your brand's profits above water in the future. Further, if you do not build brand loyalty through a sound loyalty programme with your high-profit customers, you are dead. Duboff[4] phrases this slightly

differently, stating that the steps are to identify *profitable* customers, learn their values, analyse the offerings they need and use, focus marketing on them (and, implicitly, ignore the non-profitable customers), and monitor their satisfaction. This is as good and succinct a description of target marketing and segmentation for profitability as I have seen.

A “target market” is, at its most basic, simply the market or submarket (such as a segment) at which the firm aims its marketing message(s). There is nothing inherent in the concept of target marketing that requires a firm to segment, or – having segmented – to develop multiple product offerings or marketing messages. It simply means that a group of customers has been identified for whom the offering should be “right” and to whom the firm will direct the majority of its marketing time, resources, and attention, with the rationale that it is better to use a rifle than a shotgun to get results. (This rationale should possibly be reconsidered; in the Gunfight at OK Corral, it was Doc Holliday using a shotgun who killed people, not the Earps using pistols.) Nevertheless, it seems usual that when firms target market, they do so for multiple targets within a broader market.

In a brief case study, Freeman[5] outlines the story of COMBAT, an insecticide which followed a highly targeted strategy with a degree of success. As Freeman points out, there are problems with such a strategy. “The only disadvantage of this focused segmentation approach was that while the business was clearly stronger where advertising was focused, it was also clearly less strong where it was not focused” [5, p. 17]. Provided that sales in the target segment are higher than lost sales in the non-target segment, the firm is undoubtedly better off financially.

It is at this point that Wright's claim that the superior return to the firm of targeting needs to be proven; although he is possibly correct in this wish, I believe that such a wish is inherently impossible to prove. Wright will in all probability not permit an “it stands to reason” claim. We are then at an impasse. Marketers accept the logic inherent in targeting; it provides part of the foundation of the discipline. An application of strategic focus permitted by targeting a relatively small

number of customers *should* benefit a firm. But can I prove this statement? No.

Anything new in the above argument? Not really, at least not for those who have kept up with trends in several areas of marketing, namely database and direct marketing. The major thrust of the Hallberg thesis, however, is that all of this applies even to branded packaged goods; one of the examples he cites over and over again is Zip-Loc bags – hardly a big-ticket item. Much of what he says has been touted for years for higher-priced items; Hallberg states that the same points are true for a grocery store item costing about \$1.00 per unit, or even less.

Hallberg, who has worked at both J. Walter Thompson and (currently) Ogilvy and Mather, reports on several years of research done by task forces at Ogilvy which investigated the erosion of their clients' margins; the cause was increased spending on promotion and reduced spending on advertising – nothing new here, either. Nor without self-interest, as advertising agencies typically make higher fees from advertising than they do from promotion. The leap that Hallberg was able to make was to translate this statement into a means of building brand profitability by building customer loyalty to the brand. He states that loyal customers will spend more for the brands in their considered set. When this is coupled with a search for the heavy users in the category (again, hardly a new concept), the willingness to pay a higher price plus heavier-than-average usage of the product makes for explosive profitability of this segment. Hallberg also presents the mathematics to back up his assertions. It is clear (and intuitive) that loyal heavy users make a bigger-than-average contribution to the brand's profitability. The difficulty is in finding these people and keeping them loyal; but there is no doubt that such a search is worthwhile.

That is what target marketing is all about: defining who it is that we want to attract for customers – and striving to ensure that these will be the loyal, high-profit customers Hallberg and others emphasize. And, at least as important, defining who it is that we do not care to attract. For target marketing at least implies that there are customers whom we do not wish to target, that we will serve if possible but will make no special effort to serve – and that there may be individuals whom we do not wish to serve at all. And that is all that a target market consists of – and truly all that target marketing is.

Why is target marketing so important? There are really two major reasons. The first is that it forces a strategic focus to the firm, forcing the firm to look towards a realistic approach to its customers and its product/

service offerings and to determine the best fit(s) between them. Second, it forces a strategic focus on the firm, which begins outside with the customers and the market, and not inside with the firm. In short, it requires the use of the marketing concept as part of the firm's strategic marketing planning.

## Segmentation considerations

Segmentation – the dividing of a total market into its component parts by some scheme (various methods will be described here) – is not new. It has been around as a marketing tool for so long that a countervailing wisdom developed almost 20 years ago that, for some products and services, the provider should not segment, that segmentation was too expensive to be worth doing. As a general rule, however, marketers in the last generation have segmented their markets more often than not; Wilkie and Cohen[6] trace almost 20 years of research up to that time. In fact, at times marketers have probably over-segmented their markets. Weinstein[7, p. 3] calls segmentation “the key to marketing success”, a statement he continues in his revised edition[8, p. 2], where he also discusses the “segmentation imperative”. We are now inundated with dozens of varieties of various products which, until recently, would probably not have existed or – if they did exist – would have been marketed under different brands. (There has been a literature developed in the last few years bitterly condemning what are called “brand extensions” – where a brand name is used on products that are different from the original: coke begets diet coke begets caffeine-free diet coke begets cherry coke, etc. In the process, the original product can get lost and the “franchise” built up over the years can be diluted. In the case of “Miller Lite” it is often claimed that the success of this extension all but destroyed the original “Miller Hi Life”.)

Remember what the goal is here: to gain competitive advantage. As Porter pompously puts it[9], the crucial strategic questions here are: where in an industry to compete and which segments to focus on for sustainable advantage. Porter's focus is outward, he wants a firm to find segments which match its capabilities rather than building capabilities that match customer needs.

How does segmentation lead to competitive advantage for a firm? It reduces rivalry because there should be fewer competitors in any given segment; this should reduce downward pricing pressures. It reduces pressure from substitutes, because certain segments will not see a rival product as a substitute[10]. Further, it allows a firm to become the product of choice in a segment, even if the firm is

relatively small. Also, the firm can become the recognized expert on a segment, which may pay dividends for years in terms of lower product development costs.

In short, barriers to entry into the market that are not related to any potential anti-trust problems. These barriers are investment levels needed to play on the field with the rest of the teams; they represent investment in plant and equipment, certainly, but also (and more importantly) experience. I have a client who has developed a computer program that writes classified advertisements for residential real estate (more about this client and its products later). The research into this program now stretches back 20 years; although the computer program could probably be duplicated without excessive difficulty, anyone wishing to sell a similar program will start at a disadvantage because they lack the 20-year investment in learning about the real estate industry, what makes a good real-estate advertisement, what buyers want in houses and ads, what agents want, and so forth. As Davidow[11] puts it, segmenting and building a segment into a true target, developing not market share but share of the market in the segment, allows a small firm to own a segment, allows a David to slay a Goliath. Competitive advantage in spades!

What do we wish to gain strategically by segmenting, beyond the realization that we cannot be all things to all comers and that some customers are not worth having? Competitive advantage. We want to develop customers in the segments that are most profitable to our firm by giving the customers in those segments what they want and communicating with them, in language that they can understand, that we have done so. If we can do this in a way that keeps customers whom we do not want to attract from seeing or hearing our communications and thus staying away, so much the better. This is what Yavitz and Newman[12, p. 162] in another context have called “the right person and the right carrot”. In other words, the correct segment of customers and the correct offering. This is the easiest and surest method for developing competitive advantage – doing something better than the competition.

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#### What is the real question here?

Although Wright’s argument is based on the fact that segmentation and targeting are deficient in theoretical foundations, what seems to be his true objection seems to be that product-specific segmentation schemes are frequently subject to judgement-based decisions made prior to the cluster analysis that creates most segmentation typologies. Although Wright is correct, so far as his

argument goes, he is not *necessarily* correct. Typologies can be an important method of theory building, not just a descriptive tool. Doty and Glick[13] state that typologies are not simply “sloppy classification system[s]”. Properly constructed they are “complex theoretical statements that should be subjected to quantitative modeling and rigorous empirical testing”.

They state the following guidelines to improve the development of typologies which are theory-building: typological theorists should make explicit their grand theoretical assertion(s); typologies must define completely the set of ideal types; typologies must provide complete descriptions of each ideal type using the same set of dimensions; typological theories should explicitly state the assumptions about the theoretical importance of each construct used to describe the ideal types; typological theories must be tested with conceptual and analytical models that are consistent with the theory.

#### Is there a way out?

Further research is not the answer to the seeming dilemma posed by Wright’s arguments against segmentation and target marketing. These two techniques are far too important to marketing to be abandoned (see Cahill[14] for a further discussion).

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#### So where do we go?

Part of Wright’s difficulty with segmentation seems to be the plethora of single-use segmentation schemes to which he (and anyone else who reads the literature) has been exposed. And, given the defects of these schemes – the small sample sizes, the fact that many of the studies are based on convenience samples of university students who may or may not actually *use* the product in question, etc. – he has every right to be concerned about such defects as segment stability. I have read dozens of articles creating such segmentation schemes; I have dealt with several more since my consulting career began. It is hard to understand a priori how a person who fits into segment A when buying beer would fit into a segment (any segment) when buying a hamburger.

Nevertheless, there is a method – that method is using a more general segmentation scheme, rather than a product-specific scheme. Such schemes are often proprietary or, if they are academically-based, may be culture-dependent. Nevertheless, the broader brush with which these segmentation schemes paint society make it possible to fit a segment A beer drinker’s hamburger buying habits with his car purchases and where he

banks to build a composite picture of his consumer behaviour.

Schemes such as VALS and VALS 2 (by SRI International of Menlo Park, California (see [15] for an introduction) or List of Values (by Lynne Kahle of the University of Oregon and various associates (see [16] for an introduction) address these larger issues of stability and predictability across a vast array of products and services, albeit largely for the USA. A further benefit to the use of such schemes is the additional understanding of the consumer and the ability to communicate with him or her that such a broad-brush scheme permits.

It is particularly important to remember why we segment: to increase total sales and/or reduce sales costs. We do not segment simply because we can, nor do we segment to derive a theoretically elegant scheme. Without the ability to communicate easily with people in a segment while excluding those who do not belong in that segment, a scheme loses applicability. Thus, an interesting exploration into segmentation based on the Luscher Color Test – an attempt to link the test back to psychographic profiles[17] – fails in the practicality test because, no matter how effective the results, they cannot be used well to communicate with the segments, which is part of the goal of any segmentation scheme. Ultimately, this is the rock on which Mitchell's fanciful use of astrological signs would founder.

Nevertheless, we do have ways to segment beyond the syndicated methods discussed above. Given the rise of loyalty programmes monitored by scanners, retailers (and manufacturers, to a lesser extent) can certainly segment their customers on behavioural data: what are they actually buying, matched against who they are (data which are collected when the individual joins the loyalty programme), where they live, and where else they shop. The drawback with these data is, of course, that they are only valid for customers who join the programme: non-customers are not included. Nevertheless, scanner data hold out the promise of taking segmentation to the next level of applicability – if, perhaps, not to the next level of theoretical integrity which Wright would like to see.

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## Application questions

- 1 Summarize in 100 words or less why and how your organization segments its market.
- 2 Are there any other reasons to segment a market aside from "to increase sales and/or reduce sales costs"?