



CHAPTER 5

Customers, Segmentation, and Target Marketing

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Segmentation and Target Marketing

- Concerned with the individuals, institutions, or groups of individuals or institutions that have similar needs that can be met by a particular product offering
 - *The goal is to identify specific customer needs, then design a marketing program that can satisfy those needs.*
 - *The firm must have a comprehensive understanding of its current and potential customers, including their motivations, behaviors, needs, and wants.*
- Segmentation is critical to the success of most firms and has helped improve our standard of living.

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Buyer Behavior in Consumer Markets

- Often irrational and unpredictable
- Can progress through five stages (see next slide)
- Does not always follow these stages in sequence
- Strong brand loyalty can move consumers directly from need to purchase.
- Includes parallel decisions
 - *“What” to buy*
 - *“Where” to buy*

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The Consumer Buying Process (Exhibit 5.1)

- Need Recognition
- Information Search
- Evaluation of Alternatives
- Purchase Decision
- Postpurchase Evaluation

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The Consumer Buying Process: Need Recognition

■ Need

- *Occurs when the consumer's existing level of satisfaction does not equal their desired level of satisfaction*

■ Want

- *A consumer's desire for a specific product that will satisfy the need*

■ Demand

- *Occurs when a consumer's ability and willingness to purchase a specific product backs up their want for the product*

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Many people criticize marketing as being manipulative based on the argument that marketing activities create needs where none previously existed. Given what you now know about the differences between needs and wants, do you agree with these critics? Explain.

DISCUSSION QUESTIONS

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The Consumer Buying Process: Information Search

- Marketing activities can stimulate a desire for information
 - *Passive information search*
 - *Active information search*
- Sources of information
 - *Internal sources*
 - *External sources*

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The Consumer Buying Process: Information Search *(continued)*

- The amount of time, effort, and expense dedicated to information search depends on:
 - *Degree of risk involved in the purchase (financial risk, social risk, emotional risk, personal risk)*
 - *Amount of expertise with the product category*
 - *Actual cost of the search (time and money)*
- Evoked set
 - *A narrowed down set of alternatives that the customer is considering*

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The Consumer Buying Process: Evaluation of Alternatives

- Consumers evaluate products as bundles of attributes, each having a different level of importance (e.g., brand attributes, product features, aesthetic attributes, price)
- Important considerations
 - *Products must be in the evoked set*
 - *Consumers' choice criteria must be understood*
 - *Marketing programs must be designed to:*
 - Change the priority of choice criteria
 - Change consumers' opinions about product or brand image

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The Consumer Buying Process: Purchase Decision

- The intention to purchase and the act of buying are distinct concepts. Potential intervening factors (car example):
 - *Unforeseen circumstances*
 - *Angered by the salesperson or sales manager*
 - *Unable to obtain financing*
 - *Customer changes mind*
- Marketers overcome these factors by reducing the risk of purchase, making purchase easy, or finding creative solutions to unexpected problems.
- Key issues in the purchase decision stage
 - *Product availability*
 - *Possession utility*

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The Consumer Buying Process: Postpurchase Evaluation

- The connection between the buying process and developing long-term customer relationships
- Four possible outcomes
 - *Delight*
 - *Satisfaction*
 - *Dissatisfaction*
 - *Cognitive dissonance (postpurchase doubt)*
- Cognitive dissonance is more likely to occur when:
 - *Dollar value of the purchase increases*
 - *Opportunity costs of rejected alternatives are high*
 - *Purchase decision is emotionally involving*

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Factors Affecting the Consumer Buying Process

- Decision-Making Complexity
 - *The primary reason for variations in the buying process*
- Individual Influences
 - *Demographics, perceptions, motives, interests, attitudes, opinions, lifestyles, etc.*
- Social Influences
 - *Culture, subculture, social class, reference groups, opinion leaders, etc.*
- Situational Influences
 - *Affect the amount of time and effort devoted to the purchase task*

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Factors Affecting the Consumer Buying Process

EXHIBIT 5.2 Common Situational Influences in the Consumer Buying Process

Situational Influences	Examples	Potential Influences on Buying Behavior
Physical and spatial influences	Retail atmospherics Retail crowding Store layout and design	A comfortable atmosphere or ambience promotes lingering, browsing, and buying. Crowded stores may cause customers to leave or buy less than planned.
Social and interpersonal influences	Shopping in groups Sales people Other customers	Consumers are more susceptible to the influences of other consumers when shopping in groups. Rude sales people can end the buying process. Obnoxious "other" customers may cause the consumer to leave or be dissatisfied.
Temporal (time) influences	Lack of time Emergencies Convenience	Consumers will pay more for products when they are in a hurry or face an emergency. Lack of time greatly reduces the search for information and the evaluation of alternatives. Consumers with ample time can seek information on many different product alternatives.
Purchase task or product usage influences	Special occasions Buying for others Buying a gift	Consumers may buy higher quality products for gifts or special occasions. The evoked set will differ when consumers are buying for others as opposed to themselves.
Consumer dispositional influences	Stress Anxiety Fear Fatigue Emotional involvement Good/bad mood	Consumers suffering from stress or fatigue may not buy at all or they may indulge in certain products to make themselves feel better. Consumers who are in a bad mood are exceptionally difficult to please. An increase in fear or anxiety over a purchase may cause consumers to seek additional information and take great pains to make the right decision.

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Buyer Behavior in Business Markets

■ Four Types of Business Markets

- *Commercial markets*
- *Reseller markets*
- *Government markets*
- *Institutional markets*

■ Unique Characteristics of Business Markets

- *The Buying Center*
- *Hard and Soft Costs*
- *Reciprocity*
- *Mutual Dependence*

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The Business Buying Process

1. Problem Recognition
2. Develop Product Specifications
3. Vendor Identification and Qualification
4. Solicitation of Proposals or Bids
5. Vendor Selection
6. Order Processing
7. Vendor Performance Review

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Market Segmentation

- The process of dividing the total market for a particular product or product category into relatively homogeneous segments or groups
- Should create groups where members are similar to each other but dissimilar to other groups
- Involves the fundamental decision of whether to segment at all
- Typically allows firms to be more successful

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Traditional Segmentation: Mass Marketing

- Involves no segmentation whatsoever
- Is an undifferentiated approach
- Works best when the needs of an entire market are homogeneous
- Is efficient from a production standpoint
- Results in lower marketing costs
- Is inherently risky and vulnerable to competitors

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Traditional Segmentation: Differentiated Marketing

- Involves dividing the total market into groups of customers having relatively common or homogenous needs and developing a strategy to pursue one or more of these groups
- Multisegment Approach
 - *Attracting buyers in more than one segment by offering a variety of products that appeal to different needs*
- Market Concentration
 - *Focusing on a single market segment and attempting to gain maximum share in that segment*

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Traditional Segmentation: Niche Marketing

- Focuses marketing efforts on one small, well-defined market segment or niche that has a unique, specific set of needs
- Requires that firms understand and meet the needs of target customers so completely that the firm's substantial share of the segment makes it highly profitable

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Identifying Market Segments

- Involves selecting the most relevant characteristics to identify and define the target market or market segment
- Successful market segments must fulfill five criteria
 - *Identifiable and measurable*
 - *Substantial*
 - *Accessible*
 - *Responsive*
 - *Viable and sustainable*
- Avoid ethically sensitive, but legal, segments
- Avoid segments that do not match the firm's expertise

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Market Segmentation in Consumer and Business Markets

■ Segmenting Consumer Markets (see Exhibit 5.3)

- *Behavioral segmentation*
- *Demographic segmentation*
- *Psychographic segmentation*
- *Geographic segmentation*

■ Segmenting Business Markets

- *Type of organization*
- *Organizational characteristics*
- *Benefits sought or buying process*
- *Personal and psychological characteristics*
- *Relationship intensity*

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Benefit Segmentation of the Snack Food Market (Exhibit 5.4)

	Nutritional Snackers	Weight Watchers	Guilty Snackers	Party Snackers	Indiscriminant Snackers	Economical Snackers
Benefits Sought	Nutritious, all-natural ingredients	Low calorie, quick energy	Low calorie, good tasting	Can be served to guests, goes well with beverages	Good tasting, satisfies hunger cravings	Low price, best value
Types of Snacks Eaten	Fruits, vegetables, cheeses	Yogurt, vegetables	Yogurt, cookies, crackers, candy	Potato chips, nuts, crackers, pretzels	Candy, ice cream, cookies, potato chips, pretzels, popcorn	No specific products
Snack Consumption Level	Light	Light	Heavy	Average	Heavy	Average
Percentage of Snackers	23%	15%	10%	16%	16%	19%
Demographic Characteristics	Better educated, have young children	Younger, single	Less educated, lower incomes	Middle aged, suburban	Teens	Better educated, larger families
Psychographic Characteristics	Self-assured, controlled	Outdoorsy, influential, venturesome	Anxious, isolated	Sociable, outgoing	Hedonistic, time deprived	Self-assured, price sensitive

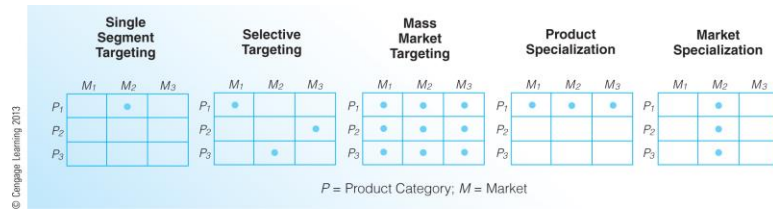
Source: Adapted from Charles W. Lamb, Jr., Joseph F. Hair, Jr., and Carl McDaniel, *Marketing* 7th ed. (Mason, OH: South-Western, 2004), p. 224.

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Target Marketing Strategies (Exhibit 5.6)



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The size of the consuming population over the age of 50 continues to grow. What are some of the current ethical issues involved in targeting this age group? As this group gets older, will these issues become more or less important?

Explain.

DISCUSSION QUESTIONS

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