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"Some Practical and Theoretical Difficulties of Target Marketing"

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SOME PRACTICAL & THEORETICAL DIFFICULTIES OF TARGET MARKETING

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Abstract

Most major marketing textbooks, including Kotler's, have long argued for target marketing as the superior strategy, encouraging marketers to find and pursue exclusive segments within their competitive category. We argue for more critical questioning of this theory and the development of a more thorough epistemological basis to the theory. We highlight empirical evidence that competing brands seldom sell to different sorts of customers, even when the brands' marketing strategy is obviously predicated on the belief that the brand appeals to a distinct segment. We show that it is difficult, or at least wasteful, to use media that targets a specific segment. We encourage marketing theorists to develop a more realistic, empirically grounded, theory of target marketing.

SOME PRACTICAL & THEORETICAL DIFFICULTIES OF TARGET MARKETING

Background

Target marketing has been promulgated by marketing practitioners and academics for decades as an important strategy for competitive brands. Smith's paper (1956) is regarded as the seminal work that popularised the notion of segmentation. Since then, rarely has a marketing strategy textbook been published that did not reference segmentation and targeting. Many include extensive discussion on the techniques available to segment markets and the technical differences between approaches and, indeed, there are textbooks that focus entirely on such issues (e.g. Hooley et al., 2004). Throughout all is the unquestioned premise that marketers in all conditions should divide up the market into segments and tailor marketing activities to meet the needs of that specific segment. This is supposed to give marketers the opportunity to better satisfy the needs of that subgroup, which will help attract new customers and retain existing customers (Keller et al., 1998). Target marketing is said to deliver greater efficiency and higher ROI that will ultimately deliver higher profitability.

However, to date there has been scarce systematic empirical testing of the underlying assumptions of segmentation and target marketing. Against the orthodoxy there have been a few questioning minds. Wright and Esslemont (1994) challenged the <u>logic</u> of segmentation and targeting, showing that it is not a truism that the ROI from targeting a segment will always be greater than the ROI from focusing on the entire market. Other authors have tested empirically whether or not competing brands do indeed have different customer bases – something that would be a logical outcome of an effective segmentation and targeting strategy. As far back as 1959, Evans found little difference in the personality of buyers of brands (Evans, 1959), and this was replicated by Westfall (1962). More recently, Ehrenberg and colleagues have empirically profiled competitive brands' user profiles (Hammond et al., 1996, Kennedy and Ehrenberg, 2000, Kennedy and Ehrenberg, 2001). The consistent finding being that there is no distinctive 'Coke buyer' or 'Pepsi buyer'. But rather, that there are 'soft drink buyers', and their characteristics are similarly reflected in each soft drink brand's customer base.

In 1992, Armstrong made the startling empirical conclusion that many Marketing Principles textbooks cite no useful principles (Armstrong and Schultz, 1992). University degrees, executive courses and conferences are unlikely to be better. In order to begin to redress this situation, it is important that claims made in the literature and the epistemological basis of these claims be subjected to serious scrutiny. This paper contributes to this through investigating one area that is closely linked to segmentation that is the notion of target marketing. Our aim is to sow doubt, and stimulate critical thinking and research.

Segmentation and Target Marketing

As most likely the biggest selling textbook on marketing in Australia and possibly the world, we focus on the Kotler et al (1998) textbook "Marketing" as a representation of a the classic teaching in this area. Indeed, that Kotler has been hailed as "the world's leading strategic marketer" (www.kotlermarketing.com/ 8/11/05) and awarded many academic prizes further encourages us that his views are critical to validate.

The Kotlerian view of target marketing is that it represents 'best practice'…

Organisations that sell to consumer and business markets recognise that they cannot appeal to all buyers in those markets…. Buyers are too numerous, too widely scattered and too varied in their needs and buying practices. And different companies vary widely in their abilities to serve different segments of the market. Rather than trying to compete in an entire market, sometimes against superior competitors, each company must identify the parts of the market that it can serve best.

Marketing has passed through three stages:

Mass marketing. [Here] the seller mass produces, mass distributes and mass promotes one product to all buyers. At one time, Coca-Cola produced only one drink for the whole market, hoping it would appeal to everyone. The argument for mass marketing is that it should lead to the lowest costs and prices and create the largest potential market.

Product-variety marketing. Here, the seller produces two or more products that have different features, styles, quality, sizes and so on. Later, Coca-Cola produced several soft drinks packaged in different sizes and containers. They were designed to offer variety to buyers rather than to appeal to different segments. The argument for product-variety marketing is that consumers have different tastes that change over time. Consumers seek variety and change.

Target marketing. Here, the seller identifies market segments, selects one or more of them, and develops products and marketing mixes tailored to each. For example, Coca-Cola now produces soft drinks for the sugared-cola segment, the diet segment, the no-caffeine segment and the non-cola segment…

Sellers can develop the right product for each target market and adjust their prices, distribution channels and advertising to reach the target market efficiently. Instead of scattering their marketing efforts (the 'shotgun' approach), they can focus on the buyers who have greater purchase interest (the 'rifle' approach).

While this may sound logical and straightforward, all is not as it seems. There are a number of problems. The above statement is conceptually sloppy. For instance, it is unclear in what ways the examples of target marketing differ from the less sophisticated and therefore to-be-shunned product-variety marketing. Yes, Coca-Cola now markets many brands of soft drink, but is this to satisfy the distinct needs of particular groups of buyers, or to satisfy demand for variety? Naming a segment does not mean it exists. We could similarly create segment names to match Kotler's product-variety strategy (eg the high quality segment, the large pack size segment, and so on). It is instructive then to investigate empirically whether or not each of Coca-Cola's brands sell to different people, as they would if a company engaged in successful segmentation and targeting. Kotler presents no such data to ground his claims, marketing textbooks rarely do.

The following table shows the proportion of various soft drinks' customer bases who also bought a Coca-Cola during the period. The data is UK TNS 'Impulse Panel' data. As can be seen, a high proportion of each brand's buyers also bought Coca-Cola, and this proportion varies little between the different brands – always about 70%. Several of the brands are marketed by Coca-Cola. This is direct counter evidence that these individual brands sell to distinctly different segments of buyers. So, the segments are not unique, nor exclusive. This pattern of switching between competing brands is not new, having been documented since the 1950s (Ehrenberg, 1959). It is unfortunate that segmentation theory has not caught up with these empirical, law-like regularities in consumer behaviour.

Sharing of customers	
Buyers of X during the period:	% of X buyers who also bought (regular) Coca-cola during the period
Diet Coke	65
Fanta	70
Lilt	67
Pepsi	72

Kotler et al goes on to use the example of toothpastes as a shining example of target marketing. Kotler et al claim that Colgate provides numerous varieties to the market, each successfully targeting and meeting the needs of a specific segment. "These include 'normal' toothpaste, gel toothpaste, children's toothpaste, tooth whitening toothpastes, anti-bacterial, tartar control, toothpaste for sensitive teeth, and toothpaste with extra strong fluoride". However, there is no evidence of Colgate actually targeting specific segments. To say that the tartar control toothpaste appeals to the tartar control segment, or those who seek the benefit of tartar control is circular logic, at best. Kotler et al (p. 296) tell us that marketers "develop the right product for each target market and adjust their prices, distribution channels and advertising to reach the target market efficiently". But in this example (as for Coca-Cola), this does not hold up to scrutiny. Colgate do not use different distribution channels for their tartar control product, in fact their products are on the same shelf, in the same stores, put there by the same merchandisers. The price is within a few cents of one another and while there might be different ads for some products (mostly, there is brand-level advertising), they are typically in the same [mass] media. And television in particular is known for its wide, unsegmented reach. The difference in the marketing mixes in this case, then, is almost exclusively the difference that exists between the products themselves and the role of advertising only to 'bring to public notice' that different products exist and are available. These seem to fit perfectly Kotler's definition of product-variety marketing. We continue our critique with discussion of two examples where targeting has failed.

1) Targeting/differentiation do not necessarily produce the expected results – some empirical examples

a) The first example relates to a credit card co-branded by a maternity hospital (this has been reported previously, see Sharp et al., 2001). This credit card was thought to appeal to a distinct segment – namely women, particularly with children. The credit card brand gave a donation to the maternity hospital for every dollar spent using the card. It was promoted at the hospital and it featured a prominent picture of a mother and baby on each card. This last feature was thought to be particularly off-putting to the rest of the population, especially single males. Analysis revealed that even with this extreme attempt at differentiation and targeting, the brand did not especially appeal to the female part of the market, no more than any other brand did. Nor did it particularly appeal to women with children. In this case, the marketing team had a clear and unique story to take to the market, something that would differentiate their credit card from the others in the market, and something that would be able to attract attention and sales from a distinct segment . But really, the brand's biggest aspect was only that it was a credit card – so it sold to people interested in a credit card.

b) The second example relates to Nestle's chocolate bar Yorkie with its slogan "It's not for girls" which is forthright in identifying its target audience, by elimination. Despite the clear positioning as targeting boys, TNS panel data shows 47% of Yorkie buyers are female.

2) Examples of targeting/differentiation that produce different user bases

Sometimes a brand (or class of brands) is successful at appealing to a different customer base. At least statistics are able to identify that their users are slightly different. However, there is a clear difference between the differences that statistical analysis can reveal and that which can be meaningfully used by a marketer. The following example highlights the sorts of differences that have been shown to exist.

Taking UK TGI data (which is independent, large scale and typical of the sort used for segmentation studies) from the users of the top 10 washing liquids, we looked at their responses to a very pertinent question to demonstrate this difference (or lack of difference) in user bases. On average, 11% of all washing liquid users agreed with the following statement: *"I am prepared to pay more for environmentally friendly products"*. Users of the supermarket brands were somewhat less likely to agree (ie 7% of Asda users; 9% of Tesco users), while users of any independent "Green" product were clearly "different", with 36% of these products' users agreeing.

While results such as this are not uncommonly used to justify the process of targeting and segmentation, there are three key points that must be made. The first relates to the issue of attitude-behaviour correlations and questions whether these people just describe what they do when asked (ie paying more for a green product) or are they a fundamentally different sort of person that can be targeted and reached through marketing activity? Related to this is the important point that there is a stream of research that has increasingly called into question the temporal stability of attitudinal statements such as these (Castleberry et al., 1994, Dall'Olmo Riley et al., 1997). These results suggest that it is less likely that there are fundamentally different types of people with enduring beliefs that relate to their brand purchase behaviour. Secondly, in the example quoted, a question arises of what about the majority (the 64%) of users of the Green product who did not agree with this statement. Thirdly, and perhaps most importantly, from results such as these it is not at all clear how management would be able to [exclusively] reach these individuals through marketing activity. Irrespective of the strength of the segmentation variable, it remains an important step in the segmentation and targeting process that in order to employ the process and thereby access the marketing efficiencies espoused that users' choice behaviour will vary in relation to the variable. That is, that green/environmentallyconscious individuals will engage in unique marketing-related behaviours, e.g. reading different magazines, watching different programs and the like.

Another example from the UK TGI data is the difference in profile of users of Ski Diet and St.Ivel Shape yoghurts when compared with the other top 10 brands of Yoghurt. Users of the diet brands were more likely to agree with the statement *"I always think of calories in what I eat"* when compared to users of other brands (Ski Diet and Shape 15% each versus average of 7% agreeing among users of other brands). The users of these diet brands were also more likely to agree that they *eat plenty of fibre* and *eat less fat nowadays* but the differences in raw numbers of their customers agreeing with these statements compared with other brands was not great (ie 39% vs 29%). In respect of the other broad range of aspects measured, the differences were even smaller. Furthermore, the diet brands' customer profiles did not differ to the other typical brands in terms of the age of users, their gender, work or family status, geographic location or media that they read (see Kennedy et al., 2000 for a thorough analysis that shows the similarities across a vast number of product categories and more than 11,000 variables). Again, the practical issue of how to selectively reach these people comes to the fore. If attitudes are not dramatically different between users and non-users, and this is largely as a result of most users not holding a particular attitude, and if there are no practical demographic differences to distinguish users of one brand to another, then clearly the task of targeting and reaching specific individuals through the use of specific media is going to have practical constraints.

3) Using targeted media to target a specific segment of a 'differentiated' brand does not produce useful results

Kennedy et al, 2003 in an unpublished study looked at the deviations in user profiles between different categories of alcoholic drinks. They found typically that deviations from the population incidence were less than 5 percentage points. Thus, where a sub-group were 50% of the survey, then between 45% and 55% of any brands' users would be in that group. Kennedy et al note that the highest deviation of note was in the stout market, and the difference was in use between males and females. Perhaps to some this would be unsurprising, in that they could guess that males would have a much higher incidence of drinking stout. What is, perhaps, interesting then, is that the difference was so small – a deviation of only 11 percentage points – the market for stout being composed of 58% male and 42% female (compared to sample composition of 47% male : 53% female). So, the market for stout has a male skew – roughly 60% males versus 40% females. Such findings bring into question the value of targeting a group and risk excluding or alienating others.

In analysing their customer base and use of targeted media, managers should be careful about the direction of causality. Often, analyses for the purposes of segmentation and targeting will rely on correlations between items such as whether someone is a customer or non-customer and the media they use. In the case of a company who has previously heavily (or exclusively) used a targeted media vehicle, their customer base may be over represented in terms of being audience members of that vehicle. The company may then infer that they appeal to or attract the types of people who read/watch that vehicle and that this confirms their ongoing heavy use of that vehicle. While rather, it may have been the company's choice of using that vehicle that had thereby restricted their reach outside of this market and a broader appeal, that reached more people, would likely be successful.

4) Confusing small reach media with being well targeted – the case of PayTV

Pay TV is often sold to advertisers as delivering targeted highly involved audiences. The argument being that specialist channels attract specialist audiences. And because viewers have chosen to pay for the channel, they must be interested in the content and 'watch harder'. While this sounds plausible, it turns out to be nonsense. At least in Australia, Pay TV does not deliver different nor more involved audiences, it simply delivers smaller audiences.

The analogy with specialist magazines is inappropriate because TV channels are typically sold in bundles of many channels. So, most subscribers of a particular pay channel are not people who deliberately selected to buy this particular channel – it just came with their bundle. In the case of specialist magazines, a person who buys, Decanter magazine undoubtedly has a serious interest in wine, so this magazine *does* deliver a targeted (but also

very small) audience. In contrast, by and large viewers of the FashionTV channel are not fashion enthusiasts (a few are, but most aren't) they are normal people with pretty much a normal interest in fashion and an occasional willingness to watch FashionTV a bit.
Most often, it is accidental viewing that represents a huge part of the audience for small channels. In Australia the reach of a typical pay channel halves when you count those people who watch for at least 10 minutes rather than for 1 minute. As Ephron pointed out in 1993, the size of the audience who at any time are switching between channels, or 'channel surfing' is dramatically larger than the rating of the average PayTV channel. Thus, it is this "accidental" viewing, where people flick and happen to pause on one channel when they see something interest, that tends to dominate the viewer composition of the smaller channels. The result of this is that even narrow-cast (seemingly highly differentiated and targeted) channels tend to collect undifferentiated audiences.
It is a common misconception that a genre-specific channel must skew to a targeted audience. But in actual fact, the skew is far less than is anticipated. For example, in the UK the pay channel "Men and Motors" runs with the tag line "fast cars and women" – unashamedly targeting men. And yet, 30% of its viewers are women. But more importantly (and this point is frequently overlooked) is that hardly any men at all actually watch it. Only about 5% of male viewers who actually subscribe to the channel watch it at all in a week, and of those who do watch it, they devote less than one hour to it. These same men spend many more hours (18 hours each week) watching the Free-To-Air channels.

Conclusions

In conclusion, the dominant focus on segmentation and targeting may distract marketers from the activities that will give them the best return for their efforts. Segmentation and targeting are not necessarily successful routes to produce different user bases for most brands and they may, in fact, unnecessarily limit the market potential. When they do result in differences these are likely to be small differences that may not have any managerial usefulness. Clearly marketers need to be aware of these potential problems. We encourage more analysis and consideration of alternatives before segmentation and targeting are undertaken. Similarly academics need to do more work to determine when segmentation and targeting are useful and when they are not.

Proponents of target marketing often cite the commercial success of brands whose marketers have a publicly-stated strategy of target marketing. This is a weak test. For a start, most marketers, successful or unsuccessful, claim to be adherents of target marketing – so most likely there are a vast number of unsuccessful brands and companies who adhere to segmentation and targeting. Secondly, in spite of marketers' stated aims it is possible that their success has come as a result of either a) mis-classifying people as to their 'true' segment membership; b) getting the bulk of sales response from people outside of the target group; or c) through the inefficient and 'wasteful' aspect of most mass media in reaching people outside of the target segment rather than only those in the target segment. In practice, it may often be some combination of all three.

What our paper seeks to show is that, the answer as to whether segmentation and targeting is worthy must be at this stage be "it depends". And unless one knows from the outset upon which conditions it does depend, then one could very well be making decisions that are contrary to desired objectives. To the detriment of marketing, there has been scant scientific knowledge to do with segmentation. That there are so few caveats issued when teaching segmentation and targeting has meant that the teachings have been given 'on faith’. The important first step is to begin the process of scientific enquiry from first principles and actually question whether the faith placed in this popular belief is warranted.

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