

LECTURE NOTES

CHAPTER OPENING EXAMPLE

THE MULTIPLE FACES OF THE AFFLUENT ASIAN ADULT

A. Five Distinct Groups of Asian Affluent Adults

- The survey was conducted in Australia, Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand.
- These individuals are categorized according to their different attitudes, media exposures and habits, and product consumption patterns.
- The groups are (from the largest to smallest group):
 1. “Work to Lives”
 - a. Size: 28% of the group
 - b. Age: 45 years old and above
 - c. Characteristics:
 - Seek to achieve a work-life balance, and are environmentally aware and socially conscious
 - Well educated, watch less television, and read more newspapers
 - Have lower ownership of household and personal items
 2. “Gimmes”
 - a. Size: 25% of the group
 - b. Age: 25 – 34 years old
 - c. Characteristics:
 - More females in this group
 - Self-centered and fashion conscious individuals, and seek luxuries
 - Have high internet penetration, terrestrial television and cell phone content viewership
 - Love to travel, are less interested in sports, and are concerned about being up-to-date with information
 - Less concerned about the environment or their contribution to society
 3. “Executive Warriors”
 - a. Size: 21% of the group
 - b. Characteristics:
 - Mostly males and top-income earners
 - Well educated, work for big companies, have global outlook, and travel widely for work

- Highest penetration for the internet and usage of email and instant messaging
 - Highest ownership of personal and household items
 - See the need to stay current and access information through reading newspapers and magazines, watching cable TV and terrestrial television, and connecting to mobile devices
4. “HUMmers”
- a. Size: 15% of the group
 - b. Characteristics:
 - Hungry, urban and mobile individuals who are career oriented and have a positive outlook
 - Have relatively lower income, but strive to move up the corporate ladder
 - Watch a lot of television but read less print materials
 - Image conscious thus showing highest spending on cosmetics and perfume/cologne
 - Very quality conscious when purchasing products
5. “Luxury Loyalties”
- a. Size: 12% of the group
 - b. Characteristics:
 - Consist of older individuals and has more women
 - These women are usually married and not working
 - Tend to purchase more of luxury products such as jewelry and clothing, and fewer digital products
 - Tend to be brand loyal and not open to new brands
 - Seek the views and advice of others in their choice of products and brands

B. Market Segmentation, Targeting and Positioning

- Study shows that affluent adults in Asia are not homogenous thus marketers will not reach out to them in the same way.
- *Market segmentation* is the process of dividing consumers into distinct groups.
- Marketers focus their marketing efforts on certain groups rather than spend equal effort on all the groups. The strategy of focusing on a certain groups of consumers is called *targeting*.
- Marketers use different messages to sell the same products to different groups. The strategy of using different messages to communicate to different groups is called *positioning*.

I. WHY SEGMENT MARKETS? [LO1]

- A business firm segments its markets to respond more effectively to the wants of groups of potential buyers to increase sales and profits.
- Not-for-profit organizations also segment the clients they serve to satisfy their needs more effectively while achieving its goals.

A. What Market Segmentation Means

- **Market segmentation** involves aggregating prospective buyers into groups, or segments, that (1) have common needs and (2) will respond similarly to a marketing action.
- **Market segments** are the relatively homogeneous groups of prospective buyers that result from the market segmentation process.
- Different market segments cause firms to use **product differentiation**:
 - a. Which is a marketing strategy that involves a firm using different marketing mix activities to help consumers perceive the product as being different and better than competing products.
 - b. Whose perceived differences may involve physical features or nonphysical ones, such as image or price.

1. Segmentation: Linking Needs to Actions.

- a. The process of segmenting a market and selecting specific segments as targets is the link between the various buyers' needs and the organization's marketing program (Figure 9-1).
- b. Market segmentation stresses two things:
 - Forming meaningful groupings. People or organizations should be grouped into a market segment according to the similarity of their needs and the benefits they look for in making a purchase.
 - Developing specific marketing mix (4 Ps) actions.

2. How Reebok's Segmentation Strategy Developed

- a. In 1979, Paul Fireman wandered through an international trade fair and saw Reebok's custom track shoes. He bought the U.S. license from the British manufacturer and starts selling running shoes in 1981.

- b. In 1982, he introduced soft-leather aerobic dance shoes in flamboyant colors-the Reebok Freestyle. Other varieties are introduced such as tennis and basketball shoes in 1984, cross-training shoes in 1988, and golf shoes in 1997 (Figure 9-2).
- c. Reebok's sneaker business is worth US\$3 billion-a-year. The expansion of its targets and products (as shown in Figure 9-2) resulted from its need to generate more sales through new opportunities.

3. Using Market-Product Grids

- a. A **market-product grid** is a framework to relate the marketing segments of potential buyers to products offered or potential marketing actions by the firm.
- b. In a complete market-product grid analysis, each cell in the grid can show the estimated market size of a given product sold to a specific market segment.
- c. The Marketing Matters box describes how several Asia companies have used market segmentation and targeting strategies to reach specific groups of customers.

MARKETING MATTERS

Market Segmentation and Targeting

Futuristic Group

Futuristic Group is an interior store fixtures specialist with its headquarters in Singapore. The company segments its customers by: (1) geographical markets, (2) market positioning, and (3) type of products retailed.

Samsung Electronics

Samsung Electronics has outlined its strategy to grow its printer business in Asia. It segments the market into SOHOs (small office home office), SMBs (small medium business), and corporations and institutions.

WBL Corporation

WBL Corporation is a Singapore-listed company. Currently, part of its business is in flexible printed circuit board manufacturing and application. It plans to diversify into the automotive electronics segment by working with manufacturers such as Delphi and Siemens VDO Automotive Inc., and supplying flexible printed circuit boards for automotive parts such as brakes. The company also plans to segment into medical devices and power adaptors.

Nera Telecommunications

Nera Telecommunications is another Singapore listed company. The company is involved in three segments: telecommunications, information communications, and electronics. The company offers different products for different segments.

China Sports International

China Sports International (CSI) produces footwear and apparel and markets them to the low- to mid-end segments of the China market, compared to China Hongxing Sports, which caters to the mid- to high-end segments.

B. When to Segment Markets

- Business firms go to the trouble and expense of segmenting its markets when they expect that this will increase its sales, profit, and return on investment.
- When expenses are greater than the potentially increased sales from segmentation, a firm should not segment its market.
- Three specific segmentation strategies that illustrate this point are: (1) one product and multiple market segments, (2) multiple products and multiple market segments, and (3) “segments of one,” or mass customization.

1. One Product and Multiple Market Segments.

- a. When a firm produces only a single product or service and attempts to sell it to two or more market segments, it avoids the extra costs of developing and producing additional versions of the product.
- b. The incremental costs of taking the product into new market segments are typically those of a separate promotional campaign or a new channel of distribution. Although these expenses can be high, they are rarely as large as those for developing an entirely new product.
- c. Examples:
 - *Time* magazine now publishes more than 100 international editions, each targeted at unique geographic and demographic segments using a special mix of advertisements.
 - LG Electronics uses different sales promotion programs to target different segments of the LCD television markets: those interested in sports, movies, or digital lifestyle.
 - Harry Potter’s phenomenal success is based both on author J. K. Rowling’s fiction-writing wizardry and her publisher’s creativity in marketing globally to preteen, teen, and adult segments of readers.

2. Multiple Products and Multiple Market Segments.

- a. Marketing different products is more expensive but justified if it serves customers' needs better, doesn't reduce quality or increase price, and adds to sales and profits. For example, Reebok targets different styles of shoes to different type of users.
- b. Marketing experts increasingly emphasize the two-tier. Many firms are now offering different variations of the same basic product or service to high-end and low-end segments. For example, Gap's Banana Republic chains sell blue jeans for US\$58, whereas its Old Navy stores sell a slightly different version for US\$22.

3. Segments of One: Mass Customization.

- a. The essence of *customer relationship management* (CRM) is that every customer has unique wants and needs.
- b. Internet ordering and flexible manufacturing and marketing processes have made *mass customization* possible, tailoring goods or services to the tastes of individual customers on a high-volume scale.
- c. Mass customization is the next step beyond *build-to-order* (BTO), manufacturing a product only when there is an order.
- d. Successful product differentiation and market segmentation finds the ideal balance between satisfying a customer's individual wants and achieving organizational **synergy**, the increased customer value achieved through performing organizational functions more efficiently.
- e. This increased customer value can take many forms: more products, improved quality, lower prices, and easier access to products through improved distribution.
- f. The organization should also achieve increased revenues and profits from the product differentiation and market segmentation strategies it uses.

LEARNING REVIEW

1. Market segmentation involves aggregating prospective buyers into groups that have two key characteristics. What are they?

Answer: The groups should (1) have common needs and (2) will respond similarly to a marketing action.

2. When should a firm segment its market?

Answer: Business firms go to the trouble and expense of segmenting its markets when they expect that this will increase its sales, profit, and return on investment.

II. STEPS IN SEGMENTING AND TARGETING MARKETS [LO2]

- The process of segmenting a market and then selecting and reaching the target segments is divided into five steps.
- Segmenting a market is not an exact science—it requires large doses of common sense and managerial judgment.
- Example: Supposed you own a restaurant in Singapore, in a building that is located next to the Singapore Management University and surrounded by offices in Central Business District. You sell a selection of Asian food, beverages and desserts. How can market segmentation help?

A. Step 1: Group Potential Buyers into Segments [LO3]

Grouping potential buyers into meaningful segments involves meeting some specific criteria that answer the question: “Would segmentation be worth doing and is it possible?”

1. **Criteria to Use in Forming the Segments.** A marketer should develop segments for a market that meet five main criteria:
 - a. *Potential for increased profit.* If future profit and ROI are maximized without segmentation, don't segment.
 - b. *Similarity of needs of potential buyers within a segment.* Potential buyers within a segment should be similar in terms of a marketing action, such as product features sought or advertising media used.
 - c. *Difference of needs of buyers among segments.* If the needs of the various segments aren't very different, combine them into fewer segments. If increased sales don't offset extra costs, combine segments and reduce the number of marketing actions.
 - d. *Potential of a marketing action to reach a segment.* Reaching a segment requires a simple but effective marketing action. If no such action exists, don't segment.
 - e. *Simplicity and cost of assigning potential buyers to segments.* Marketing manager must be able to recognize the characteristics of potential buyers and then assign them to a segment without encountering excessive costs.
2. **Ways to Segment Consumer Markets.** Variables to segment consumer markets can be divided into two general categories: customer characteristics and buying response (figure 9-4).

Some examples of markets segmented using *customer characteristics*:

- a. *Geographic customer characteristic: Region.* Campbell's found that their canned nacho cheese sauces was too hot for some customers in North Asia and not hot enough for most consumers in South and Southeast Asia. The result: Campbell produced a hotter sauce to serve the South and South Asian regions better.
- b. *Demographic customer characteristic: Household size.* About a quarter of all Asian households are made up of only one or two persons, so Campbell's packages meals with one or two servings from its breakfast to dinners.
- c. *Psychographic customer characteristic: Lifestyle.* Claritas's lifestyle segmentation is based on the belief that people of similar lifestyle characteristics tend to live near one another, have similar interests, and buy similar products and services.

Some examples of markets segmented using *buying responses*:

- a. *Benefits sought: Product features.* Understanding what benefits are important to customers is a useful way to segment markets because it can lead directly to specific marketing actions. For example, Speedpass by Exxon Mobil is payment systems targeted at motorists who are in hurry and do not have time to queue to make payment.
- b. *Usage/patronage: Usage rate.*
 - **Usage rate** is the quantity consumed or patronage (store visits) during a specific period.
 - *Frequency marketing* is a program that encourages consumers to use the product or service repeatedly.
 - In market segmentation, some measure of usage by, or sales obtained from, various segments is central to the analysis.
 - To obtain usage rate data, the Simmons Market Research Bureau semiannually surveys about 25,000 adults 18 years of age and older to discover how the products and services they buy and the media they watch relate to their lifestyle and demographic characteristics.
 - Usage rate may be referred to in terms of the **80/20 rule**, a concept that suggests 80 percent of a firm's sales are obtained from 20 percent of its customers.
 - Example: The Simmons survey data in Figure 9-5 shows that:
 - 15.0% of the U.S. population who are heavy users of fast-food restaurants provides 34.6% of the consumption volume, or more than

twice the consumption of the average customer. Thus, as a Wendy's restaurant owner, target the heavy-user segment.

- Patrons were asked if each restaurant was: (1) the only restaurant they went to, (2) the primary one, or (3) one of several secondary ones.
 - The Wendy's bar in Figure 9-6 shows that your 'Sole' (0.6%), 'Primary' (19.1%), and 'Secondary' (10.9%) user segments are somewhat behind Burger King and far behind McDonald's.
 - A strategy: look at these two competitors and devise a marketing program to win customers from them.
 - The 'Nonusers' in Figure 9-6 shows that 13.7 % of adult Americans also in Figure 9-6 don't go to fast-food restaurants in a typical month and are really 'Nonprospects'—those 'Nonusers' unlikely to ever go to your restaurant.
 - But the 55.7 % who are 'Prospects' may be worth targeting. These adults use the product category (fast-food restaurants) but do not go to Wendy's. New menu items or new promotional strategies might succeed in converting these prospects into users.

3. Variables to Use in Forming Segments for Your Restaurant.

Because the restaurant is located near a large urban university, the most logical starting point for segmentation is really behavioral: prospective customers are either students or nonstudents.

a. Four student segments include:

- Students living in dormitories.
- Students living near the college in apartments.
- Day commuter students.
- Night commuter students.

b. Three nonstudent segments include:

- Faculty and staff members at the university.
- People who live in the area but aren't connected with the university.
- People who work in the area but aren't connected with the university.
- People who do not work in the area but visit the area for business and social reasons

4. Ways to Segment Organizational Markets. Variables to segment organizational markets include *geographic, demographic, nature of good and buying condition.*

a. Example on Xerox product:

- *Geographic customer characteristic: Statistical area.* Different methods are used to call firms in metropolitan and micropolitan statistical area.
- *Demographic customer characteristic: SIC code.* Firms are categorized by the SIC code by the manufacturers as different firms have different printing needs.
- *Demographic customer characteristic: Number of employees.* Xerox targets differently at firms with varying number of employees as the volume of digital documents produced by these firms vary too.
- *Benefits sought: Product features.* Xerox targets organization differently based on their needs and benefits and features they need.

LEARNING REVIEW

3. The process of segmenting and targeting markets is a bridge between what two marketing activities?

Answer: identifying market needs and taking marketing actions

4. What are two main ways to segment consumer and organizational markets?

Answer: Both consumer and organizational markets can be segmented based on customer characteristics and buying responses.

B. Step 2: Group Products to Be Sold into Categories

- Finding a means of grouping the products a firm sells into meaningful categories is as important as grouping customers into segments. Firms with many products such as department stores and supermarkets are organized into product groups, with the departments or aisles containing related merchandise. Manufacturers also have product lines grouped together and use them in catalogs.
- What are the product groupings for your restaurant? It could be the item purchased, such as a Japanese sushi.
- Students and office workers are buying an eating experience or a meal that satisfies a need at a particular time of day, so product grouping can be defined by meal or time of day as breakfast and lunch. Groupings are more closely

related to the way purchases are actually made and permit you to market the entire meal, not just your beverages or desserts.

C. Step 3: Develop a Market-Product Grid and Estimate Size of Markets [LO4]

- Developing a market-product grid means labeling the markets (or horizontal rows) and products (or vertical columns), as shown in Figure 9-8.
- In a complete market-product grid analysis, each cell in the grid can show the estimated market size of a given product sold to a specific market segment. This estimation is a form of the usage rate analysis discussed earlier in the chapter.
- The market sizes may be simple “guesstimates” if you don’t have time for formal marketing research. But even such crude estimates of the size of specific markets using a market-product grid are helpful in determining which target market segments to select and which product groupings to offer.

D. Step 4: Select Target Markets

A firm must take care to choose its target market segments carefully:

- If it picks too narrow a set of segments, it may fail to reach the volume of sales and profits it needs.
- If it selects too broad a set of segments, it may spread its marketing efforts so thin that the extra expenses are more than the increased sales and profits.

1. **Criteria to Use in Selecting the Target Segments.** Two different kinds of criteria in the market segmentation process are those used to: (1) divide the market into segments and (2) actually pick the target segments.

The five criteria used in actual selection of target segments are:

- a. *Market size.* The estimated size of the market is a critical factor in deciding whether it’s worth targeting.
- b. *Expected growth.* Assess whether the market segment is projected to grow in the future.
- c. *Competitive position.* Assess the firm’s position in the segment relative to current and expected future competition.
- d. *Cost of reaching the segment.* If inaccessible to a firm’s marketing actions, the segment should not be pursued.

- e. *Compatibility with the organization's objectives and resources.* The firm must be able to reach the segment economically with the good or service it offers.

2. Choose the Segments.

- a. Ultimately, a marketer has to use these criteria to choose the segments for special marketing efforts.
- b. For your restaurant as shown in Figure 9-8, you've written off the breakfast product grouping for two reasons: (1) it's too small a market and (2) it's incompatible with your objectives and resources.
- c. For your restaurant, in terms of competitive position and cost of reaching the segment, you choose to focus on the four student segments and *not* the four nonstudent segments.

E. Step 5: Take Marketing Actions to Reach Target Markets

The purpose of developing a market-product grid is to trigger marketing actions to increase sales and profits. This means that someone must develop and execute an action plan.

1. Your Restaurant's Segmentation Strategy. Key decisions are:

- a. What products (meals) to offer for each segment selected.
- b. Where and what meals to advertise to reach specific segments.
 - *Day commuters* (an entire market segment). Run ads inside commuter buses and put flyers under the windshield wipers of cars in parking lots used by day commuters. These will promote all the meals at your restaurant to a single segment of students, a horizontal cut through the market-product grid.
 - *Between meal snacks* (directed to all four student markets). This ad promotes a single meal to all four student segments, a vertical cut through the market-product grid.
 - *Dinners to night commuters.* This ad promotes a single meal to the single segment of night commuter students.
- c. Your advertising action can be altered depending on the result of its last outcome. You can repeat, modify, or drop and design new campaigns whichever you feel are worth the effort.

2. Apple's Ever-Changing Segmentation Strategy.

- a. In 1977, Apple introduced the Apple II, which launched today's multi-billion dollar PC industry.

- b. When Steve Jobs returned in 1997 after having left the firm in 1985, he detailed his vision for a reincarnated Apple by describing a new market segmentation strategy that he called the “Apple Product Matrix.”
- c. This strategy consisted of developing two general types of computers (desktops and portables) targeted at two general kinds of market segments—the consumer and professional sectors.
- d. Today, Jobs believes that the personal computer entered the “Age of the Digital Lifestyle” and that the “Mac can become the digital hub of this new lifestyle.” And he has accomplished this with “killer apps,” such as iTunes, iLife, and iWork as well as digital lifestyle products like the iPod and iPhone.
- e. In most segmentation situations, a single product does not fit into an exclusive market niche. Rather, product lines and market segments overlap. So too does Apple’s segmentation strategy, as shown in the Marketing Matters box.

MARKETING MATTERS

Apple’s Segmentation Strategy—Camp Runamok No Longer

Apple has targeted its various lines of Macintosh computers at specific market segments, as shown in the market-product grid below. Because the market-product grid shifts as a firm’s strategy changes, the one below is based on Apple’s product lines in late 2007.

F. Market-Product Synergies: A Balancing Act

Recognizing key synergies—efficiencies—is vital to success in selecting target market segments and making marketing decisions. Market-product grids illustrate where such synergies can be found.

- *Marketing synergies.* Running horizontally across the grid, each row represents an opportunity for efficiency in terms of the market segment. If a firm can focus on one segment, its marketing efforts could be streamlined.
- *Product synergies.* Running vertically down the market-product grid, each column represents an opportunity for efficiency in research and development (R&D) and production.

- Taking advantage of marketing synergies often comes at the expense of production ones because a single consumer segment will likely require a variety of products—each of which will have to be designed and manufactured. The company saves money on marketing but spends more in production.
- Conversely, if product synergies are emphasized, marketing will have to address concerns of a wide variety of consumers, which costs more time and money to develop and execute marketing actions to reach them.
- Marketing managers responsible for developing a company's product line must balance both product and marketing synergies as they try to increase the company's profits.

LEARNING REVIEW

5. What are some criteria used to decide which segments to choose for targets?

Answer: These criteria include market size, expected growth, competitive position, cost of reaching the segment, and compatibility with the organization's objectives and resources.

6. In a market-product grid, what factor is estimated or measured for each of the cells?

Answer: Each cell in the grid can show the estimated market size of a given product sold to a specific market segment.

7. What is the difference between marketing synergies and product synergies in a market-product grid?

Answer: Marketing synergies run horizontally across a market-product grid. Each row represents an opportunity for efficiency in the marketing efforts to a market segment. Product synergies run vertically down the market-product grid. Each column represents an opportunity for efficiency in research and development (R&D) and production.

III. POSITIONING THE PRODUCT [LO5]

- **Product positioning** refers to the place an offering occupies in consumers' minds on important attributes relative to competitive products.
- **Product repositioning** involves *changing* the place an offering occupies in consumers' minds relative to competitive products.

A. Two Approaches to Product Positioning

Two approaches to positioning a new product in the market are:

- *Head-to-head positioning* involves competing directly with competitors on similar product attributes in the same target market.
- *Differentiation positioning* involves seeking a less competitive, smaller market niche in which to locate a brand.
- Companies also follow a differentiation positioning strategy among brands within their own product line to try to minimize cannibalization of a brand's sales or shares.

B. Product Positioning Using Perceptual Maps

- In determining a brand's position and the preferences of consumers, companies obtain three types of data:
 - a. Identification of the important attributes for a product class.
 - b. Judgments of existing brands with respect to these important attributes.
 - c. Ratings of an "ideal" brand's attributes.
- From these data, it is possible to develop a **perceptual map**, a means of displaying or graphing in two dimensions the location of products or brands in the minds of consumers to enable a manager to see how consumers perceive competing products or brands and then take marketing actions.
- Perceptual map can be used to develop positioning strategies for (1) milk drinks for children and (2) chocolate milk for adults.

1. Positioning Milk Drinks for Children

- a. You need to develop milk drinks for school children that have more nutrition than soft drinks but more appeal than regular or chocolate milk.
- b. Here's what companies did:
 - *Finding a position for milk drinks.* Marketing managers looked at the perceptual map and picked a position at about point C (Figure 0-10), where there is a relatively big gap between regular milk and fruit-flavored drinks, then shows the increased nutritional value of the milk drinks.

- *Developing the product and flavors.* Soft drink companies developed “diary drinks” position at point C, with just over half being regular milk and the rest being water, sugar, and flavorings.

2. Repositioning Chocolate Milk for Adults.

- a. Chocolate milk provides calcium and vitamins, important in adult diets. And dieters get a more filling, nutritious beverage than with a soft drink for about the same calories.
- b. Here’s what companies did:
 - *Finding a new position for chocolate milk in the minds of adults.* Dairies sought to move chocolate milk: (1) to the right to make it a more respectable “adult drink” and (2) up on the nutrition scale.
 - *Packaging “adult” chocolate milk.* Packages were designed to fit in car beverage holders, increasing chocolate milk consumption among adults.

IV. SALES FORECASTING TECHNIQUES [LO6]

- Forecasting or estimating the potential sales is often a key goal in a marketing research study. Good sales forecasts are important for a firm as it schedules production.
- **Market potential**, or **industry potential**, refers to the maximum total sales of a product by all firms to a segment during a specified time period under specified environmental conditions and marketing efforts of the firms.
- **Sales forecast**, or **company forecast**, refers to the total sales of a product that a firm expects to sell during a specified time period under specified environmental conditions and its own marketing efforts.

A. Judgments of the Decision Maker

- Most sales forecasts are judgments of an individual decision maker.
- A **direct forecast** involves estimating the value to be forecast without any intervening steps.
- A **lost-horse** forecast involves making a forecast using the last known value and modifying it according to positive or negative factors expected in the future.
 - a. Start with the last known value of the item being forecast.

- b. List the factors that could affect the forecast.
- c. Assess whether they have a positive or negative impact.
- d. Make the final forecast.

B. Surveys of Knowledgeable Groups

- A **survey of buyers' intentions** forecast involves asking prospective customers if they are likely to buy the product during some future time period. For industrial products with few prospective buyers, this can be effective.
- A **salesforce survey** forecast involves asking the firm's salespeople to estimate sales during a coming period.
 - a. Because salespeople are in contact with customers, they are likely to know what they like and dislike.
 - b. However, salespeople can be unreliable forecasters—painting too rosy a picture if they are enthusiastic about a new product and too grim a forecast if their sales quota and future compensation are based on it.

C. Statistical Methods

- The best-known statistical method of forecasting is **trend extrapolation**, which involves extending a pattern observed in past data into the future.
 - a. Trend extrapolation assumes that the underlying relationships in the past will continue into the future, which is the basis of the method's key strength: simplicity.
 - b. However, if this proves wrong, the forecast is likely to be wrong.
- **Linear trend extrapolation** involves using a straight line to extend a pattern observed in past data into the future.

LEARNING REVIEW

8. Why do marketers use perceptual maps in product positioning decisions?

Answer: Perceptual map is capable of displaying or graphing two dimensions the location of products or brands in the minds of consumers. Thus enabling a manager to see how consumers perceive competing products or brands and then design his own marketing actions.

9. What are the three kinds of sales forecasting techniques?

Answer: They are: (1) judgments of the decision maker; (2) surveys of knowledgeable groups; and (3) statistical methods.

10. How do you make a lost-horse forecast?

Answer: To make a lost-horse forecast; step (1) start with the last known value of the item being forecast, (2) list the factors that could affect the forecast, (3) assess whether they have a positive or negative impact, (4) make the final forecast.

APPLYING MARKETING KNOWLEDGE

1. What variables might be used to segment these consumer markets? (a) television, (b) books, (c) potato chips and (d) soft drinks

Answers:

- a. **Television.** Type (Digital Light Processing, Plasma or LCD TV); television size (21 inch, 39 inch, 42 inch, etc); gender (male, female); household income (US\$100,000, US\$50,000, US\$30,000, etc).
- b. **Books.** Type (novel, scientific, academic, children, etc); occupation (students, executives, housewives, retired); age group (children, teenagers, young adults, middle-aged, etc).
- c. **Potato chips.** Flavors (sour and cream, hot and spicy, bbq, etc); consumption rate (everyday, once a week, twice a week, once a month, etc); age (child, teenager, adult); health consciousness (low carb, vitamins, “heart healthy”); or price (branded, generic).
- d. **Soft drinks.** Type/flavor (cola, noncola); health consciousness (sugar free, low carb, fitness/vitamins); or price (branded, generic).

2. What variables might be used to segment these industrial markets? (a) industrial sweepers, (b) photocopiers, (c) computerized production control systems, and (d) car rental agencies?

Answers:

- a. **Industrial sweepers.** Amount of floor area to sweep; kind of refuse to collect (dust, paper, metal shavings); or environment (factory, shopping mall).
- b. **Photocopiers.** Type (color, black & white); speed (pages per minute); average number of copies per day; image clarity (resolution), or use (copy, reduction, enlargement).

- c. **Computerized production control systems.** Kind of operation (job shop, mass production); number of parts and amount of inventory; or amount of fabrication performed.
 - d. **Car rental agencies.** Use of vehicle (business, vacation); price (daily, weekly, monthly); location (at airport, off-site); usage (frequent, occasional); or size of renter group (1 person, 2 people, etc.).
3. **A commercial bank segments the market for individual investment products by income and gender. It targets four groups: (a) male, annual income between US\$100,000 and 300,000, (b) female, annual income between US\$100,000 and 300,000, (c) male, annual income between US\$300,000 and 500,000 and (d) female, annual income between US\$300,000 and 500,000. What needs are common such that the above groups may simply be segmented as follows? (a) annual income between US\$100,000 and 300,000 and (b) annual income between US\$300,000 and 500,000.**

Answer: Market needs common to both the male and female groups are personal savings needs and monthly spending.

4. **In Figure 9-8, if a marketing manager for a Chinese restaurant wishes to target two groups- (a) working people employed in the area and (b) working people visiting the area for business and social purposes – how can the size of these segments be estimated and what justifications can be given for these segments?**

Answers:

- a. **Working people employed in the area.** Lunch may be the biggest market assuming they have a lunch period they can take outside their building. Some may choose to eat or take out a dinner meal on their way home.
 - b. **Working people visiting the area for business and social purposes.** More likely to visit restaurant for lunch rather than dinner. Visitors are generally inconsistent in their purchase; they will not patronize every day.
5. **Refer to Figure 9-9. If you wish to target dormitory students for (a) between-meals snack and (b) after-dinner snack for your Asian restaurant, what advertising actions can be taken for the two groups?**

Answers:

- a. **Between-meal snack.** Coupons under dorm doors promoting 50 cents off snacks during snack or tea-break time.
- b. **After-dinner snacks.** Snacks can be purchased at discounted rate with dinner set purchased.

- 6. Refer to Figure 9-10. If a company wishes to introduce a special Asian milk drink using soy bean as a base and offering different flavors to wean children from soft drinks, (a) suggest one of the lettered positions on the perceptual map and (b) suggest a suitable packing for the drink.**

Answer: This milk can be position at point C. The milk drinks are to be packaged with different colorful packaging for different flavors. Adding cartoon characters on the packaging will make it even more appeal to children.

- 7. Which of the following variables would linear trend extrapolation be more accurate for? (a) Annual population of China or (b) annual car sales of General Motors in China. Why?**

Answer: Linear trend extrapolation would be more useful for projecting annual population of the U.S. rather than annual sales of cars produced by General Motors because past population trends are more likely to continue into the future than are new car sales.

GOING ONLINE

Apple's Latest Market-Product Strategies

In its 25-year history, Apple Computer has initiated a series of creative market segmentation strategies, with new product lines targeted at specific market segments. For its latest market-product strategies, go to www.apple-history.com.

BUILDING YOUR MARKETING PLAN

Your marketing plan needs (a) a market-product grid to focus your marketing efforts and also (b) leads to a forecast of sales for the company. Use these steps:

- 1. Define the market segments (the rows in your grid) using the factors in Figures 9-4 and 9-7.**
- 2. Define the groupings of related products (the columns in your grid).**
- 3. Form your grid and estimate the size of market in each market-product cell.**
- 4. Select the target market segments on which to focus your efforts with your marketing program.**

5. Use the information and the lost-horse forecasting technique to make a sales forecast (company forecast).

Answers:

Market segments and product groupings. What do we sell to whom? This is one of the most fundamental questions every business must answer. In the market-product grid analysis, the “what” is the “product grouping” or columns in the grid and the “to whom” is the “market segments” or rows in the grid. The initial task in developing the market-product grid is to name the product groupings and market segments—a task requiring serious thought. Product groupings should closely relate to the ways consumers actually make their purchase decision (by item, occasion, feature, etc.) in order to develop a more effective marketing program. Market segments should be defined based on the characteristic(s) that are the least costly to identify and reach with a marketing program. These characteristics could be geographic, demographic, psychographic, or behavioral in nature. A profile of a target market segment must include its media behavior to communicate the marketing program developed to meet its needs.

Market size and target market selection. Estimating the market size in each cell of the grid may be on a “3-2-1-0” (large, medium, small, none) basis like what is done for the fast-food restaurant example in Chapter 9. However, if possible, a more rigorous and useful approach is to estimate annual revenues (dollars) for each of the cells before selecting the target market segments. Unit sales (numbers) or market share estimates are much more difficult to estimate and therefore should be beyond the scope of this exercise.

Lost-horse forecasting technique. Venture capitalists studying marketing or business plans will emphasize how important financial projections are—which start with the “top-line” or sales revenue forecasts. Probably the most sensible approach for making the sales forecast for the student marketing plan is a “lost-horse forecast.” A lost-horse forecast involves making a forecast using the last known value and modifying it according to positive or negative factors expected in the future. Students will then be struck by how subjective, and how difficult, forecasting is.

Helping with Common Student Problems

Developing the market product grid and sales forecast are probably the two most difficult tasks students face in writing their marketing plans. Yet they are among the most important because of how closely they link to marketing mix actions in the plan. So instructors should stress their importance. Also, students should be forced to look at both the marketing synergies and operations efficiencies in studying their marketing-product grid and related strategies.