The Logical Limitations of Target Marketing

Malcolm Wright and Don Esslemont

Smith's idea of segmentation has been steadily refined into Kotler's target marketing, and widely adopted by academics and practitioners. However, this approach has not been empirically justified, and is logically invalid in its simple forms. In this paper, a logically valid approach to target marketing is developed, and the conditions required for such an approach established. These conditions are found to be true far less often than suggested by proponents of target marketing. An alternative approach is then offered to guide marketing decisions when the requirements for target marketing cannot be met.

Keywords: target marketing, segmentation

Introduction

The term "segmentation" appears to have been originally introduced by Smith (1956). His description makes it clear that he was thinking of a single-product marketer, who could either aim to secure a "*share of a broad and generalized market*" (product differentiation) or aim for "*depth of market position in the segments that are effectively defined and penetrated*" (market segmentation).

Smith went on to say:

> *Strategies of segmentation and differentiation may be employed simultaneously, but more commonly they are applied in sequence in response to changing market conditions. In one sense, segmentation is a momentary or short-term phenomenon in that effective use of this strategy may lead to more formal recognition of the reality of market segments through redefinition of the segments as individual markets. Redefinition may result in a swing back to differentiation* (Smith 1956).

The idea of segmentation caught the imagination of marketers and was soon incorporated in the orthodox canon. In 1967 Kotler described three kinds of marketing strategy: undifferentiated, differentiated, and concentrated. In undifferentiated marketing, he said, a firm:

> *treats the market as an aggregate, focusing on what is common in the needs of people rather than on what is different. It tries to design a product and a marketing program which appeal to the broadest number of buyers... The firm practising undifferentiated marketing typically develops a [mix] aimed at the broadest segment of the market* (Kotler 1967, pp57-58).

Kotler says this is the strategy described by Smith as "product differentiation". This seems to be a misreading of Smith, who uses the term in a way that is consistent with a firm producing a product that might appeal only to a minority. Consider, for example, waterproof matches. These may be bought for all sorts of reasons - for boating, for camping, or to light fires in the garden, or by smokers who don't own a raincoat, and so on. Smith's product differentiator develops waterproof matches to obtain a minority share of the broader market for matches, and does not target the "*broadest segment of the market*". Furthermore, the only way in which the purchasers of this differentiated product are a group (or "segment") is that they sometimes wish to use waterproof matches; presumably they continue to buy ordinary matches for household purposes as well.

On differentiated marketing, Kotler said;

> *A firm decides to operate in all segments of the market, but designs separate [mixes] for each (Kotler 1967, p58).*

Kotler notes that this strategy has been described as "market segmentation" (he does not say by whom), but he rejects this usage for failing to distinguish between differentiated and concentrated marketing. He says he will (in the 1st edition) use the term market segmentation to refer to

> "*the act of segmenting a market in order to understand it better, rather than to describe one particular policy out of the three that the company may adopt*".

Concentrated marketing is described (Kotler 1967, p60) as;

> *... a third possibility, one that is especially appealing when the company's resources are limited. Instead of going after a small share of a large market, the firm goes after a large share of one or a few submarkets. Put another way instead of spreading himself (sic) thin in many parts of the market, it concentrates its forces to gain a good market position in a few areas.*

Among the examples Kotler gives of concentrated marketing are Gerber, which "*has concentrated its efforts on the baby foods segment of the prepared foods market*". This seems inconsistent with his own usage; it implies concentration on producing certain kinds of foods, rather than on meeting needs of a particular group of customers.

Kotler goes on to discuss the circumstances in which the various strategies are appropriate, making clear that he believes the choice depends on such factors as company resources, life cycle stage, and the strategies of competitors.

A quarter of a century later Kotler (1991, p262) continues to present three views of marketing strategy, although the categories he describes are now:

> *Mass marketing: Here the seller [produces] one product for all buyers ... The traditional argument for mass marketing is that it will lead to the lowest costs and prices and create the largest potential market.*

This seems to be the same as the "undifferentiated marketing" of the earlier schema.

> *Product-variety marketing: Here the seller produces several products ... They are designed to offer variety to buyers rather than to appeal to different market segments ... The traditional argument for [this] is that*

> *customers have different tastes and their tastes change over time. Customers seek change and variety.*

In the earlier "differentiated marketing" a firm was supposed to develop a product for every segment. In the current version it is explicitly stated that segments are not the basis of the differentiated products in product-variety marketing.

> *Target marketing: Here the seller distinguishes the major market segments, targets one or more of these segments, and develops products and services tailored to each selected segment.*

Kotler makes clear that he believes target marketing is the best option, the "*framework for strategic success in the marketplace*" (Kotler 1991, p262).

This contention, that target marketing is the "*framework for success in the marketplace*", is one that we strongly dispute. Despite its largely uncritical acceptance by the marketing community, we have been unable to uncover either empirical support or logical justification for this claim[1]. In the absence of such evidence, we construct the best case we can in this paper for target marketing, and investigate how widely this case holds. Since we find that it holds only in specific circumstances (which are not common in consumer products marketing), we then propose an alternative approach to guide marketing decision making.

The Logic of Targeting

Briefly stated, the principles of target marketing are to identify the major market segments, target one or more of these segments, and tailor the marketing effort towards each particular segment. Logically, the argument would look something like this:

> If the market can be segmented into groups, and
>
> if response to the marketing mix differs between groups, and
>
> if we want to achieve the greatest possible market response,
>
> THEN we should target the segment(s) with the greatest response.

This argument is, unfortunately, invalid; the conclusion cannot be logically derived from the premises.

For example, suppose our segments are old folks and yuppies. We might research the old folks market, and find the optimum advertisements showed happy pensioners, sitting by their firesides, and that an extra $10,000 of advertising spending in this group would lead to additional $100,000 of sales to pensioners. In the yuppy segment research might show the best advertisements to have youngsters racing their BMWs, and that an extra $10,000 of advertising spending would result in the yuppies spending an extra $150,000.

The targeter would say that we should therefore target the yuppy segment, since its advertising response is 50% greater than the other segment, and show advertisements with young motorists. But our success as a company depends on total sales, not sales in a particular segment. What we should have done is find out which advertisement would produce the best response from the market as a whole. It is *logically possible* that the pensioner advertisement would produce $70,000 of purchases from the yuppies, while the yuppy advertisement irritates the pensioners so much that they buy nothing. In this case the targeter's argument is false - we do not achieve the best result by targeting the segment with the best response (see Table 1).

Table 1. Response to $10,000 of advertising

	Yuppy Response	**Pensioner Response**	**Market Response**
Yuppy Mix	$150,000	$0	$150,000
Pensioner Mix	$70,000	$100,000	$170,000

Nevertheless, if we *were* forced to choose between the segments, then a valid approach could be constructed. We would, however, require an additional premise:

> If the market can be segmented into groups, and
>
> if response to the marketing mix differs between groups, and
>
> if we want to achieve the greatest possible market response,
>
> AND if we can only operate (sell to) one segment
>
> THEN we should target the segment with the greatest response.

The argument is now valid, but very few organisations are limited to operating in only one segment. An obvious exception is the case of geographic segmentation, where a company can choose different geographical areas to target; if a company can only operate in one geographical area, perhaps because they can only afford one retail outlet, then it certainly becomes sensible to target the most attractive geographical segment. This may also be true in other cases of limited resources and high barriers to entry in each segment. As soon as we are physically capable of operating in more than one segment, however, then the additional premise is false and the conclusion does not follow.

What if we could only produce one marketing mix? Surely then the targeter would argue:

> If the market can be segmented into groups, and
>
> if response to the marketing mix differs between groups, and
>
> if we want to achieve the greatest possible market response,
>
> AND if we can only produce one marketing mix

THEN we should target the segment with the greatest response.

Unfortunately, this is just another version of the original fallacy. There is no *logical* reason why the yuppie marketing mix is better than the pensioner marketing mix, despite the greater potential response of the yuppies. As we saw earlier, we need to consider *total* market response, and not just segment response, in order to maximise sales.

On the other hand, if we could manipulate our marketing mix for each segment, without exposing other segments to this mix, another valid version of the segmentation argument may be constructed, similar to Kotler's final contention (Kotler 1991):

If the market can be segmented into groups, and

if response to the marketing mix differs between groups, and

if we want to achieve the greatest possible market response,

AND if we can operate (sell to) to each segment individually

THEN the optimum marketing mix will not be the same for all groups

In database marketing this additional premise is true, and each segment may be exposed only to the marketing mix developed for that segment. Marketing efforts based on personal selling (with little or no advertising) also offer the opportunity to operate to each segment individually. This approach may also be possible with geographic segmentation, if media coverage can be specific and exclusive to each geographic segment. However, none of these situations is common in consumer products marketing.

We could not think of any other cases where it is possible to operate to each segment individually, and in the case of lifestyle or psychographic segments, we can never operate to each segment individually. Promotional efforts and opportunities to buy can never be restricted to a single psychographic group - there is always "leakage" of promotional programmes across segments. Once leakage occurs, we are back to the first argument and we should consider which marketing mix will produce the greatest *total* market response.

Even with no leakage, the valid conclusion "*The optimum marketing mix will not be the same for all groups*" is not the same as the desired conclusion "*We should target the segment with the greatest response*". If the optimum mix is different, it does seem more likely that targeting would give the best result, but as with our yuppies and pensioners, it does not *logically* imply that targeting must give the best results. Considering overall market response may still lead to a higher level of sales, as Table 2 illustrates.

As with our previous argument, we can see that the segment with the highest response does not *necessarily* produce the best overall response. We can also see that while the optimum mix is not the same for each segment, this does not imply that we should target our marketing to each segment - in this example a mix which is sub-optimum for both segments individually actually produces the highest overall market response. We are better off putting our money into the "sub optimum" mix than dividing it between two "optimum" mixes for the two target segments.

Table 2. Optimum mix for $10,000 advertising

	Yuppy Response	Pensioner Response	Market Response
Yuppy Mix	$150,000	$0	$150,000
Pensioner Mix	$0	$100,000	$100,000
"Sub Optimum" Mix	$90,000	$90,000	$180,000

Again, in the absence of empirical evidence, we find that the argument that target marketing is the *best* approach does not have the force of logical necessity, and cannot be sustained.

Intuitive Defences

"*But surely*", the proponent of targeting might argue, "*it is intuitively sensible to target likely users, or heavy users, or those seeking a particular benefit*?"

This may well be intuitively sensible, but it is wrong. Its plausibility arises from our expectation that market response will be largely determined by heavy users, or by brand loyalty.

However, the work of Juster (1966) on predicting consumer durable purchases showed that the majority of purchases come from those who have low purchase probabilities. The sheer numbers of people with low purchase probabilities means that they have a large combined impact on total market sales. Marketing programs should therefore consider overall market response, rather than just the response of high probability or high usage segments.

Similarly, the work of Ehrenberg and Goodhart (1977) demonstrates that consumers do not choose the single brand that best delivers the benefits they want, but rather make different choices from amongst a set of possible products. As Kotler said "..*customers seek change and variety*" (Kotler, 1991). For example, baked beans and baked beans with sausages are not aimed at different segments, but are rather intended to increase sales of the overall product line by meeting consumers' demand for variety. Such an approach is clearly product-variety marketing, not targeting.

"*Nevertheless*", targeters might say, "*our products should be differentiated to appeal to specific groups in the market*". Such an approach may fit into Kotler's final version of targeting, but it also fits Smith's original alternative to segmentation, differentiation, which was also one of Kotler's original strategies - differentiation as opposed to concentrated marketing. Readers who can trace their way through these contradictory viewpoints may also wish to observe that however such an approach is classified, it is wrong. The logic of the yuppy and pensioner segments continues to hold, and total market response continues to be more important than the response of individual groups.

Conclusions

Kotler has made it clear that he sees targeting is the best way to approach marketing problems, the "*framework for strategic success in the marketplace*" (Kotler 1991, p262). Furthermore, this view appears to be widely adopted amongst practitioners and academics alike.

We have shown, however, that targeting is logically supported only in the rare occasions where an organisation can only operate in one segment, as may be the case with geographical segmentation of retail operations. It is also possibly, but not necessarily, the best approach when leakage can be avoided between different segments, such as in database marketing, personal selling, and in some cases of geographic segmentation. In other cases, there is no logical reason and no empirical evidence to support the assertion that it is the best approach.

The only possible justification for targeting would be that it gives a greater *overall* market response than the alternatives, yet our logical analysis has demonstrated that targeting does not necessarily give the best overall market response. The same logic clearly demonstrates that the correct approach is to consider which alternative actually will give the best overall market response.

This approach is well grounded both in management decision theory and in empirical science. Both examine the problem situation, generate alternative actions or hypotheses, and rigorously evaluate them to settle on the best available.

In fact, even if targeting takes place, we are still faced with the question of which approach will be best for our chosen target segment. We must still evaluate which marketing approach will give the best overall response, even if only within the target segment.

Generation of alternative marketing actions may be done in many ways, including planning sessions, informal discussion groups, speculation by marketers, the use of consultants, or anything else management find useful. Segmentation and targeting is undoubtedly one way to generate such alternatives. The question of which alternative gives the best overall response is, however, fundamentally an empirical one. It should involve modelling or research to determine which alternative gives the best response, and the choice between alternatives should be made on that basis alone.

As we have demonstrated, there is no justification for giving targeting pre-eminence amongst other marketing approaches, and those who wish to do so would do well to provide evidence for their claims.

References

Ehrenberg A & Goodhart G (1977). Essays on understanding buyer behaviour. New York: *J Walter Thompson and The Market Research Corporation of America.*

Juster F T (1966). Consumer buying intentions and purchase probability. Occasional paper 99, *National Bureau of Economic Research. Colombia University Press.*

Kotler P (1967). *Marketing Management (1st ed)*. Englewood Cliffs, New Jersey: Prentice-Hall.

Kotler P (1991). *Marketing Management (7th ed)*. Englewood Cliffs, New Jersey: Prentice-Hall.

Smith (1956). Product differentiation and market segmentation as alternative marketing strategies. *Journal of Marketing*, *20*, 3-8.

Footnote

[1] In the authors' experience, students and others seem often to distinguish only two possibilities: one is Kotler's mass marketing; anything else is segmentation. This, as we have seen, is to oversimplify and misunderstand the theory.

Acknowledgement:
The authors wish to thank their colleagues Phil Gendall, Tony Lewis and Ron Garland for their comments on an earlier draft of this article.

Malcolm Wright is a Lecturer, and Don Esslemont a Senior Lecturer, in the Department of marketing, Massey University.