'A must-read for anyone who wants to perform more effectively each and every day.'

Cyril Bouquet, Professor of Strategy, Institute of Management Development (IMD)

Key MBA Models

The 60+ models every manager and business student needs to know

Julian Birkinshaw & Ken Mark

FT PUBLISHING
FINANCIAL TIMES

Praise for *Key MBA Models*

This book is not just an enjoyable read. It also offers practical models to accelerate your learning of key management concepts and boost your capacity to engage in meaningful, executive conversations. It's a must-read for anyone who wants to perform more effectively each and every day.

CYRIL BOUQUET, PROFESSOR OF STRATEGY, INSTITUTE OF MANAGEMENT DEVELOPMENT (IMD)

I would love to have had this elegant and crisp reference guide before, during and after every business school class, including Julian Birkinshaw's! Some of the frameworks feel like reunions with old friends, some completely new introductions. All are explained with beautiful simplicity. I expect this to become the model Model handbook.

RICHARD HYTNER, DEPUTY CHAIRMAN, SAATCHI & SAATCHI WORLDWIDE

The greatest value of this book is that it tells us the topmost models that managers should not only know about but should also know when and how to use. It's an excellent book to use for the regular reinforcement of business and management concepts.

RAVI ARORA, VICE PRESIDENT, TATA QUALITY MANAGEMENT SERVICE

Introduction

- Invest in high promotional spending to create awareness and inform people.
- Adopt low initial pricing to stimulate demand.
- Focus efforts to capitalise on demand, initially from 'early adopters', and use them to promote your product/service where possible.

Growth

- Advertise to promote brand awareness.
- Go for market penetration by increasing the number of outlets for the product.
- Improve the product – new features, improved styling, more options.

Maturity

- Differentiate through product enhancements and advertising.
- Rationalise manufacturing, outsource product to a low-cost country.
- Merge with another firm to take out competition.

Decline

- Advertise – try to gain a new audience or remind the current audience.
- Reduce prices to make the product more attractive to customers.
- Add new features to the current product.
- Diversify into new markets, for example less-developed countries.

Top practical tip

The product life cycle model does a good job of describing the stages a product goes through, but it is not definitive. There are many products out there (such as milk) that have been mature for decades, and there are also other products (such as laptop computers) that moved quickly from growth to decline without spending much time in the mature stage.

So to use the product life cycle in a practical way, it is useful to think through the different trajectories a product might take. For example, is it possible to 'reinvent' a mature product in a way that gives it additional growth? In the mid-1990s coffee was clearly a mature product, but Howard Schulz created Starbucks as a way of revitalising coffee and turning it into a growth product.

Another way of using the product life cycle is to think in terms of the portfolio of products your firm is selling. As a general rule, products in the introduction and growth phases are cash flow negative, while those in the maturity and decline phases are cash flow positive. So, having products at multiple stages provides some useful balance.

Top pitfalls

One of the pitfalls of the product life cycle is that it can be self-fulfilling. If you are a marketer and you see a product approaching its decline phase, you might decide to stop actively marketing it, and this inevitably will lead to the decline of that product. Alternatively, you might believe the product should receive additional investment, but then struggle to persuade your boss, who is in charge of the entire portfolio of products.

Good marketers therefore draw on a variety of data to help them decide which stage a product is in, and whether that phase might be prolonged – perhaps through a fresh marketing campaign or by enhancements to the product.

Further reading

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19 Segmentation and personalised marketing

Segmentation is the process of slicing up the 'mass market' for a particular product or service into a number of different segments, each one consisting of consumers with slightly different needs. Personalised marketing is an extreme version of segmentation that seeks to create a unique product-offering for each customer.

When to use it

- To match your various product-offerings to the needs of different segments of consumers.
- To identify parts of the market whose needs are not currently being adequately served.
- To capture a higher price for a product or service, on the basis that it is better-suited to the needs of a particular segment or individual.

Origins

The original thinking about market segmentation occurred in the 1930s through economists such as Edward Chamberlin, who developed ideas about aligning products with the needs and wants of consumers. Around the same time, the first high-profile experiments in segmentation were taking place at General Motors. Up to that point, Ford Motor Company had been the dominant auto manufacturer with its one-size-fits-all Model T Ford. Under CEO Alfred P. Sloan, General Motors came up with a radical alternative model, namely to offer 'a car for every person and purpose'. By the 1930s, GM had established five separate brands, with Cadillac at the top end, followed by Buick, Oldsmobile, Oakland (later Pontiac) and then Chevrolet at the bottom end. This segmentation model was extremely successful, helping GM to become the biggest auto company in the world for much of the post-war period.

The theoretical ideas about market segmentation were developed by Wendell Smith. In 1956, he stated that 'Market segmentation involves viewing a heterogeneous market as a number of smaller homogeneous markets in response to differing preferences, attributable to the desires of consumers for more precise satisfaction of their varying wants'. A later study by Wind and Cardozo in 1974 defined a segment as 'a group of present and potential customers with some common characteristic which is relevant in explaining their response to a supplier's marketing stimuli'.

The concept of personalised marketing emerged in the 1990s, thanks in large part to the enormous volumes of information that companies could get access to about their customers. For example, internet software allows companies to identify where customers are signing in from, keep records of customers' transactions with them, and to use 'cookies' (small software modules stored on a PC or laptop) to learn about consumers' other shopping interests. This data has enormous benefits, as it allows companies to personalise their offerings to each customer. Similar concepts have also been proposed, including *one-to-one marketing* and *mass-customisation.*

What it is

The goal of segmentation analysis is to identify the most attractive segments of a company's potential customer base by comparing the segments' size, growth and profitability. Once meaningful segments have been identified, firms can then choose which segments to address, and thus focus their advertising and promotional efforts more accurately and more profitably.

Market segmentation works when the following conditions are in place:

- It is possible to clearly identify a segment.
- You can measure its size (and whether it is large enough to be worth targeting).
- The segment is accessible through your promotional efforts.
- The segment fits with your firm's priorities and capabilities.

There are many ways of identifying market segments. Most firms use such dimensions as geography (where the customers live), demography (their age, gender or ethnicity), income and education levels, voting habits and so on. These are 'proxy' measures that help to sort people into like-minded groups, on the assumption that such people then behave in similar ways. In the days before the internet, such proxy measures were the best bet. However, since the advent of the internet and the 'big data' era, it is now possible to collect very detailed information about how individuals actually behave online and in their purchasing choices. This has made it possible to do a far more accurate form of segmentation, even down to the level of tailoring to individuals. For example, Amazon sends you personalised recommendations on the basis of your previous purchases, Yahoo! allows you to specify the various elements of your home page, and Dell lets you configure the components of your computer before it is assembled.

How to use it

The basic methodology for market segmentation is well established:

- Define your market – for example, retail (individual) banking in the UK.
- Gather whatever data you can get your hands on to identify the key dimensions of this market. This includes obvious information about age, gender, family size and geography, and then important (but sometimes harder to gather) information about education and income levels, home ownership, voting patterns, and so on. Sometimes this is data you have collected from your existing customers, but be careful in this situation because you also want information about non-customers who could become customers.
- Analyse your data using some sort of 'clustering' methodology, to identify subsets of the overall market that have similar attributes. For example, you can almost always segment your market by income level, and identify high-, medium- or low-end customers in terms of their ability to pay. However, this may not be the most important dimension. If you are selling a digital product, for example, customer age and education level may be more important.
- Based on this analysis, identify and name the segments you have identified, and then develop a strategy for addressing each segment. You may choose to focus exclusively on one segment; you may decide to develop offerings for each segment.

For individualised marketing the same sort of logic applies, but the analytical work is so onerous that it is all done by computer. For example, UK supermarket Tesco was the first to offer a 'club card' that tracked every single purchase made by an individual. Tesco built a computer system (through its affiliate, Dunhumby) that analysed all this data, and provided special offers to customers based on their prior purchasing patterns. If you had previously bought a lot of breakfast cereal, for example, you might get a half-price deal on a new product-offering from Kellogg's.

Top practical tip

Market segmentation is such a well-established technique, that it is almost self-defeating. In other words, if all firms use the same approach to segment their customers, they will all end up competing head to head in the same way. The car industry, for example, has very well-defined segments, based around the size of the car, how sporty it is, and so on.

So the most important practical tip is to be creative in how you define segments, in the hope that you can come up with a slightly different way of dividing up your customers. In the car industry, for example, the 'sports utility vehicle' segment did not exist until 20 years ago, and the company that first developed a car for this segment did very well.

Top pitfall

Segmentation has its limitations as it needs to be implemented in the proper manner. Some segments are too small to be worth serving; other segments are so crowded with existing products that they should be avoided. It is also quite easy to over-segment a market, by creating more categories of offerings than the market will bear. In such cases, consumers become confused and may not purchase any of your offerings.

Finally, segmentation is challenging in entirely new markets, because you don't know how consumers will behave. Sometimes their actual buyer behaviour bears no resemblance to what market research suggested they would do. As a general rule, segmentation is a more useful technique in established markets than in new ones.

Further reading

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