

Integrated Marketing and Customization

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The term “integrated marketing” has been broad enough to encompass three different, but related, themes. The strongest theme has been that marketing should be more targeted. Rather than offering the same marketing contacts to a large number of people, marketing should target fewer people with more customized offerings. The epitome of this is internet marketing, where, for example, cross-selling recommendations are carefully crafted to appeal to people with highly specific interests or lifestyles. Tailoring the offer to a relatively small group increases its relevance. Companies that use direct mail select which customers receive a particular offer so that the marketing effort is not wasted on those who are less likely to respond. Customization extends beyond targeted media (direct mail, internet sessions, telemarketing, wireless devices, etc.) to include the design and delivery of the product itself. It is possible, for example, for someone to order a pair of jeans that are made specifically for that person.

Much has been made of the advantages of customization and the infrastructure required for implementation, e.g., customer relationship management (CRM) systems, have become widely available. These advantages are very real. Much waste in the marketing effort is eliminated. Moreover, increasing the relevance of the offer goes to the heart of the marketing concept. It must be said, however, that tailoring has been reduced by some to a magic bullet approach to marketing. Its advantages have been stretched to the point of advocating "segments-of-one" as an objective in and of itself. It is as if the goal of marketing were defined to be the delivery of a unique product to every individual consumer. This denies the fact that part of the appeal of any brand is that its value is

shared and acknowledged by other people. A true segment-of-one approach stands to lose much of this appeal. It may be one thing to have a pair of jeans that are perfect for me; it is another thing entirely if these jeans do not stand for something among my peers. It is not only what I know about the jeans, but also what other people know about them and what this conveys about me.

The advantages of tailored targeting are undeniable. Marketing needs to move in this direction. But this does not imply a complete customization of offers. Nor does it imply that a segment-of-one is the ideal marketing target. We need to approach targeting in terms of optimizing response and minimizing wasted effort. It is in this sense that enhanced targeting represents a desirable advance in our philosophy of marketing. *Marketing needs to be integrated over more finely targeted segments of consumers.*

Another valuable theme emerging from calls for integrated marketing has to do with consumers themselves. There is a need to view the consumer as a whole. A consumer is not just a person who buys our product, a brand of jeans or a particular make of car, at a point in time. Consumers are more complex than this. The same consumer may buy other clothing items to go with their jeans or another vehicle for their household, and this may occur over a period of time. It follows that taking a more multidimensional view of the consumer may lead to larger opportunities than the one-time sale or even repeat purchase of a single product.

One dimension that requires more attention is time. A consumer may purchase a compact car today. But that same consumer can be expected to have a higher income as she gets older. Later she may buy a larger, more luxurious family car. If we can anticipate this, and take a more holistic view of the consumer, we can market to the consumer in such a way that we aim from the beginning to sell the consumer both cars, quite possibly explicitly linking the purchases in the consumer's mind. We could even do something that might not immediately be financially justified in selling the consumer the compact car, including a luxury feature or having more amenities in the showroom for instance. In this way we take into account the long-term value of the consumer. (As with segments-of-one, it should be noted that this issue is sometimes exaggerated too. It is sometimes

discussed as life-time value, as if the goal were to extend the marketing time horizon as far as possible.)

Another key dimension has to do with choices of related products. If we know the consumer's preferences for jeans, this should allow us to sell sweaters, belts, shoes and other related items more effectively. This extends beyond obviously complementary products. Knowing that a person wears a brand of jeans may just as well extend to selling shorts for the summer. The opportunity is for more systematic *cross-selling and up-selling*. (Again, this should not be an end in itself. Embracing cross-selling as an objective in and of itself may well annoy consumers. The objective is to use cross-selling in a way that makes sense to consumers.)

This logic applies to any dimension of consumer behavior. For example, a consumer's protection needs become an opportunity for taking a brand across many different platforms, from insurance to alarm systems. The opportunity is for *cross-platform branding*. *Marketing needs to be integrated over time and other dimensions of consumer behavior.*

As depicted in Figure 2, we see integrated marketing as a process originating with corporate strategy. It should rise from a corporate strategy that recognizes that operational excellence by itself is no longer a viable strategy. Operational excellence is a given, a requirement for doing business in most industries or product categories. The real strategic challenge is to be different (see Porter, 1996) or even to revolutionize the industry or category (see Hamel, 1996). Thus, for a quick service restaurant it is not a strategy to offer cleaner, more convenient stores. A strategy would be to offer stores with healthier menu items that transform the nature of fast food.

With a strategy in place, enter marketing. Marketing is the means to the ends of corporate strategy. Marketing deals with how the firm will make the strategy happen. The critical step is to conceive of an idea that could make the strategy work in the mind of the consumer (customer). What could a healthy fast food restaurant be to a consumer? To put it differently, how might it make sense to a consumer? Perhaps our healthy fast food

strategy could be the idea of *simple fresh foods prepared while you watch in a way that allows you to control the ingredients so that you know that what you are getting is good for you*. The idea is a concept that accomplishes the strategy by making it meaningful and relevant for the consumer.

The brand concept drives consumer thinking (see Calder, 2000). The concept is not merely a positioning that highlights aspects of the product. In a sense it is the product. It is the idea that defines how the consumer should experience the product. But for this to happen we must manage contacts with the consumer so that these contacts in fact produce an experience that matches the concept. The experience comes out of these contacts: watching the food being made, seeing what the person making it looks like, hearing a friend explaining why the tomatoes are tasty, and, yes, perhaps seeing an ad. The contacts need to be managed in an integrated way over time and other dimensions of consumer behavior to yield the experience dictated by the brand concept. Marketing, as shown in Figure 2, becomes a continuous feedback loop. Marketing management becomes a core business process; it is not just a set of functional activities.

One further elaboration of this vision of integrated marketing is necessary. The philosophy described above emphasizes the experience that consumer's derive from contacts. A natural extension of this logic is to think in terms of subsegments. Overall the marketing effort may be directed at a fairly broad segment of people; for example, people concerned about eating in a healthier way. Because this segment is diverse, it will ordinarily be possible to identify subsegments. For any one of these subsegments we can then find contacts that are used only for that subsegment and that therefore define a relationship with the subsegment based on a customized experienced.

The guiding logic here is that experiences can be customized. Segments can be divided into subsegments for this purpose. Some people who are concerned about eating in a healthier way think in terms of avoiding things that are harmful, others think of adding things to their diet that make them healthier. There is the Avoider subsegment and the Functional Food subsegment. Different contacts could be designed for each of these subsegments in order to customize the overall experience in a way that enriches the

experience of the brand concept. As shown in Figure 2, different contacts for different subsegments produce customized experiences that in effect take the form of personalized relationships (the experience being contingent on who the consumer is).

Many firms in different industries maintain large databases that record the behavior of their customers, and have installed customer relationship management (CRM) systems. These trends have enabled such firms to customize marketing contacts with their customers. Firms that do business over the web are well known for customization, e.g., Amazon's product recommendations. Customer databases, CRM systems, and customization have proliferated far beyond internet companies and are now common across many industries. Also, while cross-selling, such as Amazon's recommendations, is an undeniably important application, all points of contact between the firm and the customer can and are being customized so that individual customers are getting tailored experiences. These points of contact should be integrated because they collectively communicate the intended brand to the consumer (Duncan and Moriarty 1998).

Industries that customize extensively include hotels, airlines, car-rental companies, credit card companies, and banks. Firms in these industries give perks (which are marketing contacts) to their best customers. For example, airlines give priority on upgrades, shorter security and check-in queues, and early boarding. They customize email and direct mail contacts so that they feature messages that are relevant to the customer. Such firms can decide which customers they want to "delight" (Rust and Oliver 2000; Collinger 2003) with surprises such as a bank or credit card waiving a fee, or a hotel leaving bouquet of flowers in the room of a special customer. Supermarkets such as Tesco (Humby and Hunt 2003) customize messages, rewards, and incentives through direct mail. In the near future it will be possible to send different versions of television advertisements to different households that have cable – even the prototypical "mass" medium will become direct and customizable.

The fundamental goal underlying customization is to be more relevant to the customer. In most cases, customers do not have identical wants and needs. When a firm markets the same way to all of its customers, it follows that it will not meet the needs of many customers as well as it could. This creates an opportunity for its competitors. A competitor that offers a product or service that does a better job of meeting the needs of a group of customers has a good chance of attracting and retaining this group. By customizing the product/service and/or its marketing, the firm can protect itself against such threats. The firm can invest more heavily in retaining certain customers than others. It will not waste a customer's time with irrelevant messages.

If we accept that customization – modifying marketing contacts to satisfy the wants and needs of customers more closely – is a viable strategy, the next question is how can the firm implement it *in a cost-efficient way*? There are a variety of answers to this question, ranging from the recommendation agents (Iacobucci, et al 2000) used by Amazon and others, which optimizes the cross-selling tactic, to “customer/database segmentation” (Humby and Hunt 2003; Batra 1999; Rigby, Reihheld, and Schefter 2002), which involves partitioning a companies database into segments and developing different marketing contacts for each group. Malthouse (2003) distinguishes between market segmentation and *database subsegmentation* – further segmentation of a firm's customers, which often come from a single market segment.

The contributions of this article are to (1) provide an overview of how segmentation can be used to customize marketing contacts and (2) extend the subsegmentation approaches with our *cross-basis* approach. Before we define the cross-basis approach, the next section describes the subsegmentation approach in detail and identifies its limitations.

Motivating Example

We give an example¹ of how a hotel could customize print or direct marketing advertisements for two different subsegments of customers:

¹ This example is from the Looking Glass Company, which produces the Cohorts product.

- *Mature couples.* Don't you deserve a beach vacation this year? And it's just a days drive from home. Watch the sunset from the comfort of your spacious – but affordable – room at XYZ Hotel & Resort. Enjoy long walks on the beach with your favorite person, reflecting on romantic getaway weekends gone by and adventures yet to come. Take our courtesy shuttle to the local casino to try your luck at the slot machines – or, there is also a more conservative diversion in the local antique mall! Our guest services experts can't wait to tell you about the great deals for our guests at the local public golf courses. Don't you deserve it? Call 800-555-1231 now to make your reservation.
- *Affluent Empty-Nesters.* There is a sunset over the Pacific Ocean that's calling your name! And you'll watch that sunset from the tranquil luxury of your private balcony, far away from the hectic pace of home. We love to lavish our VIP guests with the best of everything – PGA tour-class golf courses, a day at the spa or an evening at the theater are all just a courtesy shuttle bus away. We'll pick you up at the airport too! You can book online at www.xyzhotelandresort.com or call our concierge desk at 800-555-1232. That sunset is calling...

These advertisements describe the same hotel, but emphasizes different experiences that consumers might want to have at the hotel. The mature couple subsegment is frugal and would not think of “wasting” money on luxurious hotel rooms or PGA-tour golf classes. The room may be luxurious, but describing it as such is a turn-off to this subsegment. The local public golf course is good enough for this group. The mature couple is also adverse to flying and using the internet. The advertisements use very different voices to describe the same hotel. Notice that the phone numbers are different, which helps the company to track the effectiveness of each advertisement.

As we indicated in the introduction, the application of this approach is not limited to direct mail and internet applications. It will soon be possible to customize television advertisements for individual households. For example, consider an advertisement for a vacation resort in Florida. A demographic subsegmentation could determine which “views” of the hotel to feature in the ad. Families with small children would see the hotel

pool, with children playing happily in the water while the parents are relaxing by the pool with a good book. Retired couples would see an older couple strolling along the hotel beach. Young singles would see attractive young people engaging in the night life.

Subsegmentation Process

The general process for executing this type of customization is as follows:

1. Develop and profile subsegments
2. Set measurable objectives for each subsegment
3. Design and implement contacts
4. Measure results

We discuss each step in detail below. In the hotel example, two segments are the mature couples and the affluent empty nesters. The objectives for each of the segments are the same, namely to book a room at the hotel. As discussed below, in other cases the objective can vary across segments. After the hotel identified these two subsegments, it designed the above contacts, which are targeted at their respective subsegments. The hotel will attempt to measure the effectiveness of each of the three contacts.

1. Developing and Profiling Subsegments

The first step in the process is to partition a company's customers into *subsegments*, and then to profile the subsegments. There are many ways that a company can choose to subsegment its customers. A subsegmentation is useful if the company can develop contacts targeted at the subsegments that will perform better than a one-size-fits-all contact. An example of a poor subsegmentation would be if an automotive company defined subsegments based on eye color. This would be a poor choice because it is difficult to imagine contacts that would work well with blue-eyed customers but not brown-eyed customers, and vice versa. Subsegmenting on interest in pre-owned vehicles would be more sensible because the nature of a message would change depending on where a customer falls on this continuum. We now discuss several ways that are usually good ways to define subsegments.

RFM Subsegmentations. One way of subsegmenting customers is to use variables such as recency, frequency, and monetary value (RFM). Recency is the length of time since the most recent purchase. This is an important variable in most industries because it indicates whether a customer has “lapsed.” For example, someone in an airline’s “frequent-flyer” database who has not flown with that airline in two years (recency=two years) is inactive and will require different contacts than someone with a small value of recency. The airline might want to ask why the former customer has become inactive and attempt to correct whatever is wrong. Such contacts are not as relevant to the recent flier.

The frequency of a customer is the number of previous purchases. Frequency is a natural measure of behavioral loyalty – the more often a customer has purchased from a company, the more loyal the customer is, at least in terms of behavior. For a criterion to be useful it must give rise to different contacts, which is true of frequency. A first-time customer (frequency=1) usually requires different contacts than a “regular” customer. Some hotel loyalty programs send a “Welcome Package” contact to new members (frequency=1 and recent). Such a contact is clearly not relevant to a regular customer.

Monetary value, the amount that a customer has spent with a company in the past, is important because it is usually the best single (available) predictor of future spending. Big customers in the past are likely to be big customers in the future; little customers in the past are likely to be little customers in the future. Customers who have spent large amounts of money with a company in the past may deserve more expensive contacts than those with small historical monetary value. Organizations that solicit donations often use monetary value to select a contact. For example, a symphony might invite donors who have made large donations in the past to an exclusive concert or reception, while small donors receive only a direct mail solicitation for another donation. Airlines and hotels often give more expensive perks to high-tier customers (those with large monetary and frequency in the recent past) than to normal customers.

It is important for a company to consider RFM when customizing contacts, but it should not stop there. RFM is good for determining the size of the carrot and the objective of

the contact (e.g., reactivate lapsed customer), but RFM alone provides very limited opportunities to achieve relevance. The types of experiences that are relevant to a customer are often not related to RFM. Return to the hotel advertisements. Whether a guest is interested in the local public or PGA tour golf courses is probably unrelated to the customer's RFM. Likewise, RFM will not determine whether a supermarket customer is a gourmet cook, junk-food addict, or a vegetarian. A contact that is meant to reward a best customer (low recency and high frequency and monetary) with relevant store coupons would be very different for the gourmet than for the junk-food addict. Both could be best customers by frequently buying high-margin items, but would require very different coupons, and probably a different voice in the message. It is usually necessary to define subsegments based on other variables as well. We will discuss two other types of variables that are currently used, socio-demographic and previous purchase categories.

Socio-Demographic Subsegmentations. Defining subsegments based on socio-demographic variables – age, marital status, presence of children, education, income, etc. – is usually fairly easy for several reasons. First, this information is easily available to companies in many different industries. Loyalty club applications often gather basic demographic information. For example, the membership applications of supermarket frequent-shopper programs should ask for age, number of children (living in the household), and marital status. The purchase patterns of a family with small children will be very different from those of an elderly couple, and the two “subsegments” will require different contacts. Humby and Hunt (2003, p. 109) suggest that life-stage subsegmentation “can avoid simple errors – for example, offering coupons for Coca Cola to tea-drinking pensioners [retirees]” in the UK.

A second reason why subsegmentations based on socio-demographic information are easy to implement is that the data analysis requirements are minimal (compared with the strenuous effort required to analyze previous purchase categories). It is easy to define business rules that classify customers into subsegments. For example, if a customer has one or more young children living in the household and the head of household is between

the ages of 20 and 35, it is a member of the “Young Family” subsegment. If the head of household is over the age of 65 and there are no young children, it is part of the “Senior” subsegment. If a customer is single and between the ages of 20 and 30, he/she is a “Young Single.” Alternatively, several companies have developed general-purpose subsegmentations that can be “overlaid” onto a company’s database. Examples in the US include Cohorts, Personics from Acxiom, and PRIZM from Claritas.

Socio-demographic subsegmentations have the virtues of being easy to implement and providing a way for a company to develop contacts that are more relevant than one-size-fits-all contacts. Another advantage they have over subsegmentations based on previous purchase categories is that prospective customers and new customers, who have little purchase history, can be classified into socio-demographics subsegments; previous purchase categories, by definition, requires previous purchase history, which is only available for more “mature” customers who have made several purchases. Previous purchase categories, however, usually enable companies to develop more relevant contacts than socio-demographic variables. Not every “Senior” buys prune juice and not every “Young Family” buys sugary breakfast cereals. Improved relevance, however, comes with a cost. It is usually much more difficult to process and analyze previous purchase history than demographics.

Subsegmentations Based on Previous Purchase Categories. These subsegments are defined based on what a customer has purchased in the past. Subsegments can be found using traditional market research methods for market segmentation. This usually involves a two-step process. The first step in developing subsegments is to develop scales that measure a customer’s interest in a particular type of merchandise. The same basic approach has been applied to the Tesco supermarket data. The analytic team started by defining interest scales. For example, the “Adventurous” scale measures the extent to which a customer (in the UK) buys adventurous food items such as extra virgin olive oil or the ingredients for Malaysian curries (p. 156). The “Fresh” scale measures the extent to which a consumer buys ingredients such as fresh fruits and vegetables. The “Prepared Food” scale measures whether customers buy items that are ready to be eaten

immediately after purchase. “Cheap” measures whether a customer buys the cheapest products in every category.

The second step in developing subsegments is to *types of readers* (subsegments) by applying cluster analysis to these interest scales. Cluster analysis is a method that groups customers into “natural groups.” Humby and Hunt (2003) use the two-step process to develop subsegments for Tesco by applying cluster analysis to the scales they developed in the first step (pp. 156-158).

A second example is from Rhenania, a German company that sells overstock books, mostly via catalogs. Rhenania is interested in customizing their contacts with customers. Again, developing subsegments involves a two-step process, with the first step being to develop scales that measure a customer’s interest of types of merchandise. These can be thought of as general *types of books* (as opposed to types of readers). We used a method called factor analysis to identify interest scales such as: contemporary and ancient *history*; *serious fiction* including classics, poetry, and mythology/legends; *popular fiction* including novels, romances, crime stories, and thrillers; and *home and living* including hobby, gardening, cooking, health, and plants/animals. Every customer is given a score that indicates his/her interest in each category. The score is, essentially, the number of books that a customer has purchased of a particular type. Note that a customer can have high scores on more than one category. A customer can, for example, simultaneously have a strong interest in history and home/living.

Some of the groups that cluster analysis identified are as follows. *Super Readers* have above average purchases from all categories (interest scales). *History Only* has substantially above average purchases of history books, but below-average purchase levels in all other categories. The *Close-to-Home Reader* have above average interest in books about the home (cooking, gardening, decorating), popular fiction, movies, and art.

This first step also involves profiling subsegments. An example profile for the mature couple subsegment is shown in Figure 1. Profiles are useful in developing marketing

contacts. The information for the profiles can come from qualitative and/or quantitative marketing research.

2. Set Measurable Objectives for Each Subsegment

This step involves specifying specifically what the company wants to communicate to each subsegment and what the company wants each subsegment to do. Often, different subsegments will have different objectives. Contacts follow from these objectives.

For example, a leading music company has a loyalty program, where customers (fans) enroll in the program and receive various periodic newsletters about the company's artists and rewards for buying CDs and attending concerts. During the first few years the newsletters were not customized at all and contained news about all of the company's artists, including classical, rap, heavy metal, pop, country-western, Christian, and children's. They recently started customizing newsletters, as someone interested in country-western music has little interest in rap or heavy metal. The company has a substantial subsegment of "lapsed" customers, who have canceled their membership. The objectives for this lapsed subsegment are (1) communicate that the program has been improved with more relevant newsletter content (country-western fans will no longer have to sift through content on rap, heavy metal, classical, etc.), (2) communicate the benefits of belonging, and (3) to get customers to re-enroll. Customers who have purchased recently and multiple times constitute another subsegment. The primary objective for this group is re-purchase.

Tesco provides additional examples of how different subsegments can have different objectives. Many of their best customers do not shop in all departments. One group of customers buys a wide variety food items, but does not purchase any wine or other alcohol. An objective for this group could be to get them to try the wine section.

3. Design and Implement Contacts

After objectives have been set, the next step is to develop contacts to achieve these objectives. A contact is any interaction between the customer and the company/brand. Contacts include the traditional marketing communications such as when a customer sees a television or print advertisement, visits the company's web site, receives a direct marketing piece or telemarketing call, sees that the company has donated money to support the local zoo, or reads a story in the business section of a newspaper about the company. But contacts include much more. Anything that is associated with a brand communicates a message to the customer (Duncan and Moriarty 1998). Consider the hotel example. The hotel van that collects guests at the airport and brings them back to the hotel produces contacts. A van that is old and rusty, in need of a new muffler, and that is frequently parked illegally in crosswalks making it difficult for other travelers (prospective customers) to get around with their rolling suitcases does not make a positive statement about the hotel. At check-in the person behind the main desk makes another contact. This person's demeanor and attire communicate something about the hotel. The décor of the room, hotel's restaurant and other facilities, the loyalty club statement, and even the doorman are all contacts. The accumulation of all such contacts ultimately forms the hotel's brand in the customer's mind.

4. Measuring Results

One of the benefits of CRM is that it is usually easy to evaluate whether a contact is effective. The effectiveness of a contact can be measured with a test. For example, suppose we want to determine the effectiveness of sending a customized cover letter to the Rhenania history lover subsegment. We could evaluate this contact by randomly assigning the history lovers in the database to two groups: one group will receive the customized cover letter and the other group will receive the "control" offer. The control offer could be a generic letter from the CEO thanking the customer for his/her previous orders. The difference in response rates, order amounts, etc. measures the effectiveness of the customization. After considering the costs of producing the customized letter, we can evaluate whether it is cost effective.

Subsegmentation Process Iterative. This process is iterative. After measuring the results of customization, the company may want to return to any of the previous steps. For example, perhaps the contacts worked better for some subsegments than for others. In this case, perhaps the contacts must be improved for poorly performing subsegments (step 3). Once a company can show that some customization improves profitability, perhaps the company can improve further by introducing additional subsegments (step 1). By having more subsegments, the company will incur additional costs, but should be able to craft more relevant contacts and increase response rates, etc.

Crossed-Basis Subsegmentation

We now extend the subsegmentation approach. The previous section identified three actionable bases for a subsegmentation that complement each other. RFM subsegmentations are excellent for determining the behavioral objectives of customers, but not so effective at enabling *relevant* communications. The strengths and weaknesses of the other two bases are opposite those of the RFM approach. Frequently, different segmentation bases complement each other. Our crossed-basis approach is useful whenever a firm has two or more complementary, actionable bases.

The crossed-basis approach produces a unique offer for every combination of subsegments in a cost-effective way. It is most easily understood with an example. Consider sending a direct mail letter to customers. Suppose that the introduction is determined by some RFM subsegments. Recent first-time customers are thanked for their purchase and told about company. Recent multi-timers are thanked for their loyalty and told about certain benefits available to a heavy user. Lapsed customers receive a different introduction. Suppose further that the firm wants to offer specific product recommendations and highlight different aspects of the brand based on a customer's previous purchases. The letter would thus have the following format:

Dear [Name],

[Introduction determined by RFM subsegment]

[Body with cross-sell recommendations and branding message based on previous purchase subsegment]

[Universal closing]

Implementing this customization requires writing one introduction for each RFM subsegment and one recommendation section for each previous purchase subsegment. An alternative would be to develop subsegments using both the RFM and previous-purchase variables simultaneously in the cluster analysis. The problem with the latter approach is that the number of subsegments would be large. Suppose that there are 4 RFM segments and 8 previous purchase subsegments. The cross-based approach calls for writing $4+8=12$ separate insertions. The latter approach would require $4 \times 8 = 32$ separate versions, which would require substantial additional work. The savings become even larger when three or more bases are “crossed.”

Such a letter could be used for Rhenania, the German book seller. It could have different bodies of the letter based on previous purchases. For example, the branding message for the “Mostly History” subsegment could discuss how Rhenania has long specialized in history books and carries rare titles. After the branding message, the body could feature several history titles that are currently offered. The branding message for the “Mostly Music” subsegment could tell the customer that Rhenania has recently expanded its music selection and that they have buyers devoted to finding CDs from well-known artists at a favorable price.

Return to the example of a television advertisement for a hotel in Florida. A demographic subsegmentation determines which views of the hotel to feature in the advertisement. A separate geographic subsegmentation could feature customized information about getting to the resort. Those in Chicago market would see the lowest price of an economy, *non-stop* flight and be told about the free airport shuttle. Those in Atlanta would be told that the resort is an easy 4-hour drive from home.

Conclusion

One strategy that companies can follow to address increasing competition is customization, which involves tailoring the product and/or marketing contacts for

customers. Customization can be executed in a cost-effective way through subsegmentation. The company identifies groups (subsegments) of customers that have similar wants and needs, develops contacts that achieve specific goals by meeting the needs of groups more closely than a one-size-fits-all approach, and measures the results. The process is iterative. After measuring effectiveness, the company can introduce additional subsegments, improve contacts, etc. RFM variables are good for identifying the objectives of individual subsegments. Socio-demographic and previous purchase history are good for developing more relevant marketing contacts. When multiple segmentation bases are relevant for creating relevant messages, the firm can use our crossed-basis approach.

Figure 1: Example of profiling a segment from cohorts (this will appear in an insert box):

Burt & Marilyn
Mature Couple
8.9 Million U.S. Households
Median Age = 67
Median Income = \$54,000

Burt & Marilyn are comfortable, close-to-retirement homeowners who are active investors and who engage in charitable activities, travel, politics and their grandchildren. What are their attitudes? They are happy with their standard of living and feel financially secure. They trust their doctors and their stockbrokers, and try to live an active, healthy lifestyle. They're conservative, but splurge on new cars (American!) with loads of options every two or three years. And they justify that expense by traveling across the U.S. in that new car ...

Do they carry plastic? Yes, especially department store credit cards like JCPenney and Sears, as well as gas cards. They also prefer platinum MasterCard and Visas, and if they use American Express, it's only a green card.

Are they wired? No! Burt & Marilyn find computers confusing and they are not Internet Savvy, believing that the "wireless web" has no impact on their life.

Shop-a-holics? Not really – they plan ahead for expensive purchases and shop for specials. But they ARE brand loyal and will pay a bit more for quality goods. They are department store faithfuls, frequenting stores like Sears, Belk, Dillard's, JCPenney, and Kohl's. However, they also like to find those quality products at bargain at Steinmart or Filene's Basement. But who doesn't?

Glued to the tube? They prefer informational TV and classic movie channels like The History Channel, A&E, HGTV, Fox News Channel, CNN, and Turner Classic Movies. They really don't care for premium channels like HBO, Cinemax or Starz.

Bitten by the travel bug? Yes! Burt & Marilyn LOVE to travel, but they tend to choose the States over foreign destinations. They'll drive the U.S. in an RV or their new car, or tour a foreign country by boat/ship or bus.

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