



Identifying the Customer

To be successful, retailers must know who their customers are. The market is a group of people who have common merchandise needs and wants and the means to buy the merchandise. Market segmentation is the process used to classify a broad market into smaller groups. This process allows specific customer characteristics to be further defined. Market segmentation is a step retailers take toward determining their target market. A target market is the specific group of people a retailer wants as customers. A retailer directs its marketing efforts toward this group. This target market group shares specific wants and needs that retailers seek to meet. The target market profile is a description of the characteristics shared by the target market. This profile provides necessary information that helps a retailer better understand its customers and drives most of the retailer's decisions. The characteristics described in a target market profile are demographics, geographics, and psychographics. Much of this information can be obtained from the United States Census Bureau or the local chamber of commerce.

Demographics

Demographics is the term used to describe basic characteristics that identify and distinguish the people in a target market. Some of these characteristics include:

Main Idea

In this unit we will learn how to identify a target market and its characteristics. We will discuss the characteristics and their meanings. We will look at how target market information can help retailers refine their merchandise offerings. Lastly, we will review some mathematics associated with targeted marketing.

After completing this lesson you will be able to:

- Design a direct mail campaign based on market segments to gather information about specific customers
- Identify survey segments and their percentage of the total market
- Describe the benefits associated with targeted marketing based on demographics, geographics, and psychographics
- Calculate disposable and discretionary income from gross income & expenses
- Explain how the results of target marketing can impact a store's product mix and merchandising

Key Terms

- Market
- Market Segmentation
- Target Market
- Target Market Profile
- Demographics
- Disposable Income
- Discretionary Income
- Geographics
- Psychographics
- Product Mix

- **Age:** Knowing the age of the people in the target market helps a retailer identify the types of merchandise each age group is likely to buy. The U.S. Census Bureau provides information about population age groups.
- **Gender:** Statistics on gender separate male and female segments who have different purchasing habits.
- **Income:** Data on income tell retailers how much money the target market customer has to spend. Income measurement is broken into two types. Disposable income is the amount of money left to spend after taxes have been taken out. This is the money that people take home in their paychecks. Disposable income is normally used first to pay for necessities like food and housing. Discretionary income is the amount of money left to spend after necessities are paid for. Changes in the disposable and discretionary incomes of target market customers are of great interest to retailers.
- **Marital Status:** These statistics highlight the difference in spending habits between single people and married couples, who are more likely to have children.
- **Ethnic Background:** This information helps indicate specialized interests customers may have based on their ethnic or cultural origins.
- **Education and Occupation:** These data help provide information about the interests customers may have based on their educational level and/or occupation.

Geographics

Geographics is the term used to describe the physical location of customers. These statistics tell retailers where their customers live and work. They also point out similarities between people in a specific geographical area. For instance, people who live in the deep south are not likely to need snow tires. Whether they live in southern Florida or southern Texas, these people share this characteristic. Geographics can be applied globally, nationally, regionally, or locally. Most small retailers will be interested primarily in local information, while a national retailer will be concerned with national information.

Psychographics

Psychographics is the term used to describe the analysis of customer lifestyles and how they spend their time and money. Lifestyle analysis gathers information about customer activities, attitudes, and opinions. This information helps retailers understand what products or services customers are likely to buy.

- **Activities:** This information reflects what people enjoy doing in their free time. Do they play golf or do they prefer woodworking? If a customer does not play golf, he or she is unlikely to buy golf clubs.

- **Attitudes:** This information reveals how people feel about certain topics. Do they like organic foods? If so, this can indicate customer interest in about living a healthier lifestyle.
- **Opinions:** This information shows what people think of the places and things around them. Are they conservative or liberal? These characteristics affect what a customer is interested in buying.

Target Marketing and Product Mix

A study of target market information will give a retailer a good picture of the target customer's needs, wants, and preferences. This information will be of enormous value as the retailer selects the store's product mix. Product mix is the type of merchandise a retailer has for sale. Most retail stores have a variety of merchandise from which customers can make their selections. A sporting goods store will carry equipment for sports like baseball, football, soccer, volleyball, basketball, golf, and tennis. After obtaining local target market information, a sporting goods store with a target market of single 21 to 35 year-olds located near an apartment complex populated by single people would know to carry more tennis and golf equipment than child-sized sports equipment.

Summary

In this unit we have studied the subject of target marketing. We learned about markets and market segmentation. We then learned how to identify a target market and the definition of a target market profile. Next we studied demographics, geographics, and psychographics and their components. We discussed how target market information can help a retailer refine product mix. Lastly, we reviewed mathematics related to target marketing.

Key Math Concepts

COMPUTE A NUMBER FROM A PERCENTAGE

Much of customers' profile information is stated in percentages. To compute a number from a percentage, use this formula:

$$\text{Number of Customers Sharing a Specific Characteristic} = \text{Percentage} \times \text{Total Number of Customers}$$

FIND THE AVERAGE OR MEAN OF A GROUP OF NUMBERS

To find the average or mean of a group of numbers, add the numbers together and divide the total by the amount of numbers added.

Key Terms

Market

A group of people who have common merchandise needs and the means to buy the merchandise.

Market Segmentation

The process used to classify a broad market into smaller groups.

Target Market

The specific group of people a retailer wants as customers.

Target Market Profile

A description of the characteristics shared by the target market.

Demographics

The term used to describe basic characteristics that identify and distinguish the people in a target market.

Disposable Income

The amount of money left to spend after taxes have been taken out.

Discretionary Income

The amount of money left to spend after necessities are paid for.

Geographics

The term used to describe the physical location of customers.

Psychographics

The term used to describe the analysis of customer lifestyles and how they spend their time and money.

Product Mix

The type of merchandise a retailer has for sale.

Targeted Marketing

1. You are the owner of a home decorating store. You recently conducted a survey of 350 of your customers to determine the types of dwellings in which they live. The results are as follows:

Single Family Homes	55%
Condominiums/Townhouses	30%
Apartments	15%

What number of customers lives in each type of dwelling?

2. When given the following information, how many market segments would you identify and what percentage of the market is each segment?

40 individuals buy only at the lowest price

20 individuals buy where they can obtain good service

50 individuals buy where they can obtain competitive prices and good service

60 individuals buy based solely on convenience

3. Your gross income is \$3,000 per month. Your federal tax is 10%, state tax is 5%, city tax is 2%, and you pay 7% to social security. What is your monthly disposable income?

4. Your disposable income is \$1,200. After you pay for rent, utilities, groceries, and a car payment, you have \$200. What percentage of your disposable income is discretionary?

Targeted Marketing

1. Visit three stores in your local area. Observe the customers and the store merchandise. Using your observations, describe each store's target market in terms of age group and gender.
2. Make a list of at least five of your daily activities. Use that information to list the various market segments in which those activities place you.
3. Select four stores in your local area—two different types in which customers spend disposable income, and two different types in which customers spend discretionary income. Briefly describe the merchandise offered at each store and the reasons for your selections.
4. You are the owner of a grocery store. The demographics in your target area are changing and reflect growing Hispanic and Asian American populations. Will this changing demographic affect your merchandise offerings? If so, why? If not, why not?

Targeted Marketing

GOAL: Your goal is to develop a customer profile of your target customer which lets you select appropriate products to stock and design cost effective marketing programs.

YOUR SITUATION: In this lesson, you control Market Research, Merchandising and Direct Mail. All other actions are controlled for you.

1. Run the **Direct Mail, Merchandising, Market Research, Run To,** and **Financials** sections of the **Tutorial**.
2. Open the **Targeted Marketing** lesson and choose **Sim 1**.
3. Using **Actions->Market Research->New Survey**, ask 300 customers "What is your occupation?" and "What products do you need most often?"

QUESTION 1: What is the most prevalent occupation in the city? *(Use the segment option to isolate just people in the most common occupation.)* What do these people need most often? *(List those products that were mentioned by 5% or more of the respondents.)*

QUESTION 2: Using the **Store View**, observe your store shelves. Are you offering those products?

6. Using **Actions->Merchandising**, re-arrange the store so that you are selling all the products that Office Professionals want. Using **Options->Run To**, run the simulation for two weeks. Open your financials.

QUESTION 3: How much did weekly revenue increase from the first few weeks in January?

7. Reopen the **Targeted Marketing** lesson and choose **Sim 2**. You will now try two marketing campaigns to boost sales further. The first is a broad direct mail campaign. The second is a targeted direct mail campaign. Your merchandising has already been adjusted to include some needs of office professionals.
8. Using **Direct Mail** under **Promotion** on the **Actions** menu.
 - a. Set up a mailing to the entire city using **Click & Drag** to select all buildings in the city. Include 35% off coupons for three products: Bolt Cola, Nacho Chips, and Salsa. Check the option to repeat the mailing every 7 days.
 - b. Using **Options->Run To**, run the simulation to February 12th.
 - c. Click the Financials button and record your revenue and promotional spending on Direct Mail for the last week on line 1 of **Worksheet 1**. Click the More Detail button on the financials window to see spending on Direct Mail.

9. Reopen the **Targeted Marketing** lesson and choose **Sim 2** again. Your store is located in a section of the city with many office buildings. It is your goal to do a more targeted mailing to office professionals offering the discounts only on things they need. To do this:
 - a. Conduct a survey asking 500 customers “What is your occupation?”
 - b. From the Survey Results window, click the **Segment** button. Select the question, “What is your occupation?” Uncheck the boxes next to Students and Retired. Click **Apply**. You now have the “segment” that is just office professionals. Click the **Buy Mailing List** button and name the list “Professionals.” Click **OK**. Click **OK** again and then click **Close**.
 - c. Using **Direct Mail** under **Promotion** on the **Actions** menu, select “Professionals” under **Use Existing List**. Include 35% off coupons on eggs, bread and coffee. (These are the products professionals need most. You could determine this through a survey but it is given to you in this lesson for simplicity.) Check the option to repeat the mailing every 7 days.
 - e. Using **Options->Run To**, run the simulation to February 12th.
 - f. Click the **Financials** button and record your revenue and promotional spending on Direct Mail for the last week on line 2 of Worksheet 1. Click the **More Detail** button on the financials window to see spending on Direct Mail.

QUESTION 4: Which mailing generated more revenue? Which mailing cost less?

QUESTION 5: Discuss why targeted campaigns are often more effective than broad campaigns.

WORKSHEET 1

	Revenue (After 3 wks.)	Promotional Spending (After 3 wks.)
Entire City		
Market Segment		