The costs and perils of over-targeting in today's markets

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Standard marketing theory prescribes that businesses profit from targeting specific customer segments in their advertising. We show, however, that excessive targeting and segmentation can yield a number of unfavourable results. We illustrate how over-targeting might cause firms to forego significant social network effects. In addition, we point out that traditional segmentation, targeting, and positioning strategies often are not well adapted to the increasingly powerful and abundant social networking and blogging sites. Moreover, over-targeting can lead to firms offering excessive product lines, and the ensuing proliferation of choices results in lower sales and customer satisfaction. Finally, over-targeting often carries with it the undesirable effects of intrusive "push" marketing.

In light of these and other observations, we offer some prescriptions for managers, including how to structure the targeting and segmentation decision; letting customers customise the product line; and developing "pull" as opposed to "push" marketing techniques.

Keywords Targeting, Segmentation, Network effects, Choice, Pull marketing

Targeting and over-targeting

Customer targeting and segmentation are among the articles of faith in contemporary business and marketing. Firms are interested in targeting specific customer segments in their advertising because they think it enables them to speak to potential customers better, to sell more effectively, and to maximise profitability. This idea also follows from the so-called Pareto principle (or, the 80-20 rule), which holds that 20% of customers contribute some 80% of the firm's overall revenues. The Pareto principle has found some validation both anecdotally and empirically among retail businesses, like catalogues, that sell to end-consumers. Hence, businesses tenaciously seek to identify their "core customers," and to target them in their marketing. And in every strategic business plan, there is always a discussion of target customers, and of their demographic and psychographic profiles.

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While the above logic is well understood, what is less certain is the question, if there is such a thing as "over-targeting," and if in certain situations marketers are setting themselves up for attaining a lesser goal by picking out certain selected customer segments and by ignoring the rest. In other words, is it possible that firms could be engaging in suboptimal behaviour by targeting fewer segments than they potentially could have, thus forfeiting greater revenues and improved long-term competitiveness? Indeed, could the firms that over-target be missing out on valuable advantages resulting from "social network externalities" among their true customers? Note that typically, such externalities (or benefits) have the capacity to confer tremendous multiplier advantages to businesses to grow their revenues and market share; this has happened, for example, with the Apple iPod and Toyota Prius. In such instances, as the in-group grows, so does the product's attraction. Moreover, there is a question if too much needless targeting and segmentation are hurting brand performance by turning away prospective customers, which is paradoxical since targeting is supposed to fit customer needs better.

If we consider the recent evidence, we find increasingly that the above questions are answered in the affirmative and that firms need to become more aware of the perils of over-targeting in today's markets. While the consumer of the 1960s through the 80s may have sought multifarious ways to express their individualities and personal preferences in buying decisions, the present-day consumer, for reasons of increasing shopping complexity and the "tribal advantages" of identification with their social networks, is more likely to conform to a collectivist choice. This is the dynamic that aided the iPod and Prius and turned them into such blockbuster success stories. In fact, the smarter and more nimble strategy that works in these times is not to find ways to split or disaggregate the market by needlessly targeting a specific customer type, but focus instead on a "creative aggregation" of customer segments. We illustrate and expand on this principle below and describe the managerial implications in greater detail in the last section.

Some case studies

An illustrative example of the potential risk of over-targeting may be found in the cola giants' war for dominance over the growing bottled-water market and how it played out initially in the United States. The title fight was between Coke's Dasani and Pepsi's Aquafina. Even though Dasani had entered the market somewhat later than Aquafina, Coca-Cola thought it could surpass Pepsi with a much clearer branding strategy. In particular, Coca-Cola executives had identified a target customer for the Dasani brand - an upscale, urban woman - and accordingly, their initial advertising (a sophisticated middle-aged woman reclining by a pool with a Dasani) and brand physique reflected that positioning. The Dasani bottle was designed to look sleek and slender, and was tapered at the neck. Pepsi, in marked contrast, had chosen no specific targeting strategy for the Aquafina brand, going by the logic that bottled water could be consumed by all and did not need a target consumer. Accordingly, Pepsi managers utilised its marketing muscle to focus more on distribution, and spent relatively little on advertising.

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Aquafina bottles looked plain and generic, with no specific customer target in particular. The results of the respective positioning tactics of Coke and Dasani are obvious even today. A lot of men avoid buying Dasani, seeing it to be a woman's brand, and Dasani still trails Aquafina in sales. So, did Coca-Cola engage in needless targeting for Dasani, at least in the beginning? One visible clue that Coca-Cola realised its misstep is that the Dasani bottle presently looks much less tapered than in the past and is now appealing to a more general audience.

Interestingly, the above principle, albeit in reverse, i.e. of *not over-targeting* was evidenced by the resounding success of the Colgate Total brand. Historically both Crest and Colgate had sedulously attempted to segment and subdivide the market into clusters of benefits, such as "cavity prevention", "whitening", "tartar-control", "gum protection", etc., resulting in a mind-numbing assortment of toothpaste choice. Then Colgate introduced Total (an apt choice of name), which made *a* simple claim: it was intended for the customer who desired *all* of these benefits. Colgate thereby obviated the narrow definition of customer segments that had been the norm, and most importantly, simplified the choice decision for buyers at the drugstore aisle. Not surprisingly, Total propelled Colgate to first place in the global toothpaste market displacing P&G's Crest to a distant second, from which the company has not recovered notwithstanding its own equivalent brand.

We should mention at this point that there is nothing wrong *per se* with a firm having a target customer in its strategy formulation. Indeed, STP (segmentation, targeting, and positioning) are considered near-default steps in the formulation of marketing strategy. But an important fact that is often lost is that there is a cost-benefit trade-off involved in every segmentation and targeting operation. Hence, prior to the selection of a certain target customer, firms ought to be cautious because there are hidden costs inherent in pinpointing a certain type of customer above all others. And the opportunity costs that are particularly salient at these times are the lost benefits resulting from social network externalities of a larger customer base.

The rising level of global interconnectedness presents significant opportunities as well as challenges to marketers. One major opportunity is to rapidly build a network of clients without incurring significant costs through traditional advertising, branding, and sales promotions that were necessary before. Word-of-mouth and the buzz that comes with it are the vehicles here and the web is the ideal conduit. Due to online social networking, blogging, and familiarity with product reviews, a significant proportion of the population today is much more product-oriented and far less susceptible to marketing gimmicks and extravagant advertising claims than it was just five years ago. The moral for present-day companies is that they have to work on their product and brand superiority, set reasonable prices, focus less on glitzy campaigns, and attempt to build a viable customer network by recruiting or giving incentives to the more influential members, who will bring their own followers in their wake.

Perhaps the best present-day case study of generating broad appeal and reaping the social network benefits from a creative aggregation strategy while avoiding the pitfalls of over-targeting is the successful bid of the Democratic candidate Barack Obama in the recently-concluded U.S. presidential elections. From the very beginning, the Obama campaign managers challenged the

conventional Democratic wisdom of targeting only the traditional voter blocs (women, minorities, union workers, etc.) and of only concentrating on the so-called blue states and battleground states. Instead, they chose to highlight the positive aspect of their candidate and his platform, and sought to leverage a network of young campaign workers who crisscrossed a large number of hitherto Republican strongholds. Eventually, their success in traditionally red states like Virginia, North Carolina and Indiana shows that when it comes to trading off the costs and benefits of segmentation and targeting, it is better to sway the decision in favour of the advantages gained from social networks.

Costs of over-targeting

(1) Excessive segmentation and targeting may reduce social network effects, i.e. the social benefits that are gained from our natural desire to share a common experience.

In the early 1990s a number of theorists promoted a bottom-up marketing approach, which, taken to its extreme, was called mass customisation or *"segment of one marketing"* (Pine 1993). This concept, which perhaps seemed premature fifteen years ago, is now coming to fruition as companies like Google can data-mine our individual viewing and purchasing patterns and distil the most effective mix of ads to target to our Internet browsing and television viewing.

But we advocate caution in using such an intensely-targeted, hyper-segmentation approach since it undermines a large part of consumers' shared experience and it destroys an associated, but highly meaningful, network effect: buzz. Buzz will grow as the network grows, but it can vanish as the network shrinks. To illustrate this idea, imagine that we all watch the Super Bowl but see completely different ads - all of which are customised as per our individual profiles and buying habits. Ironically, this seemingly smarter tactic will greatly diminish the effectiveness of the ads themselves, since it detracts from a commonality of experience which in part gives society its glue (and its buzz). We want products that others have and that others want. The network effect here is partly *anticipatory:* the more that others want certain products, the more we will want them too. Part of that buzz is also the fresh realisation that we desire something we could not have known or predicted we desired. This gives rise to the question: if *we* cannot predict our own potential tastes, how can Google?

(2) Over-targeting leads naturally to firms offering too much choice, which is a bad idea because paradoxically it may diminish actual choice.

Some recent research (Schwartz 2004) has shown that if firms increase the number of choices that are available to consumers beyond a certain point, they can significantly decrease customer satisfaction, reduce sales, and even cause negative psychological phenomena like post-decision regret. (To illustrate: you chose the raspberry tort, but now you wish you had ordered the chocolate mousse instead.) Excessive targeting and segmentation probably means that consumers are being bombarded with too much choice and too many decisions. Simplifying a product line can pay dividends, as was the

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case with Colgate Total. There is no magic number that is available, although below we discuss sizing the choice set according to the product type.

(3) Over-targeting results in intrusive push marketing.

Finally, from the consumers' perceptual standpoint, there is no worse tactic that any business can implement than to consider them as "targets" - symbolically as people with bull's-eyes planted on them for the firm to aim its products, services, and promotional message. This is an often-missed yet immensely important point. Over the years the authors of marketing textbooks have popularised the use of such terms as "target customer" and "target market." In our view, these could be misnomers since they might be based on the wrong assumptions and, more perversely, could have the potential to induce poor choices in strategic and tactical decisions. If managers start viewing customers as targets to foist their good or bad products on or let loose their well- or badly-crafted advertising, they then fall into that bane of contemporary business and social life: push marketing. And it is push marketing tactics, exemplified by aggressive salespeople, annoying pop-up ads, and dinner-time marketing survey calls, that have turned many good customers away from major brands. A much smarter strategy is to make one's products and service appealing enough so that buyers will gravitate to them on their own. This implies using pull tactics instead of push - and that in turn calls for creativity, authenticity, and a touch of genius. We provide some more elaboration in the next section.

Implications for managers

(1) Decide on how much segmentation and targeting to do.

A useful distinction for us is whether the product is a *"functional"* or an *"innovative"* one (Fisher 1997). Functional products - those with longer product life cycles and relatively stable demand - typically attract competition and therefore usually have low profit margins. Since the prescriptions for sales growth are imited in such environments, product managers are usually tempted to increase market segmentation, increase targeting, and in the product development phase to broaden the product line. However, we advise managers to carefully weigh the pros and cons of this strategy and to avoid the rush to offer a product in an ever-expanding palette of sizes, features, and variations. Moving beyond a few-to-several offerings can become very counterproductive; it not only alienates customers (and therefore reduces sales), but may also result in lower satisfaction and decreased customer loyalty. Hence, our advice is to offer some variety within a product line, but at the same time make the line logic clear and well-understood. This is rather like BMW's original 3, 5, and 7 Series, in contrast to_the confusing array of models that they presently offer to customers. A second but equally important point is that offering too broad a product line will likely harm the supply chain. Too many products drive up distribution costs and simultaneously lower service levels. The moral for managers therefore is to keep the product line manageable and thus run the supply chain more efficiently.

The product life cycle of innovative products (like designer apparel) is shorter and buyer demand is variable, leading to greater product dynamics

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and higher margins. These often trendy products depend on change as the prime reason for their appeal and therefore it is crucial to run a responsive supply chain. The attendant flexibility and speed in the innovative sphere comes at a premium, but is absolutely necessary for survival. Finally, since the allure of many innovative products is based on their trendiness and exclusivity, we recommend that managers avoid growing such brands into mass-market ones in order to prevent the loss of brand image.

(2) Offer a product line, and then let the ***customers*** *customise.*

It is the *way* the product line is offered that influences whether its extent needs to be scaled back and kept simple, or whether more choices are desirable. If customers are confronted with a dizzying array of choices - in the retail aisle or on a web page - then they will grow increasingly uneasy as they try to select among them. But if the customer is allowed to *participate* in the customisation process, then the experience is altogether different. For instance, there are about a million different variations that a customer can ultimately select when ordering a Mini Cooper and the company reports that very few people customise in the exact same way. So, while nearly all Mini Coopers ordered online are literally unique, the fact that they differ does not perplex their customers and does not dilute the underlying brand image. The key to this process is to lead the customers through the product design in a step-by-step fashion with re atively few choices at each stage. Consequently, there is much less chance that they will be overwhelmed and the availability of variety and choice will only add value to the brand.

(3) Don't try too hard. Look for ways to "pull" rather than "push."

The Taoist philosopher Lao Tzu once said that a large country must be governed like one cooks small fish - delicately. The more one stirs and churns, the messier is usually the result. There is a somewhat parallel culinary metaphor in the Western world that too many cooks end up spoiling the broth. Such aphorisms should be applied to the supervision of great businesses, because so many firms have been damaged by their own managers - not from apathy or want of attention but indeed from too *much* intervention. Over-exposure of the brand in the media through countless ads, sales promotions, and over-extensions, too much over-franchising, and too many strategic "corrections" and tactical implementations, have diminished the qualities that stood in lieu of the brand in the first place.

The key rule of pull marketing is not to push or foist the product on a customer. Instead, the idea is that customers must somehow be allowed to "discover" the product and come to it of their own volition. Making the product functionally clever, its design and service appealing, and its price reasonable, *but without seeming to aggressively sell,* shows off the brand in a special light and attracts the buyer on his or her own. And prospective buyers who gravitate to the product, having previously done their homework on the Internet or been referred to by friends, are already pre-sold. The ad message, if the firm opts for some advertising, need not be loud and blatant, which would turn off today's smart and savvy customers. What works in advertising now is the honest, quirky, understated, and minimalist message. The Japanese call it Zen advertising, one that focuses on the soft sell and

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that piques the buyer's interest by making a very subtle, nuanced, and self-effacing statement about the firm and the product. Zen advertising is still in its early stages in Europe and the United States, but one is beginning to see its successful uses. In the U.S., the Progressive car insurance company ran an effective ad campaign where they openly said that they did not offer the best quotes in all cases. The ad invited buyers to check its website, which had a running ticker showing the actual rates real people were getting from the major insurance carriers. Progressive was not the cheapest in many cases. But the element of trust and credibility that such a tactic usually engenders acts as an attractive force in its own right.

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