CHAPTER FOUR

IDENTIFYING TARGET CUSTOMERS: SEGMENTATION AND TARGETING ANALYSIS

The purpose of a company is to create a customer.

—Peter Drucker, founder of modern management theory

Understanding customer needs and identifying market opportunities is the starting point in formulating a company's marketing strategy. The cornerstone of developing a viable strategy is deciding which customers to target and how to reach those customers in an effective and cost-efficient manner. The process of identifying target customers is the focus of this chapter.

The Concept of Targeting

Targeting is the process of identifying customers for whom the company will optimize its offering. The logic of identifying target customers and the strategic and tactical aspects of this process are discussed in more detail below.

The Logic of Targeting

Imagine a company operating in a market in which there are two customers with different needs. Which of these customers should the company serve? The intuitive answer is—both. Indeed, all else being equal, the greater the customer base, the greater the company's profit potential. Should the company choose to target both customers it has two options to develop an offering. One approach is to develop the same offering for both customers (one-for-all strategy), and the other is to develop different offerings based on the needs of each one (one-for-each strategy).

The *one-for-all strategy* of developing the same offering for both customers might not be effective for customers with different needs because the offering will end up not creating value for at least one (and perhaps even both). For example, if the customers vary in terms of their price sensitivity, developing either a high-quality, high-priced offering or a low-priced, low-quality offering will inevitably fail to fulfill the needs of one of these customers because one will find the offering too expensive and the other will deem it of insufficient quality. Furthermore, developing a mid-priced, mid-quality offering will likely fail to fulfill the needs of both because the offering will still be too expensive for one of the customers and of insufficient quality for the other.

The *one-for-each* strategy of developing a separate offering for each customer might not be effective because the company might not have the resources to develop offerings that meet the needs of both customers. For example, the company might not have the scale of operations to develop a low-priced offering for the price-sensitive customer and the technological know-how to develop a high-performance offering for the quality-focused consumer. Furthermore, even if the company has resources to develop separate offerings, both customers might not be able to create value for the company. For example, the customer for the high-quality product might not have the financial resources to afford the company's offering, or might have needs that the company cannot fulfill without incurring costs that exceed the benefits received from serving this customer.

As a general rule, developing a separate offering for each individual customer is beneficial when the incremental value created by customizing the offering outweighs the costs of developing the offering. To illustrate, when the cost of customization is relatively high (as with durable goods, such as cars, household appliances, and electronic equipment), companies tend to develop offerings that serve relatively large groups of customers, whereas in industries where the cost of customization is relatively low (as in the case of delivering online information), offerings can be tailored for smaller groups of customers.

Individual and Segment-Based Targeting

The discussion so far has focused on a scenario in which a company operates in a market comprised of two customers. While such markets do exist, especially in a business-to-business context, they are the exception rather than the rule: Most markets comprise thousands and often millions of buyers. This scenario is different not only in the number of customers but also in that some customers are likely to have fairly similar needs that could be fulfilled by the same offering. In such cases, rather than developing individual offerings for each customer, a company might consider developing offerings for groups of customers—commonly referred to as *customer segments*—that share similar characteristics.

The concept of segment-based targeting is illustrated in Figure 1. Here, individual customers are represented by circles, which are shaded to reflect the differences in their underlying needs. For simplicity, consider a scenario in which customers' needs vary on a single factor that has three levels, represented by circles with different shades. For example, dark circles might represent quality-focused customers (Segment A), white circles might represent price-sensitive customers (Segment B), and gray circles might represent customers who are looking for a compromise between price and quality (Segment C). In this context, Figure 1 depicts a scenario in which a company targets quality-oriented customers by developing high-end offerings to fulfill the needs of these customers, while ignoring the other nontarget customer segments.

Figure 1. Segment-Based Targeting

Grouping customers into segments enables a company to improve the cost efficiency of its marketing activities by not having to customize the offering for individual customers, usually with minimal sacrifice to the effectiveness of the offering. From a conceptual standpoint, the process of identifying target customers is virtually identical, be it individual customers or customer segments. The key difference is that in addition to identifying the needs of the target customers, segment-based targeting involves grouping customers with similar needs into segments—a process commonly referred to as segmentation.

Strategic and Tactical Targeting

Customers vary in two main aspects: (1) their needs and resources and (2) their readily observable characteristics. The first aspect captures *value-based factors* that reflect customer's needs and their willingness and ability to pay for the company's offerings. Unlike customer needs and resources, which are unobservable, the second aspect captures *profile-based factors* that reflect customers' readily observable characteristics such as their age, gender, income, social status, geographic location, and buying behavior.

The existence of these two types of customer characteristics—value and profile—raises the question of which one to prioritize in targeting. Focusing on the value is logical because value-creation is the essence of any business activity. The drawback of focusing on value is that value, as well as its drivers—customer needs and preferences—is unobservable, which makes it difficult for the company to develop an effective and cost-efficient action plan. Focusing on the customer profile, on the other hand, can be beneficial because it is observable, which enables the company to reach its customers, make them aware of the offering, and deliver the offering in an effective and cost-efficient manner. The downside of focusing on profile is that it provides little or no insight into customer needs and preferences, thus making it difficult for the company to create value for its customers. Because neither of the two customer descriptors—value and profile—is sufficient on its own to create customer value in an effective and cost-efficient manner, targeting must incorporate both factors.

- **Customer revenues** involve money received from customers for the right to own and/or use a company's offering. Customer revenues are influenced by a number of factors, including the size of the market and its growth rate; customers' buying power; price sensitivity; the company's pricing power; competitive intensity; as well as various context factors, such as the state of the economy, government regulations, and the physical environment.

- **Costs of serving target customers** involve expenses necessary to tailor the offering's benefits to fit target customers' needs as well as to communicate and deliver the offering to these customers. The cost of serving target customers can also include the expenses incurred in acquiring and retaining these customers (e.g., customer incentives, post-purchase support, and loyalty programs).

Strategic Value

Strategic value refers to customers' ability to create nonmonetary benefits that are of strategic importance for the company. There are four main types of strategic value: product-line value, scale value, communication value, and information value.

- **Product-line value** reflects the synergies between the focal offering and the other offerings in the company's product line. Popular examples of such synergies involve a manufacturer developing a low-priced, entry-level offering to facilitate the sales of a more profitable offering, a software company giving away a basic version of its product to encourage customers to upgrade to the premium, paid version (often referred to as the "freemium" strategy), and a retailer pricing a popular item at or below cost to drive store traffic (often referred to as the loss-leader strategy).

- **Scale value** refers to the benefits received from the scale of the company's operations. For example, a company might target low-margin or even unprofitable customers due to the economics of its business model, especially in the case of companies such as airlines, hotels, and cruise lines, which have large fixed costs and marginal variable costs. Furthermore, a company in its early stages of growth might target low-margin customers in order to build a product and/or user ecosystem that will serve as a platform for future growth. The success of Apple, Microsoft, eBay, and Facebook networks illustrates the benefits from building large-scale user networks.

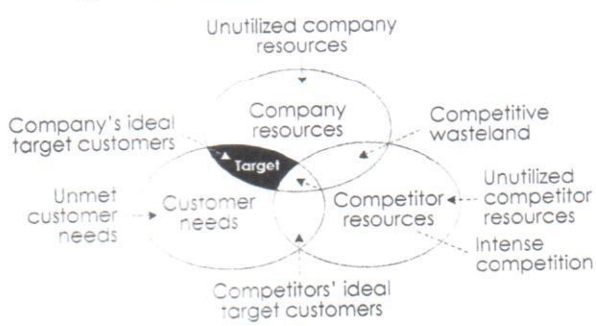
- **Communication value** reflects customers' potential to influence other buyers. Thus, a company might target customers not because of their own buying power and the profits they are likely to directly generate for the company but to take advantage of their social networks and their ability to influence other buyers. For example, a company might target opinion leaders, trendsetters, and mavens because of their ability to create and/or expand the market for the company's offering.

Strategic Targeting: Competitive Perspective

A key principle of strategic targeting is that the choice of customers should be driven by the company's ability to create an offering that delivers superior value to these customers relative to the competition. A company's ability to create a superior offering stems from its resources and the degree to which its resources are superior to those of the competition. This is the *resource advantage principle*: To create a superior offering, the company must have superior resources relative to the competition. Because a company's resources are need-specific, the choice of target customers is crucial in defining a company's resource advantage over the competition. The uniqueness of customer needs determines the degree to which a company requires specialized resources to fulfill these needs, as well as the degree of the competition for this segment. The more unique the customer needs, the more the company requires specialized resources to serve those customers, and the fewer the viable competitors likely to exist in the market.

From a competitive perspective, the process of identifying a company's target customers is a function of three key factors: customer needs, and the resources of both the company and its competitors involved in serving these needs. The relationship among these three factors is illustrated in Figure 3. A company's goal is to identify customer needs that it has the unique resources to fulfill. These are the optimal target customers because the company can create superior value for these customers and serve them in a way its competitors cannot (the dark-shaded segment in Figure 3). Because of their attractiveness and lack of competition, such markets are often referred to as "blue oceans." In its pursuit of the "blue oceans," a company must avoid the "red oceans," characterized by intense competition because both the company and its competitors have matching resources to fulfill customers' needs (the central segment in Figure 3).

Figure 3: The Resource Advantage Principle



The development of marketing offerings should always be driven by customer needs. Yet, obsession with the competition often leads companies astray, encouraging them to develop offerings that match those of competitors even in the absence of an underlying customer need. Such competitor-driven rather than customer-driven offerings create a competitive wasteland, squandering company's resources by replicating competitors' mistakes while missing real market opportunities.

Because a company's resources do not perfectly overlap with customer needs, some of these resources will remain unutilized when serving a particular segment, and some of the customers' needs will remain unmet by the company's offering. These unutilized needs and resources can be used to provide the company with directions for future development. Thus, unmet customer needs offer the company with an opportunity to develop the necessary resources to create offerings that will fulfill these needs. By the same logic, unutilized company resources call for identifying unmet customer needs and developing offerings to fulfill those needs.

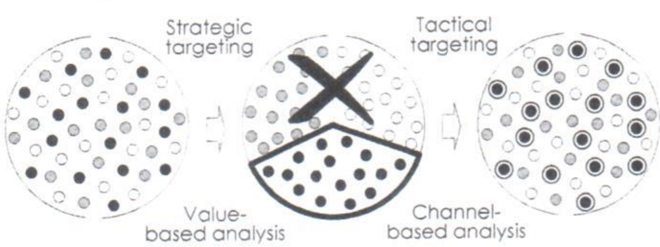
Tactical Targeting

Tactical targeting is similar to strategic targeting in that it also involves identifying target customers. However, unlike strategic targeting, which aims to determine which customers to target and which to ignore, tactical targeting aims to identify an effective and cost-efficient approach to communicate and deliver the offering to already selected target customers. The key aspects of tactical targeting are discussed in more detail below.

The Identification Problem

The decision of which customers to serve and which to ignore is driven by the company's understanding of the needs of these customers and its ability to fulfill these needs better than the competition. Yet, while knowing customer needs is crucial for deciding which customers to target and which to ignore, needs are not readily observable and therefore cannot be acted on to reach these customers. Indeed, knowing only customers' needs without knowing who these customers are, means that a company will have to communicate its offering and make it available to everyone—an approach that is not cost effective, especially when trying to reach niche customer segments. Identifying ways to reach target customers who have been chosen based on the value they are seeking from and bringing to the company is the crux of the identification problem (Figure 4).

Figure 4: The Customer Identification Process



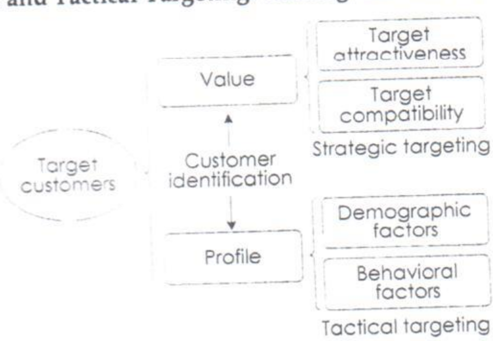
Because targeting aims to optimize the value-creation process, value-based segmentation is almost always the starting point of marketing analysis. To reach the value-based customer segments, companies need to identify a set of readily observable characteristics—also referred to as a *profile*—that describe these segments and use these observable characteristics to communicate and deliver its offerings. The process of linking value-based segments to corresponding observable and actionable profiles is the essence of tactical targeting.

Defining a customer profile involves defining the observable characteristics of a value-based target segment, comprising two types of factors: demographic and behavioral.

- **Demographic factors** outline the key descriptive characteristics of target customers. Commonly used demographics include age, gender, income, level of education, ethnicity, social class, stage in the life cycle, employment status, household size, and geographic location.
- **Behavioral factors** outline the key aspects of customers' behavior. Common behavioral factors include purchase quantity, frequency of repurchase, price sensitivity, promotion sensitivity (e.g., customer response to incentives), loyalty, communication format (e.g., the type of media most frequently utilized by customers), and distribution channel (e.g., the retail format preferred by the customer).

The relationship between strategic and tactical targeting is illustrated in Figure 5. Strategic targeting is value-focused and is a function of the attractiveness of target customers and the compatibility of their needs with the company's resources. The focus on value, although crucial for the success of the company's offering, has the important shortcoming that value is unobservable and, hence, cannot be readily acted on to reach target customers. This shortcoming is addressed by tactical targeting, which involves identifying the demographic and behavioral profile of the strategically selected target customers. Thus, strategic and tactical targeting are two inseparable and complementary aspects of the process of identifying target customers.

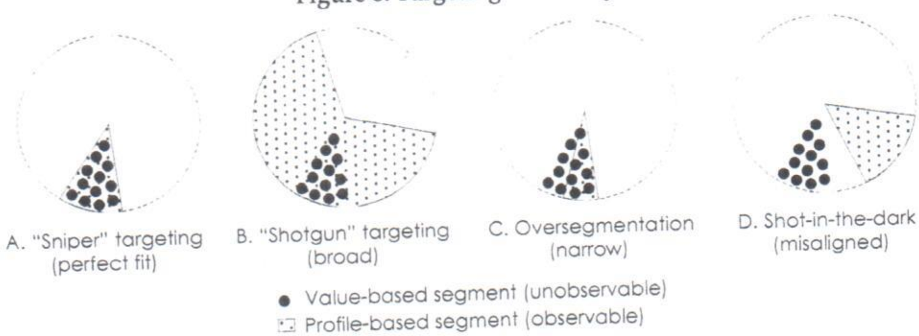
Figure 5: Strategic and Tactical Targeting: Linking Customer Value and Profile



To illustrate, consider a credit card company launching a new credit card featuring a loyalty program that rewards customers for using the card with travel benefits, including airline tickets and hotel stays. The strategically identified target

The "perfect" targeting, in which each target customer is defined in terms of both its value and profile (Figure 6A), is rarely possible. The misalignment of value and profile can result in one of three common types of targeting errors. One possibility is that the profile of target customers is defined too broadly, such that it includes not only the target customers but also many noncustomers (Figure 6B). The problem with this approach—often referred to as *shotgun targeting*—is that it is not cost efficient because the company will end up promoting the offering to customers who are not aligned with its strategic goals. Alternatively, the company might define the profile of its target customers too narrowly, such that it includes only a subset of its target customers (Figure 6C). The problem with this approach—often referred to as *oversegmentation*—is that it is not effective because the company will forgo promoting its offering to some of its strategically chosen customers. Finally, the company might define the profile of its target customers in a way that only marginally overlaps (or does not overlap at all) with its desired target customers (Figure 6D). The problem with this shot-in-the-dark approach is that it is neither effective nor cost efficient because it includes only a subset of its target customers while wasting resources by reaching customers who do not fit its strategic goals.

Figure 6. Targeting Efficiency



Targeting Multiple Segments

The discussion so far has focused on a scenario in which a firm identifies and targets a single customer segment. Single-segment marketing, however, is the exception rather than the rule. Most offerings exist as part of a product line, with different offerings targeting different customer segments. Indeed, even companies that start with a single offering achieve wider customer adoption over time. As their customer base becomes more diverse, these companies transition from a single offering to a product line with offerings that fit the needs of the diverse customers it serves.

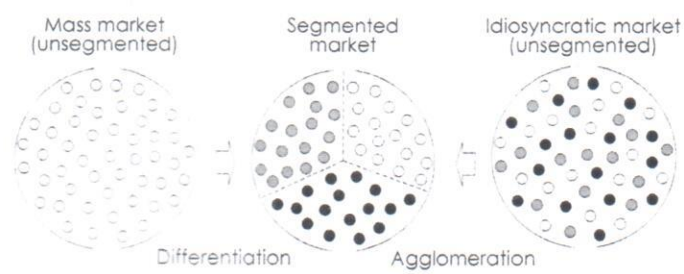
Because the needs of each customer segment are distinct, the basic principle in targeting multiple segments is that the company must develop a strategy and tactics for each segment it aims to pursue (Figure 7). To accomplish this, a company must evaluate its ability to create value for each segment as well as each segment's

The Essence of Segmentation

Segmentation is a categorization process that groups customers by focusing on those differences that are relevant for targeting and ignoring those differences that are irrelevant. The process of segmentation is based on the notion that the efficiency of a company's marketing activities can be greatly improved by ignoring the nonessential differences among customers and treating customers with similar needs and resources as if they were a single entity. Accordingly, segmentation focuses marketing analysis on the important aspects of customer needs, enabling managers to group customers into larger segments and develop offerings for the entire segment rather than for each individual customer.

Segmentation can involve two opposing processes—differentiation and agglomeration (Figure 8). On one hand, segmentation is a differentiation process that aims to divide all buyers in the market into groups by focusing on the differences in their needs and resources with respect to the company's offering. The process of differentiation is illustrated in the left part of Figure 8, whereby a (mass) market in which customers viewed as being similar in their needs and resources is divided into three (homogeneous) segments such that customers in each segment are similar to one another and at the same time different from those in the other segments. On the other hand, segmentation is an agglomeration process that aims to group individual buyers into segments by focusing on the similarities in their needs and resources with respect to the company's offering. The process of agglomeration is illustrated in the right part of Figure 8, whereby an idiosyncratic market in which customers viewed as having unique needs and resources are grouped into three (homogeneous) segments, such that customers in each segment are similar to one another and at the same time different from those in the other segments. Thus, even though differentiation and agglomeration are opposite processes, they aim to achieve the same goal—facilitate the process of identifying target customers—and yield the same outcome.

Figure 8. Segmentation as a Process of Differentiation and Agglomeration



Segmentation enables companies to streamline their activities by developing offerings for groups of customers with similar needs. The key benefit of segmentation is in allowing the company to optimize marketing expenditures by grouping customers who are likely to respond in a similar fashion to the company's offerings. However, because grouping customers inevitably ignores the individual differences within each group, segmentation might decrease the attractiveness of the ground for strategic targeting, which involves selecting one (or more) of the identified segments that the company will serve by developing target-specific offering(s). Following strategic targeting, tactical segmentation involves grouping customers who have already been identified as strategic targets into segments based on their profile characteristics—demographics and behavior—in a way that facilitates the company's tactical targeting. Building on the tactical segmentation, tactical targeting identifies the specific channels to be used to reach target customers in order to communicate and deliver the offering.

Key Segmentation Principles

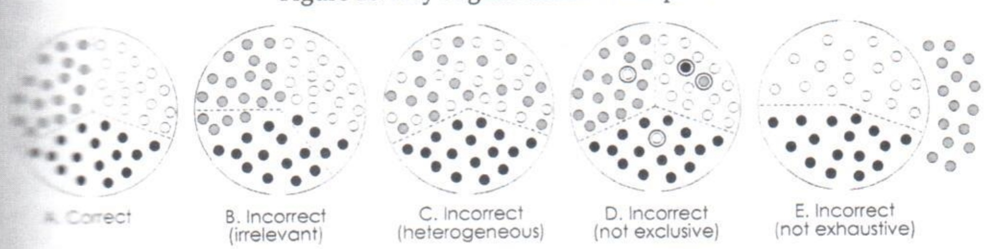
To be effective, the process of grouping customers into market segments must follow four key principles: relevance, similarity, exclusivity, and comprehensiveness. The essence and the rationale underlying these four principles are outlined in more detail below.

- **Relevance**. Because segmentation aims to facilitate targeting, it should group customers based on their likely response to the company's offering. There is virtually an infinite number of criteria that one could use to divide customers into segments. Most of these criteria, however, are unrelated to factors that underlie the company's targeting strategy and, as a result, produce market segments that do not facilitate the development of a meaningful strategy and tactics. Segmenting markets without a particular targeting purpose in mind is most often a waste of a company's resources and a distraction for managers trying to identify viable targeting strategies.
- **Similarity**. Segmentation aims to group customers so that those within each segment are quite similar to one another (i.e., have homogeneous preferences) in the way they are likely to interact with the company's offering. In general, a larger number of segments leads to a greater similarity (homogeneity) among the customers within each segment, such that the resulting segments are more likely to comprise customers with uniform preferences. Note, however, that a more granular segmentation calls for the development of a greater number of customized offerings—an approach justified only in cases when the underlying differences between these segments are essential to the company's ability to create customer value. Therefore, the optimal degree of similarity among the individual customers in a given segment is determined by the company's ability to create value for and capture value from this segment.
- **Exclusivity**. In addition to being similar to one another, customers in each segment should be different (heterogeneous) from those in other segments with respect to the way they interact with the company's offering. Thus, segments should be mutually exclusive, meaning that customers with similar values and profiles should be assigned to the same segment rather than be spread out across segments.

- **Comprehensiveness**. An important market segmentation principle is that segments should be comprehensive, meaning that they should include all potential customers in a given market, such that each customer is assigned to a segment. Accordingly, segmentation should produce segments that are collectively exhaustive, whereby no potential customers are left unassigned to a segment.

The four segmentation principles are illustrated in Figure 10. Here, the first scenario (Figure 10A) illustrates a segmentation that conforms to all four principles: it is relevant with respect to the targeting goals; it involves segments that are homogeneous with respect to underlying preferences; it involves segments that are mutually exclusive, whereby customers with similar preferences belong to the same segment; and it is collectively exhaustive, whereby it comprises all potential buyers in the market. In contrast, the other four scenarios illustrate segmentations that violate each of the four principles. Thus, the second scenario (Figure 10B) illustrates a segmentation that uses an irrelevant criterion, such that the resulting segmentation does not capture the differences in customer needs (indicated by different shadings) relevant for targeting. Likewise, the third scenario (Figure 10C) illustrates a segmentation that violates the similarity principle, whereby customers in one of the segments have heterogeneous preferences. The fourth scenario (Figure 10D) further illustrates a segmentation that does not follow the exclusivity principle, whereby customers with similar preferences are spread across different segments. Finally, the fifth scenario (Figure 10E) illustrates a non-exhaustive segmentation that fails to include some potential customers in one of its segments.

Figure 10. Key Segmentation Principles



The development of a sound segmentation is crucial for selecting a viable target market that will serve as the cornerstone of the company's business model. Indeed, segmentation and targeting are two complementary aspects of the process of identifying target customers; errors in one of these aspects is likely to trickle down to the other, ultimately resulting in choosing suboptimal target customers and creating a flawed value exchange. In this context, a company's value-creation process starts with the way it evaluates the needs and resources of its target customers, grouping them into segments and selecting which segments to target and which to ignore.

SUMMARY

Targeting is the process of identifying customers for whom the company will optimize its offering. Targeting involves two decisions: selecting which customers to serve and identifying actionable strategies to reach these customers.

Strategic targeting involves identifying which customers (segments) to serve and which to ignore. Because it aims to optimize value for customers, the company, and its collaborators, strategic targeting is typically derived from value-based segmentation rather than from profile-based segmentation. The targeting decision is guided by two key criteria: target attractiveness (customers' potential to create value for the company) and target compatibility (a company's ability to create value for the customers).

Tactical targeting involves developing an effective and cost-efficient plan to communicate and deliver the offering's value to the already selected target customers. Tactical targeting links the (typically unobservable) value-based segments to specific observable and actionable characteristics. Such observable characteristics, also referred to as a *customer profile*, involve demographic (e.g., age, gender, income, and geographical location) and behavioral (e.g., purchase frequency, purchase quantity, and price sensitivity) factors.

To succeed, an offering should create superior value for its target customers and collaborators. To accomplish that, a company needs to identify customers whose needs it can fulfill better than the competition. A company's *competitive advantage* is determined by the degree to which it has the resources to create customer value that is unique and cannot be readily copied by the competition.

Targeting *effectiveness* and *cost efficiency* is defined by the degree to which a company's tactical targeting is consistent with the strategically identified target customers. The greater the overlap between the need-based (strategic) target segments and the corresponding profile-based (tactical) segments, the greater the effectiveness and cost-efficiency of the company's targeting efforts.

Because the needs of each customer segment are distinct, the basic principle in *targeting multiple segments* is that the company must develop a unique strategy for each segment it decides to pursue. To accomplish this, a company must evaluate the underlying customer needs of each targeted segment, its own core competencies and strategic assets, the ways it will create value for its collaborators and deal with its competitors, as well as the impact of the relevant context factors.

Segmentation is a categorization process that groups customers by focusing on those differences that are relevant for targeting and ignoring those differences that are irrelevant. The process of segmentation is based on the notion that the efficiency of a company's marketing activities can be greatly improved by ignoring the nonessential differences among customers and treating customers with similar needs and resources as if they were a single entity. Accordingly, segmentation focuses marketing analysis on the important aspects of customer needs, enabling managers to group customers into larger segments and develop offerings for the entire segment rather than for each individual customer.

Segmentation must follow four *key principles*: it must group customers on characteristics that are relevant to their likely response to the offering, produce (homogeneous) segments comprising customers with similar characteristics, produce segments that are different from one another, and be comprehensive, meaning that they should include all potential customers.

RELEVANT CONCEPTS

Customer Equity: The monetary and strategic value customers are likely to create for the company during their tenure with this company. Customer equity goes beyond the current profitability of a customer to include the entire stream of profits (adjusted for the time value of money) that a company is likely to receive from this customer. A customer can create value for the company in at least three different ways: (1) by directly generating revenues (and profits) for the company through purchase of the company's products and services (direct value), (2) by promoting the company's products and services to other buyers (communication value), and (3) by providing the company with information that can help increase the effectiveness and efficiency of its operations (information value).

Demographics: A set of characteristics used to describe a given population. Demographics commonly used in marketing include factors such as population size and growth, age dispersion, geographic dispersion, ethnic background, income, mobility, education, employment, and household composition.

Firmographics: The key characteristics of an organization, typically used for segmentation purposes. Firmographics include factors such as location, size of company, organizational structure, industry, buying process, growth, revenues, and profitability.

Heterogeneous Market: Market composed of customers who vary (i.e., are heterogeneous) in their response to a company's offering.

Homogeneous Market: Market composed of customers likely to react in a similar manner to the company's offering (e.g., they seek the same benefits, have similar financial resources, can be reached via the same means of communication, and have access to the offering through the same distribution channels).

Lifetime Customer Value: See *customer equity*.

MECE Rule: A popular segmentation heuristic stating that segmentation should yield segments that are both *mutually exclusive* and *collectively exhaustive*. This rule combines two of the four segmentation principles identified earlier in this chapter—exclusivity and comprehensiveness. Thus, the MECE rule indicates that segments should be sufficiently different from one another so that they do not overlap (i.e., mutually exclusive); at the same time, identified segments should include *all* customers in a given market (i.e., collectively exhaustive).

Niche Strategy: Marketing strategy aimed at a distinct and relatively small customer segment.

Occasion-Based Targeting: Targeting strategy that groups customers based on purchase and consumption occasions. Occasion-based targeting is useful in cases in which customer needs vary across purchase occasions, and the same customer is likely to fall into different usage-based segments at different times. For example, when buying wine, a customer's preference might vary as a function of the occasion (for cooking, for daily consumption, for a special occasion, or for a gift). By focusing on usage occasions rather than on the individual characteristics of the customer, occasion-based targeting accounts for the fact that the same customer is likely to display different needs depending on the occasion. Unlike user-based targeting, which assumes that customer needs do not vary across purchase occasions, occasion-based targeting does not make such an assumption, implying that an individual customer (or segment) can have different needs on different purchase occasions.

Psychographics: Relatively stable individual characteristics such as personality, moral values, attitudes, interests, and lifestyle.

User-Based Targeting: Targeting strategy that groups customers based on their relatively stable individual characteristics, which are likely to determine their needs and behavior across different purchase and consumption occasions. User-based targeting focuses on individual customers, assuming that their preferences are constant across usage occasions, whereas occasion-based targeting focuses on usage occasions rather than on individual customers. User-based targeting assumes that customer needs do not vary across purchase occasions, and hence, that an individual's needs can be fulfilled with a single offering. Accordingly, user-based targeting is appropriate in settings in which customers' needs are relatively stable across purchase occasions and can be used as a reliable predictor of their behavior on any particular purchase occasion. To illustrate, the preference for regular versus light (diet) soft drinks is fairly stable across individuals and calls for user-based targeting. User-based targeting can be viewed as a special case (assuming that customer preferences are constant across usage occasions) of the more general approach of need-based targeting.

ADDITIONAL READINGS

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