

Marketing for Entrepreneurs

CHAPTER

7



Source: Brian A Jackson/Shutterstock

“Nothing important comes into being overnight; even grapes or figs need time to ripen.”

—Letters from a Stoic by Seneca.

Learning Objectives

- Define *marketing*.
- Explain how the definition of marketing relates to the marketing mix.
- Discuss the differences between marketing for entrepreneurial and established firms.
- Define *marketing research*.
- Differentiate between primary and secondary data.
- Explain the basic steps in the marketing research process.
- Describe the PESTLE method of environmental scanning.
- Discuss market segmentation and methods used to segment markets.
- Explain target marketing and its relation to market segmentation.
- Explain the concept of positioning, and describe an example of a positioning matrix.

Chapter Outline

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Introduction

In addition to recognizing opportunities and formulating well-developed business models, entrepreneurs also need to attract customers. Thus, marketing is essential to the entrepreneurial firm. First, it is important to understand what marketing is and how marketing differs in established firms as opposed to entrepreneurial ventures.

What Is Marketing?

Many entrepreneurs who have concentrated on developing a new product, service, or technology may not be familiar with marketing or may have misconceptions about what marketing is. Some of the common misconceptions include the following:

- Marketing is selling.
- Marketing is advertising.
- Marketing is the sponsorship of events or athletic stadiums.
- Marketing is a catchy logo or jingle.
- Marketing is getting followers on social media and good reviews.

In fact, marketing is all of these and more. There are several definitions of marketing. One, according to the late management authority, Peter Drucker (1974), is that marketing is “first, a central dimension of the entire business. It is the whole business seen from the point of view of its final result, that is, from the customer’s point of view. Concern and responsibility for marketing must, therefore, permeate all areas of the enterprise.”

Another definition is offered by Philip Kotler, a well-known thought leader in marketing and a professor of marketing at the Kellogg School of Business at Northwestern University in Chicago, and colleagues (Kotler, Kartajaya, & Setiawan (2017): “Marketing is an administrative and social process through which individuals and groups obtain what they need and desire by the generation, offering and exchange of valuable products with their equals.”

ENTREPRENEUR PROFILE

Johnny Morris

Age: 72 (born 1948)

Estimated Net Worth: \$4.1 billion

Industry: Sporting goods

Companies: Bass Pro Shops, Cabela’s

During high school and college, Johnny Morris spent as much time hunting and fishing in the woods and lakes around his home in Springfield, Missouri, as he did studying. In 1970, while attending Southwest Missouri State University (now Missouri State University), Johnny rented a U-Haul trailer and traveled across the United States, filling the trailer with the best fishing tackle he could find. Once the U-Haul was full, he returned to Springfield and sold the tackle from the back of a pickup truck behind his dad’s Brown Derby Liquor store.

As the waterways in southern Missouri became ever more popular with fishermen, Johnny’s business continued to grow. In 1974, Johnny created the first Bass Pro Shop catalog. Just 4 years later, at age 30, Johnny created and sold the fishing industry’s first



Source: LaVonda Walton; USFWS

ready-to-fish boat, motor, and trailer, known as the Bass Tracker. In 1981, Johnny opened the first destination retail Bass Pro Shop in Springfield.

Today, Johnny Morris owns Bass Pro Shops; Cabela’s; Big Cedar Lodge in Ridgedale, Missouri; Angler’s Lodge in Springfield, Missouri; and Big Cypress Lodge in Memphis, Tennessee.

Source: Waszczuk, S. (2014). The Johnny Morris story. *417 Magazine*. Retrieved from <https://www.417mag.com/issues/november-2014/the-johnny-morris-story/>

The official definition of **marketing** offered by the American Marketing Association (AMA, 2017) is as follows: “Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.”

All of these definitions note that marketing is the method by which the firm helps customers obtain the products and services they need and want. Thus, marketing, in its most basic form, solves customers’ problems. Every product or service addresses a need or a want of customers and potential customers. The entrepreneur often looks for ways to create new products and/or services that surpass existing products and services in efficiency, usefulness, and desirability. Without marketing, new products and services would either not be developed or would be developed but not be available and affordable.

Let’s break the AMA (2017) definition down to get a clearer picture of the marketing function in an organization. First, the definition points out that marketing is not only an activity but also a “set of institutions and processes.” This means that marketing is more than just the marketing department, sales force, or an outside advertising agency. Marketing is a core process of the firm.

The definition also addresses the four core marketing elements: product, price, place, and promotion. These elements are known collectively as the **marketing mix** or the *4 Ps*. The AMA (2017) definition addresses the product element of the marketing mix by using the phrase “creating . . . offerings that have value for customers.” The act of creation or innovation of new products, services, and technologies is not only a core marketing concept but also the reason for many entrepreneurial startups. New products, services, or technologies solve consumers’ or businesses’ problems. If the firm fails to solve its customers’ problems, there is nothing to market and no real purpose for the firm to exist.

The AMA (2017) marketing definition next addresses “communicating . . . offerings that have value for customers.” This refers to the promotional element of the marketing mix. Promotion includes all forms of communication about a product, service, or technology, including but not limited to advertising, personal selling, trade and consumer discounts, and social media marketing. There is little point in creating something from which the public would benefit if the entrepreneur doesn’t tell anyone about it.

Next is the marketing concept of place. *Place* refers to how the product, service, or technology will reach the consumer. The key word in the AMA (2017) definition is *delivering*. Once the entrepreneur has created an offering and communicated its benefits to the public, it is necessary to determine how to get the offering to the consumer. Various methods of “delivering” include online purchases and/or retail distribution. For example, an entrepreneur who develops a new dog food may choose to sell the dog food online or

marketing The activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.

marketing mix A combination of the four strategic marketing elements product, place (distribution), promotion, and price to satisfy the needs of the market selected in the marketing-strategy process.

ENTREPRENEUR PROFILE

Mike Rypka

Industry: Restaurants
Company: Torchy’s Tacos

Mike Rypka had a dream to start a taco joint in Austin, Texas, so he bought a food trailer and a red Vespa scooter. After a great deal of experimentation, Mike decided to make high-quality, cooked-to-order tacos. He named the business Torchy’s Tacos. Shortly, the word got out, and people referred to Torchy’s as “damn good tacos.” The slogan stuck, and today Torchy’s has over 60 locations in Texas, Oklahoma, Colorado, and Louisiana, serving up made-to-order tacos, queso, and margaritas.

Source: Torchy’s Tacos. (n.d.). Culture. Retrieved from <https://torchystacos.com/culture/>



Source: Joshua Resnick/Shutterstock

through recognized pet retailers, such as Petco and PetSmart. The entrepreneur may also do both. On the other hand, an entrepreneur who starts a food truck will sell directly to consumers in a retail environment.

Fourth, the AMA (2017) definition of marketing addresses the marketing element of price with the phrase, “exchanging offerings that have value for customers, clients, partners, and society at large.” The concepts of exchange and value are central to successful marketing for any firm of any size. Customers exchange something they have for the firm’s product, service, or technology. That something is usually money. The firm sets the price for its new offering. Customers are not willing to exchange any more money for the offering than they perceive it is worth. Thus, the price consumers are willing to pay for a new product, service, or technology communicates consumers’ perceived value of the offering. By deciding to buy or not buy an offering at the stated price, consumers help entrepreneurs “co-create” the value of a new product, service, or technology. Note also that the value of an offering must benefit not only the consumer but also the firm’s partners (suppliers, etc.) and society at large.

An example of an entrepreneurial venture that attempts to offer products that benefit society at large as well as consumers is Tesla. By producing, selling, and delivering electric vehicles, Tesla not only satisfies the need customers have for transportation but also does so while reducing carbon emissions.

Differences in Marketing for Small and Large Firms

Although the definition of marketing applies to both large and small firms, the actual practice of marketing differs. Marketing for entrepreneurial firms is not just a smaller version of large-firm marketing. This is true for several reasons. One is that entrepreneurial firms do not have existing customers. More established firms have a revenue stream from existing customers, and a large part of their marketing effort is aimed at retaining these customers. Entrepreneurial firms must convince customers of these more established firms to leave them and go with the new product or service offered by the entrepreneur.

In the same way, an existing firm has a brand that is recognized and has a consumer following. The entrepreneurial firm must build its brand. At the same time, the entrepreneurial firm needs to establish channels of distribution, decide on an effective price for the new offering, and communicate the offering to new customers, who often will be required to switch from products offered by existing firms.

Using Marketing Research to Find and Evaluate Opportunities

The AMA (2017) defines **marketing research** as follows:



Source: dizain/Shutterstock

Marketing research is the function which links the consumer, customer, and public to the marketer through information—information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process. Marketing research specifies the information required to address these issues; designs the method for collecting information; manages and implements the data collection process; analyzes the results; and communicates the findings and their implications.

This rather lengthy definition suggests the connection between research and decision making. *Research*, in a business context, is defined as an organized, formal inquiry into an area to obtain information for use in decision

MARKETING RESEARCH FOR SMALL ORGANIZATIONS

Consumer Research

- Which customer groups represent the best target markets for my product or service?
- How large is the existing potential market? What is its rate of growth?
- What unfulfilled needs exist for my product? How are customers currently fulfilling those needs?
- Under what circumstances would customers use the product? What decision process do they go through when buying the product?
- Who makes the purchase decision for this type of product? How is the decision maker influenced by others in the household (or company) when making this decision?
- What is the value customers place on having their needs fulfilled by this type of product?

Competitor Analysis

- Who are my competitors (i.e., alternatives to addressing the needs of potential customers?)
- How brand-loyal are customers to my competitors?
- How do potential buyers perceive competitors' offerings?
- What are my competitors' competitive advantages, and how are they exploiting them through their marketing programs?

Operational Environment

- By what means (channels, methods) is this type of product made available to customers? Is there an opportunity to innovate here?
- How are customers made aware of this type of product? What opportunities exist to increase efficiency and effectiveness in promotion?
- What technological developments are likely to occur in this market, and how will they affect our competitive position?
- What cultural/social environmental trends could affect our business? How?
- What will be the impact of the regulatory environment on our business now and in the future?
- What economic and demographic trends are occurring that could affect the nature of the market opportunity? How?

making. When the adjective *marketing* is added to *research*, the context of the area of inquiry is defined. *Marketing research*, then, refers to procedures and techniques involved in the design, collection, analysis, and presentation of information used in making marketing decisions. More succinctly, *marketing research produces the information managers need to make marketing decisions*.

Entrepreneurial firms have specific questions that marketing research needs to address. These questions differ from those of a large, established firm because the entrepreneurial firm is looking for and evaluating opportunities for new products or services. The accompanying box lists some of the questions the entrepreneurial firm may want to explore.

When conducting market research, there are two types of data collected: (1) primary data and (2) secondary data. **Primary data** are those data collected for the first time by the researcher for the specific research project at hand. **Secondary data** are data previously gathered for some other purpose.

Secondary data are normally less expensive and easier to obtain than primary data. However, there are methods entrepreneurs can use to obtain relatively inexpensive primary data as well. Next we will discuss the marketing research process and methods available to obtain both primary and secondary data.

primary data Those data collected for the first time by the researcher for the specific research project at hand.

secondary data Data previously gathered for some other purpose.

The purpose of marketing research, as previously noted, is to provide information to managers to help them make marketing decisions. This means getting to know your customers. The more you know about your customers, the better you can design the products or services they need and want. The basic steps in the marketing research process are as follows:

1. Define the management problem.
2. Determine the research objectives.
3. Determine the research methodology.
4. Collect data.
5. Analyze and interpret the findings.
6. Present the results.

Normally, it is prudent to exhaust all sources of secondary data before a firm conducts primary research. Many research questions can be answered more quickly and with less expense through the proper use of secondary information. However, caution must be used to ensure that the secondary data used are based on primary data because this type of secondary data is generally more accurate and complete than secondary sources of secondary data. The accompanying box lists the uses of secondary data.

USES OF SECONDARY DATA

1. In some cases, the information and insights gained from secondary data are sufficient to answer the research question.
2. Secondary data can provide the background necessary to understand the problem situation and provide an overview of the market dynamics.
3. Secondary data often can provide exploratory information that can aid in the planning and design of the instruments used to gather primary data.
4. Secondary data can serve as a check and standard for evaluating primary data.
5. Secondary data can give insight into sample selection.
6. Secondary data can suggest research hypotheses or ideas that can be studied in the primary-data phase of the research process. The extensive use of secondary data reduces the possibility of “reinventing the wheel” by gathering primary data that someone else has already collected.

There are many sources of secondary information. Many are fee based, but there are a number of free sources as well. Much of the free information is available from the U.S. government. Trade associations, organized to serve specific industries, also collect data for their members. Almost any entrepreneurial enterprise will find a trade association that is associated with the entrepreneur’s product or service. Membership in the trade association is usually required to gain access to the association’s research.

In addition to trade associations, there are industry summaries that provide secondary data for market researchers. Much of this material is particularly appropriate for entrepreneurs. Entrepreneurs considering a retail venture will need to choose the proper location. This can be a daunting task. There are, however, sources on the internet that can help the entrepreneur in this form of research. Finally, there is also a great deal of free secondary data from the U.S. government. The accompanying box offers some secondary-data resources for the entrepreneur.

Although secondary data are often less expensive and faster to collect than primary data, there are some instances when the entrepreneur may want to collect primary data. There are several methods to obtain primary data. These include focus groups, survey research,

SECONDARY-DATA RESOURCES FOR THE ENTREPRENEUR

Industry Information

SBDCNet Business Snapshots—Research reports on popular small business ideas, including data, trends, associations, related sources of information, and links to other small business web resources. <http://www.sbdnet.org/category/small-business-research-reports>

BizStats—BizStats is the home of free, accurate business statistics. <http://www.bizstats.com>

Wikipedia’s “Trade Associations Based in the United States.” https://en.wikipedia.org/wiki/Category:Trade_associations_based_in_the_United_States

Directory of Associations—Over 35,000 local, regional, national, and international associations. <http://www.directoryofassociations.com/>

Location Research Tools

Zoom Prospector—Offers robust, high-quality data that drill all the way down to the zip code for site selection for entrepreneurs and investors. <https://www.zoomprospector.com/>

Claritas 360—Aids marketers in segmenting their customers and helping marketers to know where these customers are located. <https://claritas360.claritas.com/mybestsegments/>

SizeUp—Helps private-sector, government, and nonprofit organizations better serve their small business customers with the market research and business intelligence they need to succeed. <https://company.sizeup.com/>

Market Trends

Google Trends Tool—Offers information on consumer and digital marketing trends. <https://trends.google.com/trends/?geo=US>

Statista—Provides data on a wide range of industries and consumer trends. <https://www.statista.com/>

Government Resources

Census Business Builder—The Census Business Builder (CBB) is a suite of services that provide selected demographic and economic data from the U.S. Census Bureau tailored to specific types of users in a format that is simple to access and use. <https://www.census.gov/data/data-tools/cbb.html>

Industry Statistics Portal—Provides direct links to the relevant statistics released on American FactFinder, as well as a direct link to the Industry Snapshot for the industry. The application also provides industry definitions and information on historical comparability. <http://www.census.gov/econ/isp/index.php>

Data.census.gov—The new platform to access data and digital content from the U.S. Census Bureau. The vision for data dissemination through data.census.gov is to improve the customer experience by making data available from one centralized place so that data users spend less time searching for data content and more time using it.

personal interviewing, and observational/ethnographic research. Many of these are expensive or require specialized knowledge and training. However, the internet has provided some relatively inexpensive ways to conduct survey research. The accompanying box lists and describes several of these tools.

SURVEY TOOLS FOR ENTREPRENEURS

SurveyMonkey—Use this tool to develop your survey and email it to your audience. This tool is free, although there are fee-based add-ons that can enhance the analysis of your survey results. <https://www.surveymonkey.com/>

Custom Surveys from Google—Google Surveys give you a quick, cost-effective way to get valuable insights into the minds of your target audience. Gather the insights you need to make smarter, faster business decisions—in a fraction of the time it takes for traditional market research. <https://marketingplatform.google.com/about/surveys/>

Qualaroo—This product can track feedback from your website and also aid in developing survey instruments. <https://qualaroo.com/>

Environmental Scanning

It is vital for an organization to gauge the external environment within which it operates. This should be standard practice for all entrepreneurs. It is important to realize that virtually anything that can happen probably will happen. Humans truly can have no certain idea what things will be like in the future, in spite of our attempts to predict them. But your entrepreneurial venture cannot afford to let generalized eventualities and uncertainties keep you from being proactive in marketing planning and able to change in response to environmental demands.

PESTLE An acronym to describe elements or forces of the external environment: *political, economic, sociocultural, technological, legal, and eco-environmental.*

PESTLE is an acronym that can be used to describe the elements of the external environment that can affect an entrepreneur's planning process and require specific analysis about the current or potential impact on the entrepreneur's planning and operations. The political, economic, sociocultural, technological, legal, and eco-environment exert strong influences on how an entrepreneur goes about crafting and executing marketing plans. The PESTLE elements are shown in Figure 7.1.

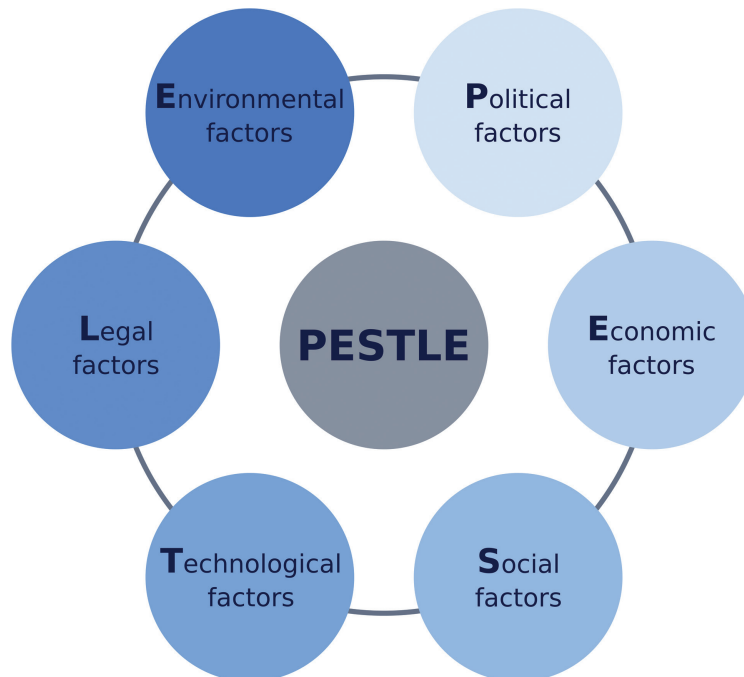


FIGURE 7.1. PESTLE Elements

Source: Niki99/Shutterstock

The only way we can manage change is to constantly monitor the environment within which we operate. More knowledgeable consumers, the fast pace of technological change, online shopping, changes in the economy, globalization, and changes in the legal environment are just a few of the environmental factors that may require an entrepreneurial venture to adjust its marketing strategy.

This first stage in the analysis is where we look at past and current developments external to an organization's operations. From this information, we identify trends and, in effect, take the pulse of the environment in which we operate. An organization must be aware of the characteristics of the environmental conditions affecting it and be vigilant concerning changes that may occur in this environment. Many entrepreneurs have found that they failed to understand the implications of the environment for their actions and may not have included them in their planning, although they were obvious. Even without a formal organizational system to monitor the environment and changes in it, entrepreneurs must exercise vigilance to detect and use information from the environment in formulating the marketing strategy.

Market Segmentation and Target Marketing

A fundamental concept in identifying a market is that what is sometimes referred to as a market for a product or service is actually a composite of smaller markets, each with identifiable characteristics. One way to identify a market is through market segmentation. **Segmentation** is a strategy that aggregates consumer groups with similar characteristics and common interests. The automobile market, for example, refers to a broad market sector that is composed of smaller submarkets, or market segments. This market can be segmented in several ways to identify the various submarkets, such as the type of customers in the market (personal use, businesses, rental car fleets) and the type of vehicles sought (luxury autos, utility vehicles, subcompact, etc.)

Identifying a Market

This process of aggregating customers with similar buying patterns results in **market segments**. The basic premise is that the customers in one market are different from the customers in another market, and therefore each represents a separate entity. Figure 7.2 illustrates the segmentation in the U.S. automobile market.

The example in Figure 7.2 shows seven different segments of the personal automobile market. The segments range from those who want to just get around to those who want vehicles with excellent off-road performance. Markets are too complex and diverse to consider all automobile customers within the market as homogeneous. Each market segment's size and characteristics must be identified and studied.

Bases for Market Segmentation

Commonly used bases for segmentation include (a) geographic and demographic, (b) product usage and benefits sought, and (c) lifestyle and psychographic. Each of these is discussed next.

Geographic and Demographic Segmentation

One approach to segmentation involves using geographic and demographic variables to segment markets. **Geographic segmentation** involves the use of census tracts, cities, trade areas, counties, states, regions, and countries as the basis of segmentation. **Demographic segmentation** involves using variables such as gender, age, income, educational level, and so forth as the basis for

segmentation A strategy that aggregates consumer groups with similar characteristics and common interests.

market segment(s) An aggregation of customers with similar characteristics and buying patterns.

geographic segmentation The use of census tracts, cities, trade areas, counties, states, regions, and countries as the basis for segmenting a market.

demographic segmentation The use of variables such as gender, age, income, educational level, and so forth as the basis for segmenting a market.



Source: Dusit/Shutterstock



FIGURE 7.2. U.S. Automobile Market Segmentation

Source: https://www.google.com/search?q=automobile+segmentation+images&client=safari&sxsrf=ALeKk009sNfqqcCM0Wj6FcbmYoUqegP67A:1586796588817&tbn=isch&source=iu&ictx=1&fir=R5YOYF-05fvyuM%253A%252ChqQarMe7-vvDkQM%252C_&vet=1&usg=AI4_-kTwp_W3yTS_QWL5bcfPsZFmq5OMug&sa=X&ved=2ahUKEwju94b47eXoAhULSq0KHasYBXkQ9QEwAnoECAsQIA#imgrc=iD2eHZ7RGNSRJM&imgdii=CBQlpls-ulTg2M

segmenting a market. These variables are appropriate for many products and services. For example, educational level influences the size of the market for Coursera, an online learning platform that was started by Stanford professors Andrew Ng and Daphne Koller in 2012 (Wikipedia, 2020). Coursera offers massive open online courses (MOOCs) that lead to specialized certifications or degrees.

Product-Usage and Benefits-Sought Segmentation

Another approach to market segmentation, **product-usage segmentation**, concentrates on the product-usage patterns of consumers as the basis for segmentation. Customers are classified as users or nonusers, and users are further classified as frequent and infrequent users. In many service categories, a small percentage of customers may account for a large portion of users. For example, fast-food restaurants divide their customers into frequent and infrequent users. A frequent user may be a customer who visits the fast-food outlet several times a week and makes a small purchase (coffee, breakfast, etc.). An infrequent user may be a Little League baseball coach who takes the team for a meal at the fast-food restaurant only three times a year. Although the Little League coach spends more at each visit, it is the frequent customer the fast-food restaurant targets in its marketing.

Benefits-sought segmentation is another way to segment markets and is based on the benefits customers expect to receive upon the purchase or use of a product. In one study, the toothpaste market was segmented on such variables as flavor and product appearance, brightness of teeth, decay prevention, and price. Each of these variables represents the principal benefits sought by the purchaser. Each of these benefits-sought segments, in turn, is composed of consumers with different demographics, personalities, lifestyles, and so forth. Thus, each represents a distinct market segment.

Lifestyle and Psychographic Segmentation

Another segmentation approach to selecting target markets involves lifestyle and psychographics. Although the terms **lifestyle segmentation** and **psychographic segmentation** are often used interchangeably, they are not equivalent, but they are complementary.

product-usage segmentation

An approach to market segmentation that concentrates on the product-usage patterns of consumers.

benefits-sought segmentation

An approach to market segmentation that segments the market based on the benefits buyers expect to receive when they purchase a product.

lifestyle segmentation

An approach to market segmentation that views lifestyle as a unique pattern of living, which influences and is reflected in one's consumption behavior.

psychographic segmentation

An approach to market segmentation that uses psychological, sociological, and anthropological factors to segment a market. Psychographic segmentation answers the questions of *why* consumers do what they do.

ENTREPRENEUR PROFILE

Andrew Ng and Daphne Koller

Coursera, the online education provider, was founded by Stanford professors Daphne Koller and Andrew Ng in 2012. The two professors had started by persuading Stanford to offer computer science courses online. Soon, Koller and Ng had Princeton, the University of Michigan, the University of Pennsylvania, and the University of London as partners. To date, approximately 40 million people worldwide have taken advantage of Coursera's MOOCs.

Source: Based on Wikipedia. (2020). *Coursera*. <https://en.wikipedia.org/wiki/Coursera>; Adams, S. (2018). *This company could be your next teacher: Coursera plots a massive future for online education*. <https://www.forbes.com/sites/susanadams/2018/10/16/this-company-could-be-your-next-teacher-coursera-plots-a-massive-future-for-online-education/#578e1182a39b>



Source: Steve Jurvetson



Source: Collision Conf from Toronto, Canada

The term *lifestyle* is not new, but its application to marketing has been rather recent. From our perspective, lifestyle can be viewed as a unique pattern of living, which influences and is a reflection of a person's consumption behavior. Therefore, a lifestyle marketing perspective is one that recognizes that people can be sorted into groups based on what they like to do. Thus, marketers attempt to identify patterns of consumption for people who share a similar lifestyle. For example, Bass Pro Shops and Cabela's (owned by the entrepreneur Johnny Morris) target customers who enjoy camping, fishing, and hunting.

How does the concept of psychographics relate to lifestyle? Psychographics is the "use of psychological, sociological, and anthropological factors to construct market segments" (Solomon, 2017, p. 586). Thus, psychographics pertains to *why consumers do what they do*. One of the more precise statements about its nature is the following: Psychographics is the systematic use of relevant activity, interest, and opinion constructs to quantitatively explore and explain the communicating, purchasing, and consuming behaviors of persons for brands, products, and clusters of products (Solomon, 2017).

Psychographics can be used by entrepreneurs in several ways, such as looking for new product/service opportunities for the following segments:

- Environmentally conscious consumers (solar panels, electric vehicles, organic food products)
- Active older adults (yoga classes, fitness training, shooting ranges)
- Consumers interested in continuing education (Coursera, edX, SkillShare, The Great Courses)

Target Marketing

Once entrepreneurs understand the concept of segmentation, they will need to decide on a target market. **Target marketing** is related to segmentation in that it describes the array of activities—the marketing mix—necessary to reduce the larger market to manageable segments. *Segmentation* denotes the activities necessary for defining the subgroups (target markets), and *target marketing* denotes the activities necessary for directing the marketing efforts toward the target markets on the basis of their needs and characteristics.

target marketing Describes the array of activities in the marketing mix necessary to reduce the larger market to manageable segments.

TABLE 7.1. The Two-Phase Strategy of Market Segmentation and Target Marketing

Phase One: Market Segmentation	Phase Two: Target Marketing
Identify bases for segmenting the market.	Select the target market(s).
Develop profiles of resulting segments.	Develop a positioning strategy for each target market.
Develop measures of segments.	Develop marketing-mix attractiveness for each target market.

Essentially, this strategy encompasses a two-phase process. As previously discussed in this chapter, the first phase, market segmentation, involves identifying the different segmentation bases and developing measures of the relative attractiveness of the identified segments. Entrepreneurs need to know the size of each market segment and its identifying characteristics. The second phase, target marketing, involves the selection of one or more of the segments and the development of a positioning strategy and marketing mix for each. Table 7.1 breaks down these two phases into substeps.

The chosen segmentation base should produce segments with the following characteristics:

- *Mutual exclusivity.* Each segment should be conceptually separable from all other segments.
- *Exhaustiveness.* Every potential target member should be included in some segment.
- *Measurability.* This is the degree to which the size, purchasing power, and profile of the resulting segments can be readily measured.
- *Accessibility.* This is the degree to which the resulting segments can be effectively reached and served.
- *Sustainability.* This is the degree to which the resulting segments are large enough to be profitable.
- *Differential responsiveness.* This is perhaps the most crucial criterion. A segmentation scheme may meet all of the previous criteria, but several or all segments may respond exactly alike to different amounts, types, and timing of strategy. In such cases, although it may be conceptually useful to develop separate segments in this way, it is not useful managerially.

Therefore, from an entrepreneurial perspective, the purpose of market segmentation is to develop a limited set of well-defined potential customer groups. Some of the groups are likely to be responsive to an entrepreneur's product or service offering. Entrepreneurs faced with heterogeneous markets and that follow a market-segmentation targeting strategy can usually increase the expected profitability of their marketing activities—pricing, advertising, and distribution—a major theoretical rationale for segmentation.

Positioning

positioning The placement of a firm or a new product/service, relative to existing firms or products, in the mind of the consumer.

Positioning strategies usually evolve when there are several well-defined competitors with fairly unambiguous images. This situation permits the placement of an entrepreneur or a new product/service relative to existing firms or products and services. The entrepreneur's offering is positioned in the market based on customers' needs and the entrepreneur's distinctive competencies.

For entrepreneurs, positioning answers the question, *What kind of firm do we want to become?* Answering this question encourages entrepreneurs to focus on what they do

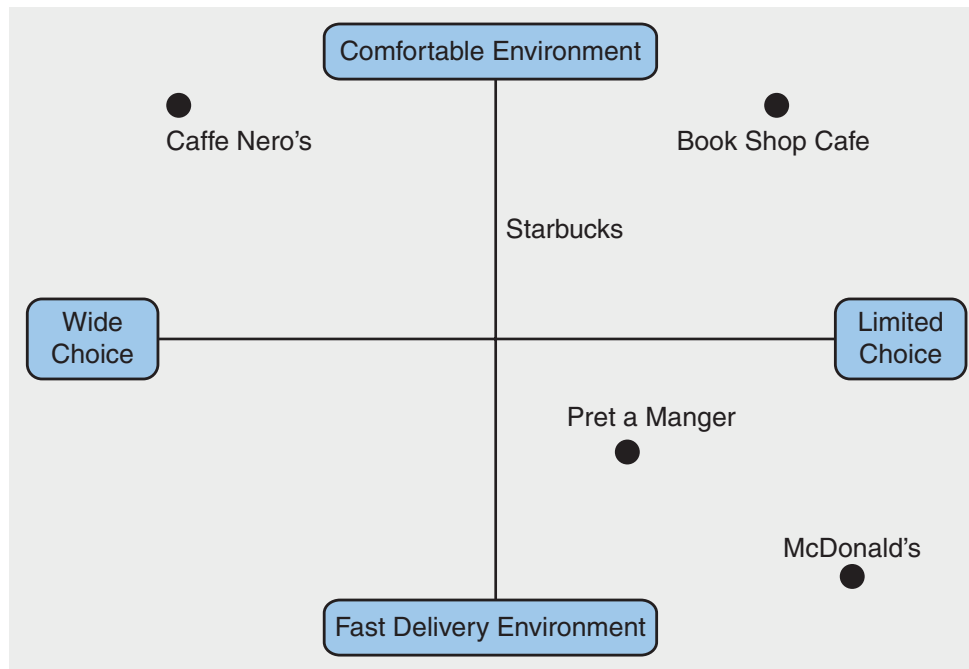


FIGURE 7.3. Positioning Matrix

best relative to their competitors. An example of a **positioning matrix** (also known as a *perceptual map*) is shown in Figure 7.3.

This matrix organizes various coffee shops along two dimensions: the availability of choice and whether the shop’s environment is geared more toward quick service or comfortable surroundings. Customers see Starbucks, for example, as having a limited menu but comfortable surroundings. McDonald’s is also seen as having a limited menu, but it is more of a “grab-and-go” place to get coffee. It is important to note that perceptual maps are always from the *customer’s* point of view. The information can be gained through primary market research (by surveying customers) or by researching secondary data through several sources.

positioning matrix A tool used in positioning. The positioning matrix allows for positioning against competitors with unambiguous images and is based on customer needs and the entrepreneur’s own distinctive competencies.

Summary of Learning Objectives

1. Define *marketing*.

In this chapter, we looked at some of the misconceptions of marketing and examined the “official” definition of marketing offered by the AMA. We broke the AMA definition down to see how it relates to the marketing mix. There is a difference between marketing for entrepreneurial firms as opposed to larger, more established firms.

2. Explain how the definition of marketing relates to the marketing mix.

We discussed how the definition of marketing relates to the marketing mix—specifically, how marketing is involved in creating products, communicating the benefits of the product to a target audience, determining the value of the product through pricing, and finally, using distribution channels to make the product conveniently available to prospective customers.

3. Discuss the differences between entrepreneurial marketing and marketing for established firms.

It was noted that although the definition of marketing applies to both large and small firms, the actual practice of marketing differs depending on firm size. Large firms have existing customers, and much of their marketing is aimed at retaining these customers. Entrepreneurial firms must convince customers of these more established firms to leave them and go with a new product or service offered by the entrepreneur.

4. Define *marketing research*.

We defined *marketing research* as the procedures and techniques involved in the design, collection, analysis, and presentation of information used to make marketing decisions.

5. Differentiate between primary and secondary data.

Primary data are those data collected for the first time by the researcher for the specific research project at hand. Secondary data are data previously gathered for some other purpose. Because of time and cost restrictions, entrepreneurs often use secondary data.

6. Explain the basic steps in the marketing research process.

The steps in the marketing research process were outlined as follows: define the management problem, determine the research objectives, determine the research methodology, collect data, analyze and interpret the findings, and present the results.

7. Describe the PESTLE method of environmental scanning.

It is important for a firm to gauge the external environment in which it operates. One tool for this is the PESTLE method, which involves the analysis of political factors, economic factors, social factors, technological factors, legal factors, and environmental factors.

8. Discuss market segmentation and methods used to segment markets.

The process of segmenting a market involves aggregating customers with similar buying patterns. Several methods for market segmentation were discussed, including geographic segmentation, demographic segmentation, product-usage and benefits-sought segmentation, and lifestyle and psychographic segmentation.

9. Explain target marketing and its relation to market segmentation.

Segmentation denotes the activities necessary for defining the subgroups (target markets), and *target marketing* denotes the activities necessary for directing the marketing efforts toward the target markets on the basis of their needs and characteristics.

10. Explain the concept of positioning, and describe an example of a positioning matrix.

Positioning is the placement of a firm or a new product/service, relative to existing firms or products, in the mind of the consumer. The positioning matrix is a tool used for positioning. It positions the firm against competitors with unambiguous images and is based on customer needs and the entrepreneur's own distinctive competencies.

Key Terms

benefits-sought segmentation, p. 112
demographic segmentation, p. 111
geographic segmentation, p. 111
lifestyle segmentation, p. 112
market segment(s), p. 111
marketing, p. 105
marketing mix, p. 105
marketing research, p. 106
PESTLE, p. 110

positioning, p. 114
positioning matrix, p. 115
primary data, p. 107
product-usage segmentation, p. 112
psychographic segmentation, p. 112
secondary data, p. 107
segmentation, p. 111
target marketing, p. 113

Case Study: Scott's Marine

Andrew Scott, the owner of Scott's Marine, was reviewing his latest monthly profit and loss statement. As he stared at the computer screen, he wondered what actions he could take to increase revenues. Although the business was profitable, the percentage of profit had stagnated in the last year. The majority of Scott's Marine's business was boat repair, but Scott's also sold equipment (trolling motors, boat trailers), fishing lures, worms and crickets, and some recreational items (e.g., ski ropes and tubes). Andrew thought increasing merchandise sales was a better way to build revenue than expanding the repair operation. Additional boat repair required a large investment in space, equipment, and labor costs.

Company Background

Scott's Marine is located on the Toledo Bend Reservoir just west of Many, Louisiana. Andrew had worked for the previous owner while in high school and came back to work for him after a stint in the U.S. Navy. Eventually, the owner retired and sold the business to Andrew, who financed the purchase with a Small Business Administration loan. The loan was now paid off, and Andrew was thinking about expansion.

The Toledo Bend Reservoir is one of the largest freshwater lakes in the United States. Built in 1964 with a dam on the Sabine River between Texas and Louisiana, the lake is 289.1 square miles and has 1,200 miles of shoreline. The lake is well known for its fishing, with striped,

largemouth, and white bass; blue, flathead, and channel catfish; bluegill; and redear sunfish. The lake also has alligators and ducks and attracts hunters. Because it features a lot of open water, recreational boating is also popular, including water skiing, swimming, and sailing.

Although Andrew was aware of these other activities, most of his business came from people who liked to fish, particularly for bass. It occurred to him that there was more to know about the people who participated in other boating activities. If he had more knowledge about the potential market, he could offer merchandise people would want to enhance their lake experience. His problem was that he didn't know how to find the characteristics of boaters who were not bass fishers. Andrew contacted a market research firm in Shreveport, Louisiana, for help in this endeavor, but the price quoted was much more than he thought he could afford.

Still believing the information was available for much less cost, Andrew did an internet search using the term *recreational boating*. One search result was a survey done by the U.S. Coast Guard on recreational boating. Although the information was almost 10 years old, it gave Andrew a place to start in understanding what types of boats people had and how they used them. For example, Andrew learned that the most common type of boat in the southern United States is the powerboat, followed by row/inflatable boats. Moreover, he discovered that the most common use of a boat in the South was for socializing. Table 7.2 shows the type of boats in the order they are owned in the southern United States, and Table 7.3 illustrates how people use their boats.

Questions for Discussion

1. What type of data (e.g., demographic, psychographic, etc.) has Andrew collected?
2. Based on the information provided, can Andrew develop a target market for his merchandise? Why or why not?
3. What are some other low-cost secondary sources Andrew could use to help in developing a target market?

TABLE 7.2. Boats by Type: Southern United States

Powerboats <16 feet
Powerboats 16–20 feet
Powerboats 21–28 feet
Powerboats >28 feet
Row/Inflatable boats
Kayaks
Canoes
Personal Watercraft (e.g., jet skis)
Pontoon boats
Sailboats <25 feet
Sailboats >25 feet

Source: Adapted from uscgboating.org.

TABLE 7.3. Specific Recreational Activities: Southern United States

Recreational Activity	Percentage of Boaters Engaged in Activity
Socializing	73.8%
Cruising	68.8%
Sightseeing/Nature observation	64.7%
Fishing	57.3%
Swimming	49.4%
Sunbathing	34.1%
Water skiing/wakeboarding/tubing	32.2%
Water paddling	28.3%
Scuba diving/snorkeling	12.2%
Sailing	11.7%
Hunting	4.1%

Note: Percentages add to more than 100% because people use boats for more than one activity.

Source: Adapted from uscgboating.org

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