

INTERNET UTILIZATION IN THE MARKETING STRATEGY CLASS: USING BEST PRACTICES WEBSITES

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ABSTRACT

This paper provides a framework for using the Internet in the marketing classroom in a way that goes beyond typical Web-based research assignments. The framework described by this paper is centered upon the use of business best practices data available online. A unifying Internet exercise for the Marketing Strategy class using Globalbestpractices.com is used to illustrate the framework. The use of this Internet resource is demonstrated with exercises for each segment of the course. Each exercise is designed to review the topic's basic principles, describe the topic's best practices, diagnose weaknesses and strengths for the student's assigned firm, and provide profiles of other companies carrying out these best practices applications.

INTRODUCTION

The growth of the Internet and its widespread availability on college campuses, combined with the increasing computer familiarity of students has created a vast array of opportunities for its inclusion in the college classroom. The Internet's promise of easy access to a huge world of data and information suggests the presence of an invaluable resource with which to complement, and even totally carry out, the teaching process. As technology continues to advance, the Web is rapidly becoming one of the most important mediums for the aggregation and dissemination of information (Atwong and Hugstad 1997). This has certainly been the case in higher education as colleges and universities offer over 50,000 courses online to over one million students (Driver 2002).

Still, it appears that a large amount of Internet classroom applications fall into what can be described as a "treasure hunt" approach. Under this approach, the instructor assigns a general topic or concept and students are required to roam the Web in search of information about this topic. This typically takes students to Web-browsers and associated search engines. These "treasure hunts" lead students to a myriad of sites as they attempt to gather information "nuggets" from digging deep within the links. This type of approach often results in a disorganized, piecemeal use of the Internet that is often low in quality and lacks a cohesive and analytical framework. One study

of student reactions to Internet assignments found significant frustration among students due to lack of guidance and the difficulties of coping with so much information. Students felt they were wasting time and as one said, "It's just difficult to sort through the rubbish" (Selwyn, Marriott, and Marriot 2000).

The purpose of this article is to provide a framework for utilizing Internet technology in the classroom and demonstrate its application in a specific teaching setting: the Marketing Strategy course. The article examines how PriceWaterhouseCoopers' globalbestpractices.com can be effectively used to create a cohesive and unifying Internet exercise to this course and complement the teaching process. The remaining content of this article is organized as follows: Integrating the Internet into Education will provide a brief literature review about the Internet's educational uses, and its uses in marketing courses specifically. Best Practices Websites will introduce and describe various best practices websites that are suitable for use in the classroom. Application to the Marketing Strategy Course will develop a class outline for the Marketing Strategy course using one of these websites, globalbestpractices.com. Potential Drawback of Best Practices Databases Applications will discuss some potential drawbacks of the proposed approach, and Summary and Conclusions will offer a summary and present some conclusions.

INTEGRATING THE INTERNET INTO EDUCATION

The exponential growth of the Internet as a source of information and business data has provided educators with a tool that has the potential to significantly enhance the effectiveness of their courses while appealing to an increasingly computer literate student body. To a great extent, the Internet's provision of easy access to a vast source of data and other information offers an invaluable resource with which to complement, if not carry out, the teaching process. Both government and the public have expected higher education to incorporate technological change into the curriculum, with "dire repercussions" for institutions that fail to do so (Selwyn et al. 2000).

Higher education has incorporated Internet technology in a number of ways, as Internet resources have applications for both the traditional classroom and distance learning environments (Ragothaman and Hoadley 1997). In the case of distance learning, entire courses and even degrees can be obtained via the Internet (Driver 2002; Gubernick and Ebeling 1997). In traditional classroom-based education, the Internet is being used for case instruction, provision of course materials, cooperative learning projects, electronic guest lectures, research, analysis, and for communication between faculty and students (Benbunan-Fich, Lozado, Pirog, Priluc, and Wisenblit 2001; Ragothaman and Hoadley 1997). Examples of specific Internet-based applications in the business curriculum include student use of Internet data to forecast quarterly earnings (Cotter and Martin 2000), the use of threaded discussions in Principles of Money and Banking (Heins and Stalcup 2001), financial analysis with electronic databases (Mayer, Schooley, and Fry 2001), and exposure to international issues and events in accounting, marketing, and international business courses (Greene and Zimmer 2003; Pollard 2003; Pettijohn 2000).

Student evaluations of Internet applications have generally been favorable. Research in multimedia presentations, which included use of the Internet indicates that students engaged in this environment enjoyed the learning experience more, and perceived themselves as learning more than in the traditional lecture environment (Butler and Mautz 1996). Web-centric learning environments have been found to enhance student interaction, involvement with course content, technical skills, and the overall learning experience (Driver 2002). Other studies suggest that the achievement and satisfaction of students in multimedia learning environments equals or surpasses those of students in traditional classrooms (Townley 1997; Manzo 1996; Hodge-Hardin 1995; Wittek 1983; Bailes 1979). Educators are increasingly becoming aware of the Internet as an effective educational delivery system. As a result, a transformation in higher education by utilizing the Internet is well under way.

In applying technology to the teaching process, the dominating theme of many Internet class exercises is the search for a number of different links that might effectively connect course materials to this global network of computers and information sources. This methodology, it is posited, provides students with an opportunity to develop data-acquisition skills in the process of gathering information (Canzer 1997; Siegel 1996). Nevertheless, the literature also suggests that this type of approach is fraught with problems and lacks efficiency (Selwyn et al. 2000; Natesan and Smith 1998; McCune 1998; Stoll 1995). The Web's greatest strength, its wealth of information, can also be its greatest downfall. The vast uncharted ocean of irrelevant sites and search engines struggling to keep pace naturally leads to a "treasure hunt" that becomes exceedingly time consuming as well as serendipitous (Selwyn et al. 2000; Stoll 1995). McCune (1998) states that the Internet is not a place to browse for information, because it is too big, disorganized, and overwhelming. Natesan and Smith (1998) point out that instructors will discover that students often choose the most easily available source, even when it is of low quality.

In light of the limitations of a piecemeal, "treasure hunt" approach, the development of a unifying and structured framework for utilizing the Internet in the classroom becomes a challenge for educators. Websites such as globalbestpractices.com present an effective alternative to the need for customizing information retrieval and effectively integrating the Internet in a continuous and cohesive manner throughout the marketing strategy course.

Integrating the Internet Into Marketing Courses

The marketing literature supports the transformation of the learning environment through use of the Internet as exemplified by a number of articles in which marketing educators describe the use of class assignments involving information technology skills (Greene and Zimmer 2003; Heinrichs, Lim, and Hudspeth 2002; Siegel 2000; Miller and Mangold 1996; Siegel 1996). Similarly, there is substantial evidence of the use of computer-based teaching resources (Wilson 1993). Also, the use of a wide range of Internet-based assignments that access marketing information (Greene and Zimmer 2003; Heinrichs et al. 2002; Siegel 1996) and the development of Web sites by major textbook publishers are additional examples of how technology is being applied to the marketing classroom. Furthermore, the use of web sites for internal marketing, customer service and opinion polling has become a common feature of the marketing mix and has been studied in the marketing classroom (Arnold and Adlai-Gail 1996).

In addition to its vast storehouse of information, the communications potential of the Internet is increasingly being exploited by marketing educators. Cooperative learning projects involving "virtual" teams of students

from different countries who communicate and compete via the Internet have been described as having great potential to challenge students with realistic global marketing cases and problems and provide rich multicultural experiences (Fish, Martinez, Santillan, and Brazell 1998; Holan and Kisfalvi 1995).

High-speed communications have also expanded the potential of marketing simulation programs and games; not only opening the door for easily managed inter- and intra-university collaborations and competitions, but also allowing students and faculty economical access to simulation programs via the Internet, without the requirement of purchasing individual software packages or licenses that must be installed on local computers (i.e., <http://www.marketplace-simulation.com/>).

Timely access to current business information and practices and direct links to the professional world have also increased the Internet's usefulness for more traditional case instruction (e.g., Petravick 1995). The Internet provides easy access to a variety of business and economic databases (e.g., EDGAR, The Finance Web, and RISKnet) containing information such as stock market reports, foreign exchange rates, and interest rates, that students may access to use in their research (Ragothaman and Hoadley 1997).

One of the most promising applications of the Internet in marketing education appears to be in marketing research courses. Applications have been developed or proposed for every step of the marketing research process. Specific applications include implementation of exploratory research, gathering of internal and external secondary data, on-line focus groups, survey administration, questionnaire design, sampling and data collection, formulating a data analysis strategy, and publishing research reports and information (Malhotra, Dixit, and Uslay 2002). Siu (1997) describes developing an Internet marketing research resources homepage containing a variety of tools to assist students in learning the use of the Internet in marketing research.

Other uses of the Internet in marketing courses that have been described in the literature include: bulletin boards, interacting with guest speakers, developing consulting projects, hypothetical product development activities, and developing personal selling and relationship marketing skills (Malhotra, Dixit, and Uslay 2002; Siegel 1996). Disadvantages of such network-based marketing assignments that have been identified include: "time traps, student detours, etiquette breaches, and student resistance" (Malhotra et al. 2002, p. 26).

Integrating the Internet into the Marketing Strategy Course

Very little literature exists regarding use of Internet resources in the marketing strategy course specifically. However, some applications have been developed or

proposed that may lend themselves to this purpose. Perhaps the most obvious is use of the Internet in teaching the case method. The primary benefits that have been reported include: ability to link geographically dispersed students, facilitating multicultural experiences, development of workplace skills through using Internet technology to solve problems, higher student motivation and involvement, and modeling positive peer behavior (Fish et al. 1998). Henson, Kennet, and Kennedy (2003) describe an application requiring students to develop a current, Web-based case by obtaining company and industry information from Internet resources, identifying a problem, and providing analysis. This procedure facilitates development of both case writing and analysis skills.

Sautter, Pratt, and Shanahan (2000) describe the "Marketing WebQuest," an inquiry-oriented learning tool that requires students to develop online exercises to teach selected marketing topics to other students. The authors suggest that students gain experience with and appreciation for the influence of the Internet in business and marketing activities, while gaining a deeper understanding of relevant concepts through teaching others.

One topic that is often of considerable interest in the marketing strategy course is marketing intelligence and espionage and the ethical and legal issues surrounding these activities. Siegel (2000) describes project-based activities using the Internet that are designed to emphasize the importance of intelligence to marketing decisions, introduce students to intelligence activities and processes, and explore legal and ethical issues.

These, of course, represent merely a sampling of applications that might be appropriate for the marketing strategy course. Some of the uses of the Internet described in the preceding sections, such as obtaining current financial and operations data on specific organizations and/or industries, could obviously play an important role as well. However, no known research has examined incorporating current best practices data, available on the Web, into a framework on which the strategy course may be built. This is surprising given the increasing importance and reliance upon best practices in business and industry.

BEST PRACTICES WEBSITES

There are a several fee-based business best practices websites available on the Internet. The concept of best practices involves those actions that help a company perform at its most efficient level. These services are primarily directed towards consulting and business use, but as this paper will show, can easily be adapted for application as Internet class exercises to complement the teaching process. Although a large number of best practices websites exist (an internet search using the search term "business best practices" produced nearly 1.8 million hits) only a few appear to be suitable for use in the classroom. This section briefly describes four such sites,

followed by a demonstration of how one, PriceWaterhouseCoopers' Global Best Practices, could be incorporated into the marketing strategy course.

Global Best Practices

Global Best Practices is a Web-based (<http://www.globalbestpractices.com/>) knowledge service geared towards helping improve business performance. The service is offered through the PriceWaterhouseCoopers Web site. The global best practices web site provides best practice insights from PriceWaterhouseCoopers' consultants. These best practices concepts are available in a classification scheme of business processes spanning most of the functional areas of business and are relevant to all companies regardless of industry. Under each process, a definition and overview, and the best practices guidelines are discussed. Also available under each process is a qualitative and quantitative diagnostic tool that measures company performance against a "best practices" standard. This provides students with the opportunity to benchmark each particular marketing action to a pre-determined best standard further enhancing their understanding of the topic. Furthermore, the site includes performer profiles from companies that have implemented these best practices principles. More importantly for the purposes of this paper, the process classification scheme available in [globalbestpractices.com](http://www.globalbestpractices.com) includes the majority of the components in the marketing mix. The marketing mix constitutes the core of the marketing strategy course.

PowerMARC

PowerMARQ (www.apqc.org) is a membership-based benchmarking database offered by The American Productivity & Quality Center (APQC) that provides approximately 700 common measures and individual benchmarks, focusing on the areas of accounting, facilities management, human resources, information technology, knowledge management, and supply chain management. PowerMARC is built upon APQC's Process Classification Framework (PCF), which they claim has become, "the most commonly and widely used reference framework for categorizing and defining processes across industries." Detailed reports and benchmarking metrics are available online for each classification within the framework.

Best Practices, LLC

Bestpracticesdatabase.com is a web-based service offered by Best Practices, LLC, a business research and advisory firm specializing in best practice identification and benchmarking. The database consists of a series of

reports that are available for the general subject areas of business operations, customer service, human resources, internet and e-business, knowledge management, and sales and marketing. Each of these broad topic areas is broken down into numerous subcategories. For example, the customer service category includes reports on call centers, customer loyalty management, customer relationship management, customer service measurement, and customer service strategies and culture. The reports describe best practices among Best Practices, LLC benchmark partner companies. The reports may be purchased separately, or are available on an annual membership basis.

Industryweek

Industryweek (IW) (Industryweek.com) is an online business publication that also provides a number of information services, including a suite of relatively inexpensive benchmarking tools. While these databases lack the depth and sophistication of the alternatives, they may be appropriate for institutions wishing to provide students with exposure to benchmarking at a relatively low cost. The first service is the web-based IW Path to Excellence database, which includes best practices and performance indicators from IW Best Plants winners and finalist. These are manufacturing facilities recognized by IW as the top manufacturing facilities in North America. The tool allows users online access to performance results from over 100 IW Best Plants winners, 84 best practices from IW's Best Plants, and analysis from IW editors. By submitting data about their facility online, users may obtain comparisons of their performance with top manufacturers on 80 different points in seven key areas: quality, employment practices, customer and supplier relations, manufacturing operations, inventory management, environment and safety performance, and productivity and cost management.

IW also offers the interactive Best Plants Benchmarking Database, which provides more than 230 metrics on Best Plants winners and finalist from 1988 to 2002. The database provides extensive filtering capabilities that allow users to view metrics for plants that meet one or more selected criteria, such as size, union, or non-union status, or type of manufacturer.

The third option is the IW/MPI Benchmarking Toolkit, which is built around the Manufacturing Performance Institute's Census of Manufacturers, an extensive database of operations metrics and plant-level financial measurements. The database provides sorting and search capabilities on more than 30 characteristics, such as industry, number of employees, or plant age. Depending on the option chosen, access may be accompanied by various standardized or customized reports and analyses of Census data.

APPLICATION TO THE MARKETING STRATEGY COURSE

Of the four sources described above, globalbestpractices.com appears to provide the most comprehensive collection of business processes and assessment tools available online, and gives marketing educators and students a very useful source of pertinent information that can be customized to meet their specific needs. It also provides a vehicle for managing information that makes it possible to target the specific information relevant to the topic at hand. In doing this, the site provides a rich array of opportunities for integrating Web resources into the marketing strategy course and gives educators a tool to make the learning environment more interactive and effective.

The Marketing Strategy course is traditionally positioned as a capstone course whose primary purpose is to help students integrate what they have learned about the marketing mix and the management of this mix in the broader context of shaping a competitive strategy. A course outline is provided in Table A1 in Appendix 1.

The course attempts to convey to students how a competitive advantage is developed, as well as demonstrate the processes necessary to undertake product, distribution, promotion, and pricing strategy. An Internet-based exercise that reinforces these concepts and presents them in a unifying framework throughout the course can be a powerful addition to the teaching process. Thus, as the marketing strategy topics are covered in the classroom, their relevance and application can be enhanced by access to this highly focused Internet resource.

With this in mind, the typical format for this class includes the traditional classroom approach of textbook coverage, instructor lectures, class discussion, and case presentations. However, this conventional methodology

is complemented by continuous Internet assignments at the end of each topic. In these Internet assignments, students go directly to the globalbestpractices.com site for a review of the topic covered and a summary of its main concepts. This is followed by an overview of the best practices used in this area. Additionally, students are required to utilize the interaction/diagnostics tool using a company of their choice. Finally, they are asked to finish the exercise by reading examples of actual companies carrying out the best-practices approach on the topic in question.

Depending on the workload that the instructor prefers to assign in the course, there is a variety of ways in which these Internet exercises can be actually incorporated in the class. Three options include: (a) An end of the semester paper summarizing their findings; (b) Each exercise can be presented by students as part of the class discussion on the particular topic being covered; (c) The information can be used to complement the assigned case studies that the marketing strategy class typically uses. Table 1 outlines the Internet assignment to be used in the class.

Thus for each exercise, the following activities must be undertaken for each assignment:

1. Locate the business processes listed under each of the topics shown in Table 2 and read the **Overview** and **Best Practices** for each. These are located under the *Executive Summary* link in each section.
2. Use the **Process Appraisal Tool** for each process using hypothetical or real data. Read the diagnostic report generated for the data that you input. This tool is located under the *Benchmarking* link in each section.
3. Locate and read about the current **Best Company Profiles**. These are located under the *Best*

TABLE 1
INTERNET ASSIGNMENT FOR MARKETING STRATEGY COURSE
(www.globalbestpractices.com)

Link Used Under Each Topic	Description of the Assignment
1. Read Overview	This reviews the main topic covered by the lecture.
2. Read Best Practices	This helps students understand the optimal approach as outlined by "best practices."
3. Use Process Appraisal Tool	This allows the student to compare their chosen companies against the best practices benchmark and determine strengths and weaknesses.
4. Read Best Companies Profiles	This provides students with examples of companies that have applied the best practices approach.

Companies link in each section.

A complete framework for Internet utilization to the entire Marketing Strategy course using global best practices can be found in Table 2. This table outlines all the exercises and the particular marketing processes being reviewed into a unifying, course-long Internet exercise.

Also, an example of the globalbestpractices.com material¹ (definition and overview, diagnostic tool, and performer profile) for one of the course topics (market segmentation) is accessible through Table A2 in Appendix 2.

TABLE 2
MARKETING STRATEGY INTERNET ASSIGNMENTS

Source: www.globalbestpractices.com

Login.

In the **Knowledge Base** Window, click **Best Practices**.

At the **Process Classification Framework**, click on the desired link from Table 2.

Assignment	Topic and Section	Specific Links
Assignment #1:	Vision and Strategy 2.0-Vision and Strategy	◆ Process 2.2-Define the Business Concept and Strategy
Assignment #2:	Vision and Strategy 1.0 Understand Markets and Customers 2.0-Vision and Strategy	◆ Process 1.1-Determine Customer Needs and Wants ◆ Process 2.1-Monitor the External Environment
Assignment #3:	Market Segmentation 4.0-Market and Sell	◆ Process 4.1.1-Identify Market Segments
Assignment #4:	Product Strategy 3.0-Design Products and Services	◆ Process 3.1-Develop New Product and /Service Concepts ◆ Process 3.1.1-Translate Customer Wants and Needs into Products and Services
Assignment #5:	Product strategy 3.0-Design Products and Services	◆ Process 3.6-Manage the Product and Service Development Process
Assignment #6:	Distribution strategy 4.0-Market and Sell 5.0-Produce and Deliver Products and Services	◆ Process 4.3-Manage Customer Orders ◆ Process 5.4.1-Warehouse or Store Products
Assignment #7:	Promotional Strategy 4.0-Market and Sell	◆ Process 4.2.1-Sell to Customers Through a Field Sales Force ◆ Process 4.2.2-Sell to Customers Through Retail Operations ◆ Process 4.2.3-Sell to Customers Through the Internet
Assignment #8:	Pricing 4.0-Market and Sell	◆ Process 4.1.3-Develop Pricing Strategy ◆ Process 4.1.5-Develop Sales Forecast

POTENTIAL DRAWBACKS OF BEST PRACTICES DATABASES APPLICATIONS

One potential drawback of the best-practices databases described in this paper is, of course, their cost. The four databases discussed previously range from as little as \$195 (Industry Week Path To Excellence) for a single report to over \$10,000 per year for an unlimited license (PriceWaterhouseCoopers' Global Best Practices). Fortunately, marketing educators may choose from a range of prices that fit the expected level of use and sophistication for their particular course. However, it is likely that using the website as the centerpiece of the marketing strategy course, as proposed in this paper, would require and annual site license to one of the more sophisticated (and correspondingly expensive) databases.

Each of the resources described above in some manner allows the user to submit data for a particular company in order to receive comparative benchmarking data. This may represent a stumbling block for some students because it would require them either to research a company extensively in order to obtain the necessary input data – some of which may be proprietary and thus unavailable, or to develop fictional data. The instructor may be able to obtain data or help students create fictional data in order to minimize or eliminate this difficulty.

Much of the information available through the best-practices websites described herein applies primarily to manufacturing operations. This could limit their usefulness for application to specific areas of marketing strat-

egy, such as integrated marketing communications. Only the Global Best Practices and Best Practices, LLC websites appear sufficiently comprehensive to incorporate most of the processes and activities relevant to a capstone marketing strategy course, and this is reflected in their cost.

SUMMARY AND CONCLUSIONS

The proliferation of Web sites and resources as well as the appeal of Web based instruction provides marketing educators with an opportunity to incorporate the Internet into the marketing curricula. However, broad, "treasure hunt" approaches to Internet integration in the classroom tend to result in disorganized, piecemeal use of the Internet, which is often low in quality and lacks a cohesive framework.

The use of PriceWaterhouseCoopers' globalbestpractices.com, or a similar resource, provides educators a tool with a wealth of information, real life applications and more importantly a structured sequence of learning activities throughout the semester. This paper presents the framework for a unifying Internet exercise for the capstone course in the marketing curriculum in a manner that uses the best global business practices theme as its central organizing point throughout the course. In doing so, the primary advantage of utilizing globalbestpractices.com for teaching the marketing strategy course is the unifying, cohesive and highly focused retrieval of pertinent and high-quality information that this tool brings to the classroom.

ENDNOTE

¹ Printed with permission of PriceWaterhouseCoopers.

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APPENDIX 1
TABLE A1 – COURSE OUTLINE

MARKETING STRATEGY
(MKT 486)

Course Outline

- | | |
|---|---|
| <p>I. Developing Vision and Strategy</p> <ol style="list-style-type: none"> 1. Competitive advantage <ol style="list-style-type: none"> A. Definition B. Components <p>II. Strategic Market Segmentation</p> <ol style="list-style-type: none"> A. Nature of demand B. Basis of segmentation <ol style="list-style-type: none"> 1. Regional 2. Customer characteristics 3. Product usage 4. Benefits C. Segmentation strategies <ol style="list-style-type: none"> 1. Concentrated strategies 2. Differentiation strategies 3. Undifferentiated strategy D. Ethical issues in segmentation <p>III. Product Strategy</p> <ol style="list-style-type: none"> A. Product life cycle <ol style="list-style-type: none"> 1. Determinants of stages 2. Entry strategies 3. Product differentiation 4. Positioning strategies <p>IV. Distribution Strategy</p> <ol style="list-style-type: none"> A. Types of channels of distribution | <p>B. Channel arrangements <ol style="list-style-type: none"> 1. Conventional channels 2. Vertical marketing systems 3. Horizontal marketing systems </p> <p>C. Determination of intensity of channel conflict</p> <p>D. Determinants of channel configuration</p> <p>E. Managing the channel</p> <p>V. Promotional Strategy</p> <ol style="list-style-type: none"> A. Promotional objectives B. Advertising strategy <ol style="list-style-type: none"> 1. Decision parameters C. Personal selling strategies <ol style="list-style-type: none"> 1. Decision parameters D. Public relations <ol style="list-style-type: none"> 1. Role and tools E. Sales promotion <ol style="list-style-type: none"> 1. Role and tools <p>VI. Pricing Strategy</p> <ol style="list-style-type: none"> A. Objectives B. Estimating demand C. Cost factors D. Competition E. Methods of determining price <ol style="list-style-type: none"> 1. Demand based pricing 2. Cost based pricing 3. Competition based pricing F. Adjustments to pricing level G. Initiating price changes |
|---|---|

APPENDIX 2
TABLE A2
Examples of www.globalbestpractices.com Materials

4.1.1–Assignment 3 – Market Segmentation – Definition

Definition

4.1.1–Assignment 3 – Market Segmentation – Overview

Overview

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PerfMea

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Definition

Market segmentation is the process of dividing business and consumer markets into highly distinct groups based on the common traits of customers. By identifying these customer groups or segments, companies can position products, brands, and services to meet specific needs and respond to unique behaviors. They also can develop more effective marketing programs and strategic plans for everything from sales and delivery to distribution channels and customer care, because they have the information necessary to tailor the programs to the needs of specific market segments.

Best practices companies consider segmentation a critical component of the strategic marketing planning process. They recognize that their competitors have grown in number, strength, and kind, so they have sharpened their ability to quickly recognize market trends and seize opportunities. These companies take full advantage of communications technology, particularly the Internet, to craft marketing messages for individuals—a strategy that companies can implement effectively only if they have identified customers properly. Furthermore, traditional business strategies such as product differentiation and cost leadership are by themselves no longer sufficient for providing a sustainable competitive advantage without market segmentation.

The process of identifying market segments focuses on the tactics companies use to attract, retain, and extend profitable relationships with customers.

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Executive summary

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Overview

Before technology dramatically changed the game, marketing professionals relied primarily on mass marketing techniques to reach customers—a single version of an advertisement or direct mail catalog was widely dispersed to a broad base of existing and potential customers. The approach was effective because companies had access to a limited number of communications channels and they could identify only a few distinct groups of customers. In addition, companies had far fewer options for customizing products, services, or messages. But today, technology has made it possible for companies to parse mass markets into highly distinct segments and respond

on an almost individual basis to customer needs and expectations. This new reality forces companies to recognize market segmentation as a necessary tool for devising a competitive strategy.

Market segmentation helps companies identify distinct differences and preferences among customers and develop targeted sales and marketing programs to address their unique needs. It involves analyzing current market research and proprietary data and using the knowledge uncovered to target market segments with the greatest potential for profit—those with the most loyal customers and the appropriate marketing mix (product, price, distribution channel, and promotion).

An effective segmentation strategy also plays a powerful role in a company's overall vision. It defines a company's most valuable customers, thereby influencing how an organization allocates its resources and develops its capabilities. And with an improved understanding of customer segments, companies can better decide which markets to protect, pursue, or retarget with new strategies.

Companies are anxious to get close to their customers and information technology, particularly the Internet, supports this goal. Companies that use segmentation studies and analysis to properly identify and group customers can leverage the technology to develop one-to-one relationships with customers.

Best practices

Market segmentation identifies groups of customers who are similar enough in their motivations and buying behavior to respond alike to marketing programs and strategies. A discussion of best practices used by leading companies to segment their markets follows:

Integrate segmentation

Organize around segments

Develop profiles

Leverage the Internet

Refine segments

- **Integrate a market segmentation process into the overall marketing strategy.**

Market segmentation is a research process that allows companies to define groups of customers and prospective customers with similar purchasing behavior. Companies conduct segmentation studies to gain a solid foundation for identifying these groups based on their unique characteristics and demographics. When these studies are analyzed and leveraged prior to the development of the marketing mix, companies can better target markets and exploit profitable opportunities before their competitors discover them.

Leading companies begin the segmentation process by developing a framework that will support their overall marketing goals. They identify the methods they will use to study customer behavior and gather information. Many rely on data resources, such as census reports, industry analyses, and independent market research, in combination with primary research, such as surveys and focus groups. But regardless of the methods used, these companies share a goal: They want to uncover information that will provide greater insight into purchasing behavior and other factors that motivate customers to choose certain products and services.

When the **Mirro Company**, a Wisconsin-based cookware manufacturer, was designing a new collection of pots and pans, it studied consumer cookware

decisions. Researchers asked focus group participants why they shopped for pots and pans at certain stores as opposed to others, what features they considered ideal in cookware, and how their current cookware met or fell short of their needs. Because the research emphasized buyer motivation and not simply past buying behavior, the company was able to produce an innovative line of cookware that exceeded customer expectations and topped all sales expectations.

- **Organize the enterprise around customer segments.**

Companies that organize their business processes around customers discover new opportunities to attract, develop, and retain profitable customers. With this customer-centric approach, often referred to as customer relationship management (CRM), sales, service, and marketing activities are designed to achieve superior levels of customer satisfaction and build solid customer relationships that will be profitable into the future. And when operations and management processes—everything from developing a corporate vision to designing technology for the contact center—are keenly focused on customer satisfaction outcomes, the company is positioned to achieve a level of intimacy that promotes customer loyalty.

A well-defined segmentation strategy also helps align sales and customer service processes with the needs of profitable customer groups. In addition, it can identify opportunities for strategic alliances that will extend a company's reach to potential customers. But for segmentation strategies to reap all their potential rewards, employees need to understand and accept them. If, for example, the segmentation strategy pursues customer groups that do not necessarily want or need the company's products or services, the strategy will find little acceptance internally. But when companies gather input from employees and design a segmentation strategy based on factual information and keen observations, they will find internal support and, more importantly, have a strategy that can help the company identify and get closer to its most valuable customers.

Marks and Spencer, one of the leading department store operations in the UK, once stumbled under the weight of a segmentation strategy that included so many segments, internal buyers were perplexed about which merchandise to stock. The marketing department also found it difficult to develop successful promotional campaigns. When new management took over, executives quickly realized that internal frustrations with the segmentation strategy were contributing to the company's sales slump. To help the retail chain get back on track, the new director of UK retailing commissioned an analysis of customer data that would support a more simplified segmentation strategy. With the new, streamlined segmentation scheme in place, buyers and marketers are more productive and companywide acceptance of business strategies has improved.

- **Develop customer profiles to provide a foundation for segmentation strategies.**

A customer profile is a set of characteristics that defines a customer. Used to maximum advantage, a profile helps companies identify customer segments using common characteristics that could translate into common purchasing behavior. Companies develop profiles by carefully analyzing various types of information, including demographics, lifestyle choices, and customer profitability data. In addition, customers and others who visit a company's web site leave behind data "footprints" or information about themselves, which can be scrutinized for insight into future market demands. When this information is combined with accounting and sales data, the company has an in-house capability to define and quickly redefine the customer profile.

Leading companies understand that in order to maintain an up-to-date understanding of profitable market segments, they need a reliable process for developing customer profiles. The process begins internally with a thorough cleaning and organizing of proprietary data, which includes sales transactions and any information gathered by customer service employees. Smart companies enrich this information with data from outside sources, such as consumer products companies, business analysts, government jurisdictions, and market research firms. And while the sources that companies use may differ, best practices companies recognize that the richest and most useful customer profiles are built by compiling a unique mix of relevant customer characteristics.

To breathe life into its struggling boiler-repair division, Ohio-based **Toledo Shiprepair Co.**, part of the Marine Operations division of Wisconsin-based **The Manitowoc Company Inc.**, assigned an internal team to develop comprehensive customer profiles using information gathered from order files and other company resources. The team uncovered previously buried information that helped the company target new business from existing customers. Toledo Shiprepair then bought data from a business information vendor and identified prospective new customers by matching their characteristics with those of the existing customers. The company also reviewed state certification data to gauge the size and age of boilers belonging to prospective customers, which further narrowed the prospect list. As a result of this profiling effort, Toledo Shiprepair grew its customer base from fewer than 400 to more than 2,000 and revenues more than doubled, from under \$1 million to \$2 million.

- **Leverage Internet technology to identify profitable market segments.**

The Internet is revolutionizing the process of identifying market segments. Companies no longer are dependent solely upon data that reflects the past, such as past purchasing behavior, attitudes, or hobbies. With online analytical processing (OLAP) and data mining techniques, Internet-enabled companies can track, log, and analyze online customer activity to get real-time views of how visitors interact with their web sites. Daily updates on purchases, product research, online community participation, or customer service contact help marketers decide when, and to whom, to launch new or refined marketing campaigns.

Best practices companies carry out a number of initiatives to gather customer information online. Many monitor clickstream behavior and track where customers go and what they do while online. They also use opt-in e-surveys and e-mail to identify online customer segments, and some companies actually conduct focus groups online. The online information helps companies segment customers and improve their understanding of those market segments. It also provides ideas on how companies can design a more effective search engine strategy.

To encourage customers to share certain information online, leading companies address privacy and security concerns upfront and give customers options as to how the company may use information about them. Some companies also offer rewards or incentives, such as future product notices or special discounts on online purchases.

Eli's Cheesecake, a family-owned business in Chicago offers online customers the opportunity to create a customized cheesecake, or C-cake. As the customer chooses a cheesecake flavor, selects from an assortment of candy and nut toppings, and writes a personalized greeting, Eli's marketing department gains insight into customer preferences. The company uses the information to identify new choices to add to the C-cake site and to improve its overall relationship with customers. Since introducing the custom cheesecakes, Eli's has doubled its online sales.

- **Gather customer and prospect data to refine segmentation strategies on an ongoing basis.**

In order to maintain an effective segmentation strategy, leading companies stay abreast of market trends, new competitive threats, and internal changes that may cause target market segments to shrink or expand. They require their marketing managers to monitor activities that could change the composition of a segment, such as a merger or acquisition, a new product innovation, or a trend that finally achieves sufficient critical mass. With this insight, companies are better prepared to minimize the risk of losing market share or to take advantage of new opportunities.

In addition to monitoring the external environment, best practices companies maintain a database of clear and current customer knowledge, because that information is the foundation of effective market segmentation. These companies gather data by conducting primary research with a variety of tools such as surveys, interviews, and focus groups, and they invest in data from secondary sources, such as industry analyses and independent market research. By combining primary and secondary research, these companies amass reliable, relevant, and manageable information and make it readily accessible to internal decision-makers.

Ongoing market segmentation requires consistent data mining; therefore, leading companies manage and organize their internal databases to support their established segmentation strategies. This better ensures that the data they collect has value and will be appreciated as a company asset.

After mining its customer data for hidden segments, **Priva, Inc.**, a division of Med-I-Pant, Inc., of suburban Montreal, was able to improve its market share for products used by people with adult incontinence. The company built its customer database by including a return-mail questionnaire in each product package and capturing customer feedback in the contact center. That feedback helped Priva discover that caregivers often make the buying decisions for the people who use Priva products. To reach this hidden segment, Priva began sponsoring a caregiver-of-the-year award, which recognizes caregiver excellence, but also promotes greater awareness of the company's products among those who actually buy them. In its first year, the award program generated more than 5,000 nominees and contributed to a revenue increase of 20 percent.

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Performance measures

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Overview

Performance measures are the “vital signs” of an organization. They quantify how well the activities within a process or the outputs of a process achieve a specified goal. When

part of a comprehensive system of measures at all levels, they tell employees what and how they are doing as part of the whole.

Performance measures must be quantified to be meaningful. An act of measurement is required, one that can be performed reliably and consistently with a basis in fact, not opinion or hunch or gut feel. “Good” and “fast” are not adequate performance measures. “Number of defects” and “time for order processing” are acceptable measures if they are controllable—that is, if the people performing the work can affect the output.

In addition to being quantifiable and controllable, performance measures to be truly effective must also be:

- Aligned with company objectives
- Supportive of continuous improvement
- Reported consistently and promptly

Performance measures are either cost-based, quality-based, or time-based. Cost-based measures cover the financial side of performance. Quality-based measures assess how well an organization’s products or services meet customer needs. Time-based measures focus on how quickly the organization can respond to outside influences, from customer orders to changes in competition. Focusing attention simultaneously on cost, quality, and time can optimize performance for an entire process and ultimately an entire organization.

Performance measures

Any company that is successful at market segmentation should see the impact in improved market performance, as logically reflected in profitability. Numerous other performance indicators can be used to measure market segmentation and general marketing success.

Cost

- Profitability
- Sales increase
 - o Overall
 - o By segment
 - o By customer or account
 - o By product
- Expense reduction
 - o Costs of marketing programs (effective target marketing versus mass marketing)
 - o Promotional expenditures
- Investment levels

By tracking costs associated with developing internal resources for the purpose of segmentation, a company has the basis for performing an ongoing cost/benefit analysis of segmentation. The following are areas where segmentation will likely impact costs:

- o Human resources
- o Product development

- o Marketing research
- o Information acquisition costs
- o Marketing programs (per customer or account and overall)
- o Database development and maintenance
- Return on investment (where applicable—for example, return on investments in a database or a specific marketing program)

Quality

- Number of segments and subsegments identified
- Customer acquisition rate
- Customer retention rate
- Prospect-to-customer conversion rate
- Market share
- Segment growth
- Cross-selling and/or up-selling ratios
- Customer satisfaction
- Customer and prospect information
 - o Accuracy of data
 - o Amount of data
- Number of database-driven marketing programs
- Percentage response to marketing offers

Time

- Frequency of information-gathering efforts
- Database build time
- Query time
- Increased efficiency in accessing information
- Time to roll-out marketing initiatives
- Roll-out period for new products or services
- Frequency of segmentation review

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Process appraisal tool

The process appraisal tool compares your current business practices with best practices in the Global Best Practices knowledge base. Each of the following questions prompts you to reflect on your company's current practices. The tool then tabulates your results and provides insights into where to begin improving the effectiveness of your organization.

A. Integrate a market segmentation process into the overall marketing strategy.

- Does the company use a framework to provide a structure for segmentation efforts?

☐
☐
☐

Yes No Not applicable

- Does the company select its segmentation tools based solely on cost and availability?

☐
☐
☐

Yes No Not applicable

- Are segmentation studies used to discover buyer motivation as well as buyer behavior?

☐
☐
☐

Yes No Not applicable

- Does the company believe that market segments remain more or less the same over the years?

☐
☐
☐

Yes No Not applicable

- Is the company committed to developing a competency internally in market segmentation?

☐
☐
☐

Yes No Not applicable

B. Organize the enterprise around customer segments.

- Do employees throughout the company understand the segmentation strategy and use it to help guide their work?

☐
☐
☐

Yes No Not applicable

- Have sales processes been aligned to serve customer segments?

☐
☐
☐

Yes No Not applicable

- Is the company actively engaged in partnerships with companies who target similar segments?

☐
☐
☐

Yes No Not applicable

4. Is data from every department merged to create a single source for segmentation studies?

☐

Yes

☐

No

☐

Not applicable

5. Do new IT systems have the flexibility to support the data needs of future segmentation strategies?

☐

Yes

☐

No

☐

Not applicable

C. Develop customer profiles to provide a foundation for segmentation strategies.

1. Has the company designed a formal process for developing customer profiles?

☐

Yes

☐

No

☐

Not applicable

2. Does the company use modeling software to identify the characteristics of optimal customers?

☐

Yes

☐

No

☐

Not applicable

3. Is the company completely dependent on technology to formulate its view of the customer?

☐

Yes

☐

No

☐

Not applicable

4. Does the company rely on one category of market characteristics, such as demographics, to define its most profitable market segment?

☐

Yes

☐

No

☐

Not applicable

5. Is the company using basically the same customer profiles today as it did last year?

☐

Yes

☐

No

☐

Not applicable

D. Leverage Internet technology to identify profitable market segments.

1. Does the company monitor clickstream data as well as activity in chat rooms or special interest communities featured on its web site?

☐

Yes

☐

No

☐

Not applicable

2. Do customers have the option of receiving e-mail surveys?

☐

Yes

☐

No

☐

Not applicable

3. Does the company address the security or ownership concerns customers may have when asked to submit information online?

☐

Yes

☐

No

☐

Not applicable

4. Does the company offer customers any incentives to share information?

☐ ☐ ☐

Yes No Not applicable

5. Is search engine optimization a company priority?

☐ ☐ ☐

Yes No Not applicable

E. Gather customer and prospect data to refine segmentation strategies on an ongoing basis.

1. Does the company gather and store every possible detail of information about customers in its database?

☐ ☐ ☐

Yes No Not applicable

2. Does the company use data mining techniques to uncover new market segments?

☐ ☐ ☐

Yes No Not applicable

3. Does the company limit the number of communication channels it uses for collecting customer information?

☐ ☐ ☐

Yes No Not applicable

4. Are salespeople expected to contribute to efforts to recognize new or shifting market segments?

☐ ☐ ☐

Yes No Not applicable

5. Does the company consistently fund primary market research?

☐ ☐ ☐

Yes No Not applicable

6. Does the company use trade journals or online databases to help formulate segmentation plans?

☐ ☐ ☐

Yes No Not applicable

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American Express Company (USA)

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Featured Company

[American Express Company](#), long recognized as a leader in customer segmentation, provides travel, network, and financial services. Since 1850, the New York City-based company has offered travel services—initially providing travelers’ checks and, later, a foreign exchange service. Then in 1958, the American Express charge card made its debut. Today the company, now the world’s largest travel agency, also offers financial planning, brokerage services, insurance, and mutual funds.

The American Express Difference

Although most electronic consumer payments systems track only the customer’s side, American Express handles the entire transaction process in its charge card businesses. As it tracks information for customers and merchants, the company enters facts about its customers’ spending habits and lifestyles into its proprietary database. This core data, according to Amy Radin, Vice President for Rewards Development, “is all of our customers’ spending information. We retain the data that tells us where each customer is using the American Express card and how much they’re spending. Then we enhance that data by overlaying different external data, for example, census figures.” Customer purchase information obtained at the point of sale automatically feeds into American Express’s parallel processor, a computer that manages the data. A second database runs on a mainframe computer using special software to mine the parallel processor and retrieve data to set up the company’s marketing offers. These customized offers target small, distinct segments. In fact, despite having over 41 million cardholders, the company aims to treat every cardholder as a “market of one.”

Expanding the Segmentation Strategy

When its charge card first came on the market, American Express had only one segmentation strategy: To aim this single charge card product at affluent individuals who managed their money well enough to pay their card balances each month. However, this strategy became less effective as more charge card companies entered the field. American Express responded by offering more credit card choices to other types of customers. The company reached for new customer segments with the Optima card, a charge card with credit privileges aimed at those who want the option of carrying balances. The company further segmented its market by offering an entire spectrum of card products designed to reach many groups. For example, the company partners with other companies or entities to issue “co-branded” cards. These cards appeal to targeted segments, such as frequent travelers, senior citizens, avid golfers, or small business owners. While bank charge cards usually collect either card member data or merchant data, they do not collect both. “American Express owns both of those relationships in their entirety, so that gives us a unique database of information,” says Radin. “It also enables us to go out to merchants and work with them to target the card members who are most likely to benefit from the rewards programs they want to offer.”

Personalizing the Statement

To reach its “market of one,” American Express targets individual cardholders by using personalized offers and messages. Based on specific customers’ purchasing history, these offers refer to the customer by name and appear on the billing invoice. For instance, a customer who spent a certain amount at a specific store might open that month’s statement and find a coupon for future use at that store. This feature—

American Express calls it the “personalized customer relationship statement”—allows the card issuer to capitalize on its proprietary data by adding value to customer as well as merchant relationships. Customers who like these special offers usually use them, thus benefiting American Express’ merchants as well. This program, CustomExtras, provides merchants who accept the card with a vehicle to build customer loyalty. And, Radin continues, “it lets us use our statement to deliver the rewards in a very personalized fashion. For instance, we might approach a Florsheim Shoes merchant. If someone had a transaction in May at Florsheim, when they looked at their next American Express bill, there would be a message offering \$25 off the next purchase of Florsheim shoes.” With another merchant, the arrangement might be that after the customer uses the card at that establishment three more times in the next six months, there will be a different reward. “We’ll track that for you on your statement,” Radin points out, “and automatically send you the reward in the form of a coupon.” In this way, customers get rewarded for shopping where they already use the card, so they do not have to change their behavior. To add further value to its merchant relationships, American Express offers them access to the company’s proprietary data through a service called Business Profile. This service gives merchants customized profiles of their customers, including information on buying frequency, average purchase amount, and types of purchases. “The merchants we work with understand the need to build the loyalty of their existing customer base,” Radin says. “That’s a more efficient way to run a business than continually acquiring and losing customers. But they know it’s costly to build that infrastructure on their own. For them to come to American Express and leverage that we’re building a loyalty management infrastructure to help them meet their own goals appeals to them very much. For some smaller merchants who don’t have loyalty management programs, this gets them into the game without making the up-front investment on their own.”

Better than Direct Mail

The company’s approach is effective because, as Radin says, “Everybody opens and reads their bills. So this channel is more relevant than traditional direct mail, which a lot of people don’t open. And as for telemarketing, many people find it intrusive. The bill is the one place where we talk to our customers every month—not just asking people to pay what they owe us. We’re also giving something back. We appreciate having the business, and we’re acknowledging that.” In addition, the Cardmember Values page comes with the bill, a newsletter targeted to different customer segments. Radin says, “We have a senior version, a student version, and a special gold card version—four or five versions. There are about ten offers in the newsletter.” For example, the customer who travels a great deal would receive a set of offers—discounts on luggage and hotel rates, for instance—different from those offered to customers who never travel but are frequent retail shoppers. These customer relationship statements with their Cardmembers Value page and CustomExtras program began to appear in 1995. Three years later, with the program running in 33 markets worldwide, American Express shows substantial gains in the revolving payments market, and its third-quarter net income also rose over 9 percent.

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