

CLUSTER MARKETING: AN ALTERNATIVE APPROACH TO MARKETING PLANNING AND IMPLEMENTATION

Richard D. Czerniawski

Many marketers are missing an efficient means to grow their businesses and gain a competitive advantage by blindly implementing broadscale strategies and ignoring geographical segmentation. This introduces "Cluster Marketing," a focused, local markets strategy based on two important principles of war: "economy of force" and "mass."

War remains a popular theme in business. We employ military jargon and warfare analogies to guide many of our activities. According to the business press, we even engage in marketing "wars" such as the Cola and Coffee wars. Yet despite the association with the military and warfare, many marketing practitioners, particularly those responsible for managing national consumer brands, are overlooking important applications of two important principles of war: the principles

of "economy of force" and "mass."

Simply stated, "economy of force" is the skillful allocation of resources so that a minimum of resources is applied at any point, thereby allowing maximum strength ("mass") to be applied at those critical points that will influence the successful outcome of a war. According to the great military strategist Carl Von Clausewitz, the principles of "economy of force" and "mass," when appropriately and wisely employed, may lead a numerically inferior competitor to achieve a distinct advantage.

This leads us to the concept of "Cluster Marketing," a focused, local markets approach to marketing planning and implementation, founded on the aforementioned two principles. Cluster Marketing is geographic segmentation which directs

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resources where growth potential is greatest in order to deliver the highest sales yield per marketing dollar. It can be employed by national or regional marketing companies, the size and number of geographic markets being dictated by the breadth of distribution. And, while all of the examples drawn from consumer package goods companies, it can be utilized by industrial marketers. Also, its application may be extended to customer classifications such as accounts or types of accounts, as well as geography. In net, it's an approach to marketing planning and implementation most marketers can use to their advantage.

HOW IT WORKS

Experience teaches that one of the surest ways to fail is to spread resources too thin. The wiser approach is to focus on those targets that will best contribute to achievement of growth objectives. The marketer who focuses resources is typically able to gain a higher level of support than competition, where desired. This is the principle of "economy of force" and "mass" in action. A case history will exemplify how these principles work by comparing the impact of marketing funds when they are allocated on a local markets basis

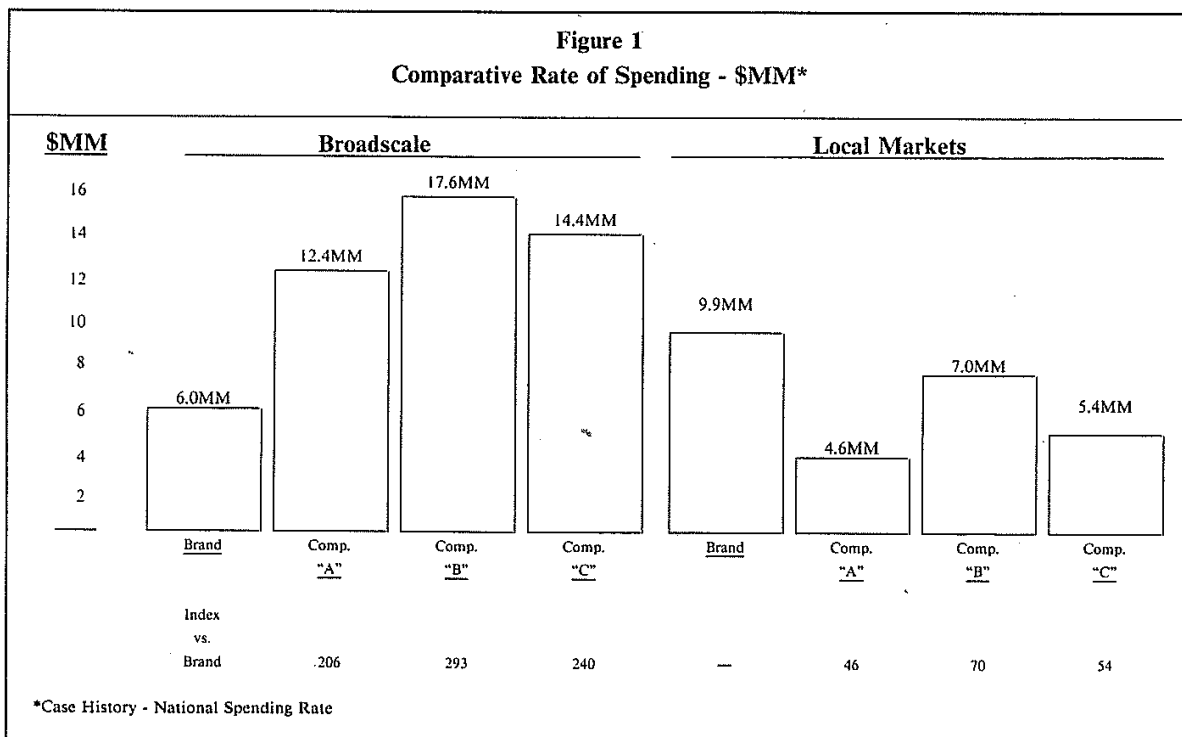
(against specific markets) versus a broadscale basis.

As the charts shows, a major cutback in spending reduced a brand's level of support to significantly below that of each of its principal competitors when allocation was on a broadscale basis. Moreover, this approach resulted in diluting its resources and putting it at a disadvantage everywhere. However, when the brand employed a local markets strategy to allocate the same dollars, it became a primary force in those select (high-volume potential) markets. These actions resulted in the brand reversing a steep sales decline.

BENEFITS OF "CLUSTER MARKETING"

Employing the principles of "economy of force" and "mass" via Cluster Marketing can give the marketer a competitive advantage in those markets where an advantage is beneficial. Additionally, it can assist the marketer in achieving one or more of the following objectives:

1. *Increasing sales and share at a faster rate than the industry average.* Successful growth on a broadscale basis is usually fueled by unusu-



ally strong performance of key local markets. Coca-Cola and Pepsi Cola represent good examples. Their success against Dr. Pepper, RC, 7-Up, and all other competing soft drink companies is comprised of the operational strength and success of a few of their many local operators.

2. *Generating a higher sales, market share, and profit return on marketing spending.* A local market's strategy does *not* require incremental marketing spending. For example, despite a cutback in marketing spending of nearly 50 percent, a major pet food brand was able to reverse a sale decline of about 15 percent. This was accomplished by focusing support in key sales markets and elements of the marketing mix. The brand was thus able to generate a higher level of sales, market share, and profit per dollar invested in marketing.
3. *Undermining and eroding competitive sales growth.* In order to slow down Procter & Gamble's expansion of Vacuum Folger's Coffee into the East, Maxwell House launched a "Think Blue" campaign into established high-share Folger markets. Maxwell House escalated the level of trade deals in order to bleed Folger resources. Given Folger's significantly higher share in these markets, it had to dig deeply into its profit base to protect its franchise, limiting spending available for eastern expansion.

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4. *Reaching geographically concentrated target groups such as blacks and hispanics.* Approximately 75 percent of blacks live within just 50 markets. In just 30 markets, 90 percent of Hispanics can be found. The marketer who wants to reach these target groups efficiently and effectively must concentrate available resources in these select, high-ethnic population markets. Ethnic populations are not the only concentrated target groups. Consider the markets for college graduates, farmers, textile manufacturers, and many other groups.

Yet, despite their many advantages, few companies employ the principles of "economy of force" and "mass." Instead, most engage in broadscale marketing, treating the entire United States as one, homogeneous market with little regard to the relative importance of various markets or of elements of the marketing mix within each local market. This attitude can be traced to a number of factors, including the following:

- Overemphasis on improving upon historical cost efficiencies in media, promotion case rates, etc.
- A lack of appreciation of the benefits derived from a local marketing approach
- The lack of knowledge about local market needs in order to effectively allocate resources and manage growth
- The time-consuming and demanding task of managing a large number of local markets
- The mistaken belief that employment of a local market's strategy requires investment spending, or will weaken already poorly performing markets

CLUSTER MARKETING ESSENTIALS

Cluster Marketing represents the most practical and effective way to employ the principles of "economy of force" and "mass." It starts with the identification and clustering of like markets (based on growth potential, market needs, and similar factors) into four groups. Strategies are developed for each cluster group, and the marketing mix is tailored to accomplish each cluster's specific strategic objectives. Instead of dealing with 20, 40, or more distinct local markets, the marketer has a more manageable and practical task of managing only four cluster groups. This system significantly reduces management burden and helps make managers more willing to deal with, and more capable of dealing with, a local market's strategy.

Furthermore, *Cluster Marketing focuses not just on those local markets where the business is, but those where it is likely to be in the future.* The typical approach to local marketing has been to allocate funds on the basis of "case rate spending" (X dollars per case sold) or "brand development" (brand sales per capita). These practices focus on where the business *is* and, unfortunately, ignore where the business is likely to grow. Cluster Marketing, on the other hand, factors growth potential by

identifying markets with both attractive market value (brand *and* category sales per capita) and favorable growth (again, brand *and* category).

The essential building blocks in Clustering Markets are *market value* and *real growth rates*.

- **Market Value.** Not all customers represent the same value to a business. In some categories, heavy users may consume 9 or 10 times more product than their lighter-consuming counterparts. Unfortunately, the marketer's tools limit the pinpointing of heavy users within a market and directing purchase incentives to them. However, usage of a brand or service often varies significantly from market to market. Some markets show higher than average consumption and, like the heavy user, are worth more to the marketer.

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High market value is defined in Cluster Marketing as evidencing not just high brand development, but higher than average brand *and* category sales per capita. The reason is clear. In local markets where category per capita consumption (which is overlooked in case rate and brand development spending practices) is higher than the national average, the value or worth of the customer is greater. Conversion of a customer from a competitor's franchise will yield greater sales per dollar of spending. Conversely, loss of one of your customers from high brand development markets will result in a disproportionately greater sales loss than in those markets where brand development is average or below average.

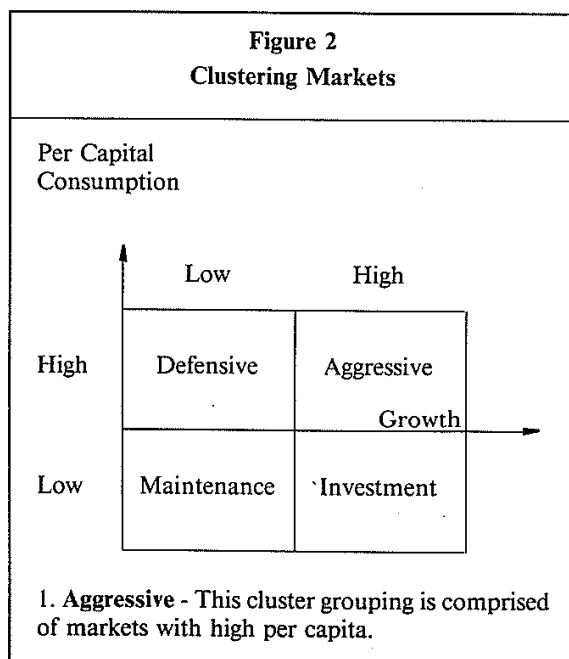
- **Real Growth Rates.** Once again, current local market strategies fail to identify where the business is going to be in the future by ignoring category *and* brand growth for each market. Investments in above average growth markets are likely to pay out in above average sales, even if the brand merely keeps pace with the local market growth rate. Rapid-growth markets are somewhat representative of an industry's past rapid-growth era. As such, these markets are generally responsive to increased marketing activity.

In addition to above average *market* growth, high growth potential markets are characterized by above average *brand* sales and share growth. These markets represent where the marketer has leverage, and therefore where the impact of marketing spending is magnified. This leverage may result from a number of factors, such as greater sales force/broker sales attention and/or influence in the marketplace, temporary pricing advantage, regional consumer product preferences that favor your brand, and highly favorable trade acceptance and support of your brand.

A CLUSTER MARKETING STRATEGY

The key to Cluster Marketing is to cluster local markets into distinct groupings based on similarities in market value and growth. This approach to clustering and strategies is similar to the Boston Consulting Group's Product Portfolio Analysis growth/share matrix for allocating resources among, and managing, various business units within a company.

The cluster groupings are illustrated in the chart shown here. Following are listed examples of market clusters and strategic objectives for each.



1. *Aggressive.* This cluster grouping is comprised of markets with high per capita development and faster than average growth rates (both category and brand for each). Markets in this cluster afford highly favorable growth potential and above average return for each dollar of marketing spending. The objective, therefore, should be to exploit sales potential and build sales and share at a faster rate than competition. In order to accomplish this, the marketer should employ an aggressive investment strategy to capitalize on the more attractive and leverageable nature of these markets. It is important that the marketer invest, where possible, in advance of market growth in order to strengthen his or her brand's business potential.

The Aggressive cluster represents the ideal market situation. Not only is growth potential favorable, but a disproportionate increase in brand sales is not likely to stimulate competitive retaliation, because the competition should also be enjoying growth and therefore be content with their gain.

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2. *Defensive.* This cluster links markets with high per capita consumption (category and brand), where the brand has traditionally held higher than average market share, but where market and brand growth has slowed in relation to the national average. It is in the Defensive markets that the brand is most vulnerable. Each customer lost within these markets is going to mean a disproportionately greater loss in sales, since per capita consumption is higher than the national average. Also, these markets are likely hotbeds for competitive assaults because they are attractive to competition. They are marked by high per capitans and typically lower share positions for competition, from which they hope to grow. A competitor desperate for sales growth or anxious to disrupt your position might be inclined to launch a market attack. Unfortunately, competitive spending will

not stimulate market growth but, at best, brand growth (if their activities go unchecked). Thus it is likely to lead to a costly all-out war. While the marketer must defend his valuable customer base against competitive encroachments, he must do so in a manner that protects his profit base, since these markets no longer afford favorable category growth potential. Therefore funds should be reallocated against those elements of the marketing mix responsible for protecting your franchise base.

3. *Maintenance.* The markets in this cluster are characterized by average or below average per capita consumption, below average market growth, and the brand being underdeveloped or declining in market share. Relative to the Defensive cluster, this represents capillary versus arterial bleeding. The major difference being lower market value per capita versus Defensive markets. As such, a lost customer, while important, is not as damaging because he represents lower consumption. While the marketer should seek to maintain the brand's volume, he should minimize spending. These markets do not represent favorable growth opportunities, even if the share declines are reversed. Therefore, the strategy should be to push for increased profitability, while maintaining share, to invest in Aggressive and Investment markets.
4. *Investment.* These are opportunity markets. Like Maintenance markets, they are characterized by average to below average per capita consumption and low brand market share. However, unlike the Maintenance markets, these are exhibiting category or brand growth greater than the national average. Thus, investment may prove profitable. However, it should be noted that these do not represent the same level of importance as Aggressive cluster markets. The key distinction is the value of a conversion. In Investment markets a conversion does not deliver as great a return as one generated in an Aggressive market. Nonetheless, Investment markets can provide an attractive opportunity to grow the brand; particularly where per capita consumption may be improved.

In applying the logic of the growth/share matrix, Defensive markets are managed as efficiently as possible to maintain market share and sales, and to improve profitability in order to fund growth markets such as those found in the Aggressive and Investment clusters. Maintenance markets should be "harvested" to generate yet additional funding for Aggressive and Investment clusters. Resources should be directed on a priority basis against the Aggressive cluster, given its higher sales per capita in comparison with Investment markets.

SUMMARY

Applying the principles of "economy of force" and "mass" to geographical segmentation affords an important way for marketers to gain a competitive advantage and stimulate growth. In allocating resources to current and future market poten-

tial, the marketer may generate the highest level of sales per dollar spent. Thus this strategy is more effective and efficient than broadscale spending, which focuses on, for example, achieving the lowest cost per thousand reached, and so on.

Cluster Marketing is a practical and effective use of the principles of "economy of force" and "mass." It reduces the management burden of local marketing down from 20, 30, or more markets to four distinct cluster groupings. It promises more favorable growth results than current local market allocation practices of case rate spending and brand development, because rather than merely focusing on markets where the business is, it also emphasizes local markets where the business is likely to be in the future. Moreover, it applies the logic of the Product Portfolio Analysis growth/share matrix to maximize effective utilization of available resources to manage growth.