



## Target Marketing Made Simple

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You already know that your market area is not the same as your competitor's market area, even though you both sell the same product in many of the same neighborhoods. But within your own market area are communities that are very different, too. If you design your marketing approach to get the most out of one, you may be missing the boat in another. We have found that gains of 10-20% or even more can be achieved with just a few simple adjustments to marketing strategy, often for no or very little cost, by taking advantage of these differences. This is where geographic, or 'Target' marketing is used, where you use information that is readily available in your own computer system, together with inexpensive third-party demographic data, to learn about your own high points – and to identify those communities where you can find more customers.

Let's start by defining a few terms. The definitions we will use are common in the industry, but their usage varies, so we should understand how they are being applied here. Your *Market Area* is not necessarily that defined by your Dealer Agreement – we prefer to use the area that is defined by your own customers: it is the area from which you earn your core business – generally the 75% that is closest to home. *Market Share* is the percent of sales of one particular make of car that is sold by one dealer, within a designated geographic area (usually the Market Area). If there are 1000 vehicles of your make sold into your Market Area during a year, and you sold 650 of them, you have a 65% share of that market. *Market Penetration* is the percent of sales of a make into a designated market area, compared to the number of qualified buyers in that same area. This term can be used to include all sales of a specific make, or only those by a specific dealer – it's important to keep in mind which of these is being considered. Both Market Share and Penetration can be computed within a much smaller geographic area – that's where Target Marketing comes in. A bit later we'll discuss how to quantify qualified buyers.

Next we need to talk a little about how to describe geography. Your market area can be divided up in a number of different ways. The most common methods – at least at the level of detail that we're interested in – are set up by the U.S. Census Bureau and the U.S. Postal Service. Each of these has advantages and disadvantages. The most precise is the Census Block, which is aggregated into the Census Block Group and then the Census Tract. Geographic units based on Census Bureau definitions have very good information available even at the smallest size, but the data can be expensive and records must be 'geocoded' before they can be utilized. The added cost of geocoding your data may be justifiable (this process appends geographic coordinates and census data to each record), but in most cases using Postal Service Zip Codes is more efficient: your records already have Zip Codes, the place-names are familiar, and the data is quite inexpensive. The downside of using Zip Codes is that they are designed for the routing of mail and not for demographic consistency, so the information about the people living in them will reflect the population diversity within each Zip Code.

Demographic data generally comes originally from the Census Bureau, and is repackaged for easier use by third-party resellers. Many kinds of data are available, but for most purposes per-capita income, racial and ethnic percentages, and age distribution

information is all that is needed. (One source for this is Melissa Data.) These data will suffice for all but the most sophisticated analysis. Most commercially available files will also contain the Latitude and Longitude of the center of the geographic unit, which is useful for establishing distances.

There are various tools available within both ADP and Reynolds & Reynolds systems that allow you to extract data into a database system. The important thing to remember here is that the data that comes out will be no better than the data that goes in. Discipline is needed to carefully and correctly enter information – make sure your staff understands the importance of accuracy. A common problem is duplicated records: a customer with more than one ID code will always look like multiple customers and ‘de-duping’ can be very difficult.

By tracking the monthly number of sales or service transactions over time, at the Zip Code level, you can recognize increases or decreases in business volume within each of these geographic areas. If a change in business volume within a Zip Code follows a change in advertising or promotional strategy addressed to the same area, then that change *may* be responsible. Proving causality is always difficult, as many other factors could actually contribute to the change, but in the absence of other plausible explanation the strategic change is likely the cause for the change in business levels. The most important thing is to recognize when changes occur, *and when they ought to have occurred but didn't*. A change that is observed during only one month is probably unimportant – what you want to find are those that seem to be persistent.

At this point, Market Penetration computations will become useful. By comparing the number of vehicles you sell into a Zip Code with the number of potential buyers in that community, you can learn how effectively your marketing approach matches the needs of that community. So what about this term ‘*potential buyers*’? Take a look at the demographics of your geography – particularly the income level statistics. The relationship between the MSRP and the buyer’s average income has been fairly stable for many years - it typically ranges between 5 and 7 months of a person’s paycheck. (Another way to put this is this: if a person were able to dedicate their full income to paying for their car, most would pick out a vehicle that took 5 to 7 months of their labor.) This figure establishes a relationship between the price of the vehicle and the person most likely to spend that amount of money. The percentage of people whose income level makes it probable that would buy vehicles in your price range, compared to those who actually buy one from you, is your Market Penetration.

By computing the average penetration into all Zip Codes within a set range of distances, and then comparing the penetration within each Zip Code with that average, the highs and lows become apparent. Month-to-month changes may show the results of targeted promotions, while changes that occur over a multi-month time span may be more difficult to spot but are more important. Changes that occur over a year’s time may well be permanent - and hopefully are a change for the better.

Here’s where the beneficial part comes in. The Zip Codes where your penetration is higher than the average are your strong points. Customers from those communities should be looked after carefully because word-of-mouth can wreck your best efforts if one of them should think you have failed them in some way. But the low points – those where your penetration falls short of the average – may represent opportunities for you. Look for communities where the income level is at or slightly above what the ‘average’

buyer would deem appropriate for cars in your price range. Are any of these communities in the 'below average' penetration group? These are the communities you need to focus closely on – you are missing the boat here. People in these communities can afford to buy your cars, are close enough that they ought to buy from you, but are instead going elsewhere.

Computing the shortfall requires calculating the number of sales you would have made had your penetration for each geographic area been at the average for others in that distance range, and subtracting what you actually did sell. Add up the shortages for all the Zip Codes in your market area and you'll see the additional potential - the incremental sales you could earn by simply bringing each community closer to 'average'.

So how do you use this information? Here are some of the things to look for.

- Is there a strong ethnic character to the community? If so, have you learned to work with this group? For instance, if there is a significant Asian population do you have any Asian sales representatives? Each ethnic group has its own 'hot buttons', and they are all very different, but if you want to sell to them you need to learn about their unique characteristics. This may require the help of a specialist, because 'getting it wrong' can be very costly.
- If the profile of the community is similar to ones where you do well, look for a strong competitor – particularly an independent shop that seeks out your customers. Crafting a marketing stance towards a specific competitor is quite possible – it requires an in-depth understanding of who they are and why customers shop them.
- If there are no strong competitors, is it possible that your image has somehow been tarnished in this community? This may (or may not) be difficult to ferret out, but if it is the case you need to address it, and the sooner the better.
- Is there some geographic barrier, such as a river or even worse, a toll bridge, dividing your market? Consider handing out toll tokens to shoppers – put it in your advertising message. Make light of the barrier, and many shoppers will overlook it.

Note that we haven't gotten into Market Share. Computing share percentages requires obtaining registration data from a firm like R.L. Polk, since data that originates outside of your own business is needed. This can add considerably to the cost, and the data generally involves a time lapse of several months, making it much more difficult to respond quickly to changes. Market Share information also may be included in reports you get regularly from your franchise partner.

These are just a few of the aspects of Target Marketing that can benefit the automotive retailer. Use this information together with your imagination and personal knowledge of the area and you will undoubtedly come up with more – if developed these ideas can provide very powerful strategic advantages, since they are based on real data. The most important thing to keep in mind is that Target Marketing requires a detailed and methodical approach, and that benefits will not come overnight. If experience has taught us anything at all, it is that benefits that come slowly stick around a long time. The most successful marketers develop a long-term plan, and fine-tune it regularly based on measured results.