

Cohorts in Marketing: A Review Paper

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ABSTRACT

Marketers often segment consumers on factors such as age, gender, income, stage of life, and geography. Another innovative approach is to group consumers into cohorts. Cohorts are groups of individuals who are born and travel life together and experience similar external events during their late adolescent/early adulthood years. These events influence people to create values, attitudes, and preferences that remain with them for their lifetime. This article reviews and assesses the current literature on American cohorts. The value and the validity of cohorts as a segmentation technique are discussed, as well as areas for future research.

Keywords

Marketing, Cohorts, Theory.

1. INTRODUCTION

Originally used to describe a military unit in ancient Rome, the word cohort retains some of its original meaning by describing a group of people that shares a common statistical or demographic trait. The word is widely used in academia in a variety of disciplines that study groups of people based on shared characteristics, such as economics, health sciences and sociology. Cohort in marketing, however, is commonly accepted to mean "age-based marketing

When it comes to marketing, the term "cohort" refers to specific experiences, events or other factors shared by a group of consumers. These cohorts are used to identify and target segments of the market that, although they may fit into other models, are more effectively grouped and treated as one

2. COHORTS VS DEMOGRAPHICS

Cohorts are often confused with the general demographics that are typically used to segment the marketplace. Demographic groupings such as income level or age are not considered marketing cohorts. Cohorts are the things that separate specific groups of people even within their demographic groupings. For example, men between the ages of 55 and 70 are a demographic grouping. Men between the ages of 55 and 70 who share the experience of having served in the Navy on board aircraft carriers are a cohort. Cohorts are far more specific than standard demographic groupings and as such are a valuable tool for precisely targeted marketing campaigns and niche businesses.

3. COHORTS IN MARKETING

Similar to demographics, cohorts use quantifiable descriptors to identify target markets. Demographics, however, are the quantifiable descriptors themselves, such as the aforementioned age and household income. Cohorts in marketing use age descriptors as demographic markers to make inferences about attitudes and behavior of people in the same age group based on common experiences. The basic premise is that people are profoundly influenced by seismic experiences and events remembered from late adolescence and early adulthood—their coming-of-age years. These "defining moments" tend to inform

people's attitudes, preferences and shopping behavior for the remainder of their lives.

3.1 Generational Cohorts

Charles Schewe, Geoffrey Meredith and Janice Karlovich identified seven generational cohorts in their year 2000 book titled "Defining Markets, Defining Moments." These include the Great Depression Cohort with people born between 1912 and 1921, the World War II Cohort born between 1922 and 1927, the Post-WW II Cohort born between 1928 and 1945, the Baby Boomers I born between 1946 and 1955, the Baby Boomers II born between 1956 and 1965, Generation X born between 1966 and 1976, and N-Gens born between 1977 and 1987. Generational cohorts do not suggest "generations," which are typically 20 to 25 years. Cohorts vary in the number of years covered. For marketing purposes, the relevance is in the years when the cohorts came of age.

3.2 Defining Moments

Cohorts are shaped by significant defining moments that affect their attitudes and behavior for the remainder of their lives. For instance, the Great Depression Cohort came of age during the Great Depression, 1930-1939. As a defining moment, the Great Depression, defined by financial insecurity, had a profound effect on this group in terms of frugal spending, saving as a priority and a high premium on financial security. Each cohort group has its defining moments that translate into hot buttons in terms of attitudes, tastes and preferences.

3.3 Improved Target Marketing

Understanding and using cohort analysis can help you identify target markets with greater precision to get new customers. It requires a bit of extra effort, but small-business owners typically increase their chances of coming up with winners when they aim for smaller target markets, such as those associated with a specific cohort.

3.4 3.4 Events

Special events are a natural cohort, and marketing teams are quick to seize upon them for promotional gain. For example, people attending a concert of some note will often feel as though they were present for something that was meaningful in their lives. This cohort creates an opportunity to promote and sell items that commemorate the event and focus on the concert as a defining moment.

3.5 Experiences

Shared experiences can account for valuable marketing cohorts that bank on the consumer's desire to remain a part of the past. The great depression was for all its trauma and hardship an experience that shaped many people, in particular their outlook on spending and saving. People who have lived through the lean times have a better understanding that they may return at any time and they live their lives in a state of semi-preparedness as a result. Marketing professionals may use such an experience as a cohort to identify segments of the population who may be more

receptive to financial products like bank accounts, gold shares or life insurance.

3.6 Research on Age Cohorts

Existing literature on the topic of market segmentation, and more specifically age cohorts, has shown a variety of articles on the topic and the history of market segmentation beginning from the 1970s. The beginning of this research dates back to 1974, where the Journal of Marketing, published a section on selecting the best segmentation correlate. This article conducted a study on the significance of certain segmentation variables in consumer behavior, regarding weak associations with the actual marketed product or service. A conclusion discovered in this study showed that a segmentation correlate used in one market may not be effective in another. The findings indicated that in order to achieve the most significant segmentation correlate for a product or service, various variables must be tested in each individual market in order to determine the most successful correlate for the product or service. It was also discovered that in determining the most effective market correlate, frequency of use is an important factor (Hirsch and Peters, 1974). In 1987 research, the marketer was encouraged to choose a market segmentation variable and adapt the product or service in order to fit the criteria of that specific market correlate, rather than adapting a segmentation correlate to the product or service- the current method of choosing segmentation variables. This illustrates a difference in market segmentation theories that have developed since the 1980s. In the 1980s, four factors were discussed that were considered helpful in evaluating the desirability of a segmentation variable; these factors include measurability, accessibility, substantiality, and action-ability. Furthermore, consideration was also needed to determine the specific type of segment categories desired, identified as geographic, demographic, psychological, and behavioral variables. Overall the theory behind this marketing segmentation concept stated that “once a segment has been identified which fulfils the requirements of measurability, accessibility, substantiality and action-ability it is possible to develop a product or service to meet the needs of the segment” (Drayton and Tynan, 1987). This research provided an understanding of market segmentation that has development over time and helped to contribute to modern segmentation concepts and theories. Continuing on the timeline of segmentation concepts, research from the new millennium showed signs of development into what marketing segmentation is today. In a 2000 study, it was found that individual product or service needs of consumers are all different, but that rather than a heterogeneous market segmentation approach as used in the past, a homogeneous approach is needed to satisfy more consumers and develop better marketing strategies (Blois and Dibb, 2000). In 2004, Schewe and Meredith were more focused on the topic of market segmentation by generational cohorts, and determined that generational cohorts were a new concept in marketing segmentation at this point in history. The authors discussed the values and beliefs that motivate different age groups, such as consumers from Generation X and the Baby Boomer Generation. This research took into consideration the experiences, values, beliefs, attitudes and preferences of specific generational cohorts. It expressed that consumers of the same generation go through the same external factors and events, and that these factors helped to shape their attitudes toward spending. The authors noted the presence of more ‘tech-savvy’ consumers than ever before, creating a need for more personal and well-guided advertising towards ideal consumers of the product or service (2004). Targeting a specific generation by researching the celebrities, movie stars, and athletes that are considered to be heroes of their childhood, gives marketers an

effective use of nostalgia. Appealing to nostalgic feelings and memories gives consumers the feeling that the product is being specifically directed towards them, and allowing them to connect to the product or service on a personal level. Market segmentation by generational cohort is a more personal and well adapted method of connecting to individual consumer’s attitudes and values. Understanding different generations of consumers gives marketers a way of researching buying habits and will aid in forecasting future product trends that may apply to future promotional strategies (Schewe and Meredith, 2004). In another example of research on age cohorts, Bennett, Dees and Sagas review the differences between Generation X and Generation Y consumers. This work describes the difference in media preferences of action sports consumers, like attending traditional sports games versus watching action sports on television or playing sport video games. The authors describe the difficulty in appealing effectively to youth markets over marketing history (2006). As the current youth consumers are Generation Y, marketers work harder and more effectively to appeal to these consumers, because achieving brand loyalty earlier in a consumer’s life will create a future of loyal customers. Appealing to Generation Y earlier will also be beneficial because this generation is three times larger than its predecessor, Generation X. Characteristics researched on Generation Y shows that they are more brand conscious than previous generations and have been exposed to a wider range of media and advertising. For example television, movies, video games, magazines, and the internet are more exposed to this generation than Generation X consumers, due to the rapid technological advances established during the childhood of Generation Y (Bennett et al., 2006). Research has lead to the conclusion that Generation Y consumers are less inclined to watch or attend traditional sporting events like NBA basketball and MLB baseball, than that of Generation X. Generation Y prefers watching action sports or playing action sport video games, like skateboarding and BMX (Bennett et al., 2006). Further research highlights the differences in people born in Generation X and those born in Generation Y, in terms of characteristics that are present in the workplace. Generation Y are believed to be more optimistic and entrepreneurial than that of Generation X, who appear to be more pessimistic and mistrustful people. One of the most evident characteristics that apply to Generation Y in the workplace, is that they are the most rewarded and recognized of any generation in terms of childhood accomplishments (Galagan, 2006). This characteristic leads them to feel more entitled when they enter the workforce for the first time. Curbing this sense of selfentitlement in Generation Y employees is the most difficult challenge for managers of a different generation, who believe they must work hard for what they earn (Galagan, 2006). Characteristics of Generation X and Generation Y in the workplace can also transfer over into consumption habits of each group. Research has also been conducted on the tendency that marketers have to divide baby boomers into two segments: older baby boomers born between 1946 and 1955, and younger baby boomers born between 1956 and 1965. The results of this work showed that even though the whole group is large in number, there are more similarities than differences between the younger and older baby boomers; therefore marketers should use caution in dividing age cohorts into further segments. More conclusions state that generational segmentation is a good starting point, but marketers should consider other demographic and/or psychographic methods in segmenting markets for the most effective results (Iyer and Reisenwitz, 2007).

4. COHORT ANALYSIS

A cohort is a group of users who were acquired from a mobile marketing initiative over a certain period of time, for example, one week. Cohort analysis tools simply follow this group week over week and monitor their return. This type of analysis offers marketers a tremendous level of insight into users' lifetime value, improves marketing funnel conversions and helps optimize campaigns directly to revenue generated.

4.1 Benefits of cohort analysis

One popular way to look at cohort is to monitor the rate of return for the first week and set a target, such as 25% return on ad spend. Over time, you monitor your return and improve your marketing, which should enable you to beat your target. By looking at different cohorts, the true performance of your marketing becomes clear. When you make a change, it is represented in that week's data. You don't have the performance from a previous week masking the true performance.

Over a longer period of time, such as 12 weeks, the lifetime value of users acquired becomes very easy to understand. You simply add up the 12 week return of each cohort and compare. Some weekly cohorts will be stronger than others, but an average 12-week trend should emerge once you have collected enough data.

Cohorts are also good for spotting weekly, monthly or seasonal trends. In most mobile retail cohorts, you see a sharp drop in purchases seven days before a major holiday.

4.2 How does it work

First, marketers need to have a conversion tracking solution in place to capture all the data they need to do cohort analysis. The data required to track differs by vertical. Retailers may want to measure registrations, purchase data, repeat purchases and total revenue per purchase. Travel marketers often measure hotel bookings, airline reservations and car rentals. For other verticals, marketers should measure data that is most relevant to their business.

Once conversion tracking is up and running, you can access the raw data you need. The more data you have, the more options you have to segment cohorts. Create cohorts based on the week in which newly acquired mobile app users downloaded your app. Then measure all purchases that cohort makes over time. The final product of a cohort analysis is an easy to read table or chart showing the breakdown of total marketing spend compared to data tracked and lifetime value for each cohort.

5. RELIABILITY OF COHORTS IN MARKETING

Why Age Cohorts are a Reliable Segmentation Target
Segmenting a market by age cohorts is very effective and helps to narrow down the most ideal target market for a product or service. The external factors and events that were experienced by consumers in a specific generation, impact the interests and consumption habits of those specific members of the generation. Understanding the differences in consumption between members of Generation X, Generation Y, and the Baby Boomer Generation allow for advertisers to effectively advertise products to those generations. The three generations focused on in the research are completely different in terms of how members of each generation consume, behave, and spend. The range of differences found in each generation, shows the need for different marketing and advertising strategies specific to each generation. Schewe and Meredith stated that "when such similarities exist, marketers can offer the same (or very similar)

products, distribution and/or communications programs to a large number of potential customers who are more likely to respond in the way desired. Efficiency in marketing is realized and marketers and consumers benefit" (2004). The main benefit of generational cohort segmentation is the potential for specifically-tailored advertising and overall effective promotion toward the ideal target market. Furthermore, Schewe and Meredith state that events and experiences within a specific generation's history transform the values, beliefs, and attitudes of its members. These values, beliefs, and attitudes shape the consumption habits and patterns of each generation of consumer. The development of consumer's interests, attitudes, values, and beliefs does not fully occur until the consumer generation is in young adulthood. Marketers who understand generational cohorts can appeal to the defining moments or events that are of importance to certain generations. Appealing to defining events in a consumer's life can influence emotional feelings such as nostalgia, happiness, or youthfulness. Marketers can take advantage of these feelings because the consumer would be more likely to buy a product that invokes these attitudes and emotions. Modern consumers look for personal connections that appeal to their emotions, beliefs, values, and attitudes. Also they look for products that appeal to their lifestyle and help to promote their ideal self. These relationships that consumers are looking to establish with brands and products are what marketers try to capture in their advertisements. Obtaining long-term relationships with consumers will provide companies with brand loyalty and a strong future. For example, members of Generation Y tend to be more techsavvy, music-oriented, and fashion conscious. Also they tend to spend more money than any other generation of consumers. Identifying appropriate products and using techniques such as using members of the same generation in advertising, and by appealing to this generation's sense of fashion and love of music, will make for very appropriate and effective advertisement. 3031 The Baby Boomer generation is on the verge of retirement age and tends to gravitate toward products that bring a sense of nostalgia and a reminder of their earlier years. Even though this generation is the wealthiest of them all, they are beginning to save money and live frugally. Advertisements that are simple and act as reminders to Baby Boomers that retirement is around the corner, will potentially appeal to this audience. Generation X consumers are mid-way through their careers and tend to have more family-oriented and casual lifestyles. They look for balance and perspective in their lives and make time for leisure activities (Foley and LeFevre, 2001). Advertisements that appeal to the sense of family, more specifically the 'ideal family' lifestyle that members of Generation X value, are more likely to be successful with this cohort. Since they are well-defined within their careers, an established and balanced lifestyle at their current age is very important. Products that are geared towards these beliefs and sell family-values, will appeal most to Generation X. Market segmentation by generational cohort helps marketers to narrow down potential target audiences and find the consumers who would be genuinely interested in the product or service. Understanding this type of segmentation helps advertisers determine what values and beliefs different consumers associate with their product. Knowing the generation of consumer that is most likely to purchase the product helps companies to effectively advertise. Developing brand loyalty for the company starts with correctly marketing the product or service. Therefore consumers, who find the product worth their while, will develop strong relationships with that company through the future. Generational segmentation is one of the more basic segmentation variables, and has helped to develop reliable target markets today.

6. DRAWBACKS

For all their marketing value, cohorts do have significant drawbacks. They are often too precise for most companies to use as a general marketing tool and can only be employed in cases where extreme drilling down of marketing methods and approaches are warranted. If your company handles the litigation for a specific type of illness contracted in a specific place and time, cohort marketing is the way to go. If you are advertising a general legal practice, there are better ways to reach a broader audience. The costs involved with collecting, then organizing the very specific data required to segment cohorts are also often prohibitive for many companies.

7. CONCLUSION

Research on this topic has confirmed the benefits that this type of market segmentation contributes to determining target markets and marketing overall. The personal connection between product and consumer is of crucial importance in this age of consumerism. Companies who effectively appeal to ideal consumers will establish brand loyalty and develop trust within their customer base for years to come. In a society of conspicuous and comparative consumption advertisers have a better understanding of which generations tend to spend more or consume more than others. Marketers have to have thorough knowledge of generational cohort segmentation in order for the concept to work effectively. Research, development, and experimentation are crucial in the early stages of developing a suitable segmentation variable. Generational cohort segmentation may not be the best suited method of segmentation for a specific market. A marketing department needs to be able to determine relevancy and accuracy of the potential segmentation variables to that of the specific market. In order for generational cohort segmentation to be effective, consumers need to feel that the product is 'meant' for them and the company understands them as a person. If consumers do not feel a sense of connection to the product through its advertising, the marketers have failed to accurately portray the product or have failed in their cohort analysis (Hirsch and Peters, 1974). Therefore in order to correctly develop and understand generational segmentation, marketers and advertisers need to understand market segmentation as a whole. Being able to compare and contrast segmentation variables is the first step to accurately portraying an ideal target audience. Further research on market segmentation is also needed in order to develop standard methods and accurate experiments that will help advertisers determine what segmentation variables are suitable, and which ones are not suitable for different types of products and services. If marketers do thorough and efficient research on what type of consumer would be interested in their product, they are destined for a successful marketing campaign that will help define a new age of innovative advertising. Market segmentation is a key factor in the advertising and promotional process, and determining which type of market segmentation to choose is crucial. Generational cohort segmentation is only one of many segmentation variables, but it provides many benefits that if researched correctly and applied accurately can be very effective. The study of consumer behavior, which is practiced in the development of market segmentation, is a driving force in the advertising world. Thorough knowledge of consumer behavior will allow for marketers to apply the most

effective segmentation variables in a world of complex consumerism

8. REFERENCES

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