Chapter 3

Market Segmentation

The process of dividing a potential market into distinct subsets of consumers and selecting one or more segments as a target market to be reached with a distinct marketing mix.

Three Phases of Marketing Strategy

- Phase 1: Market Segmentation
- Phase 2: Target Market and Marketing Mix Selection
- Phase 3: Product/Brand Positioning
Table 3.1: Sodexho’s Segmentation of College-age Eating Patterns

<table>
<thead>
<tr>
<th>Star Gazers</th>
<th>Fun Express</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Light, healthy foods</td>
<td>• Variety, taste, and nutrition</td>
</tr>
<tr>
<td>• Price insensitive</td>
<td>• Price conscious</td>
</tr>
<tr>
<td>• Brand conscious</td>
<td>• Work part-time over summer</td>
</tr>
<tr>
<td>• Employed full-time over summer</td>
<td>• Value leisure time</td>
</tr>
<tr>
<td>• Active, out-going</td>
<td>• Family income $30,000 - 60,000</td>
</tr>
<tr>
<td>• Family income &gt; 100,000</td>
<td></td>
</tr>
</tbody>
</table>

“Best” Customer Segmentation

<table>
<thead>
<tr>
<th>Consumption</th>
<th>High</th>
<th>Current Share</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>HiHighs (stroke)</td>
<td>LowHighs (chase)</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>HiLows (tickler)</td>
<td>LoLows (starve)</td>
<td></td>
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Segmentation Studies

• Designed to discover the needs and wants of specific groups of consumers in order to develop specialized products to satisfy specific group needs (e.g., Centrum)
• Designed to guide the repositioning of a product (e.g., Nintendo)
• Used to identify the most appropriate media for advertising (e.g., People and Teen People)
Bases for Segmentation

- Geographic Segmentation
- Demographic Segmentation
- Psychological Segmentation
- Psychographic Segmentation
- Sociocultural Segmentation
- Use-Related Segmentation
- Usage-Situation Segmentation
- Benefit Segmentation
- Hybrid Segmentation Approaches

Table 3.2 Market Segmentation

<table>
<thead>
<tr>
<th>SEGMENTATION BASE</th>
<th>SELECTED SEGMENTATION VARIABLES</th>
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<tbody>
<tr>
<td>Geographic Segmentation</td>
<td>Region, climate, density of area, city size, urbanity, region</td>
</tr>
<tr>
<td>Demographic Segmentation</td>
<td>Age, marital status, income, education, occupation</td>
</tr>
<tr>
<td>Psychological Segmentation</td>
<td>Learning-involvement, perception, personality, needs-motivation</td>
</tr>
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<td>Psychographic Segmentation</td>
<td>Subcultures (Race/ethnic), religion, culture, lifestyles</td>
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<td>Sociocultural Segmentation</td>
<td>Social class, family life cycle, income-level</td>
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Table 3.2, continued

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### SEGMENTATION BASE

#### SELECTED SEGMENTATION VARIABLES

<table>
<thead>
<tr>
<th>Usage rate</th>
<th>Heavy users, medium users, light users, not users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awareness status</td>
<td>Aware, unaware, interested, enthusiastic</td>
</tr>
<tr>
<td>Brand loyalty</td>
<td>None, some, strong</td>
</tr>
</tbody>
</table>

#### Use-Situation Segmentation

- **Time**: Leisure, work, rush, morning, night
- **Objective**: Personal, gift, snack, fun, achievement
- **Location**: Home, work, friend’s home, in-store
- **Person**: Self, family members, friends, boss, peers

#### Benefit Segmentation

- Convenience, social acceptance, long lasting, economy, value-for-the-money

### Hybrid Segmentation

- **Demographics**
- **Psychographics**
- **Geodemographics**: “Money and Brains,” “Black Enterprise,” “Old Yankee Rows,” “Downtown Dixie-Chick”
- **SRI VALS**

### Geographic Segmentation

The division of a total potential market into smaller subgroups on the basis of geographic variables (e.g., region, state, or city).

### Demographic Segmentation

- Age
- Sex
- Marital Status
- Income, Education, and Occupation
Age: Segmentation by Age Effects and Cohort Effects

- Seven Life Development Stages (Table 3.3)
  - Provisional Adulthood
    - Pulling up roots
  - First Adulthood
    - Reaching out, Questions/questions, Mid-life explosion
  - Second Adulthood
    - Settling Down, Mellowing, Retirement

Marital Status

- Households as a consuming unit
  - Singles
  - Divorced
  - Single parents
  - Dual-income married

Psychological Segmentation

- Motivations
- Personality
- Perceptions
- Learning
- Attitudes
**Psychographic (lifestyle) variables that focus on activities, interests, and opinions.**

### Table 3.7 A Hypothetical Psychographic Profile of the Techno-Road-Warrior

- Sends and/or receives 15 or more e-mail messages a week
- Regularly visits Web sites to gather information and/or to comparison shop
- Often buys personal items via 800 numbers and/or over the Internet
- May trade stocks and/or make travel reservations over the Internet
- Earns $100,000 or more a year

**Sociocultural Segmentation**

- Family Life Cycle
- Social Class
- Culture, Subculture, and Cross-Culture
Family Life Cycle
• Phases a family goes through in their formation, growth, and final dissolution
  – Bachelorhood
  – Honeymooners
  – Parenthood
  – Post-parenthood
  – Dissolution
• Explicit basis: marital status, family status
• Implicit basis: age, income, employment

Use-Related Segmentation
• Rate of Usage
  – Heavy vs. Light
• Awareness Status
  – Aware vs. Unaware
• Brand Loyalty
  – Brand Loyal vs. Brand Switchers

Usage-Situation Segmentation
• Segmenting on the basis of special occasions or situations
• Example Statements:
  – Whenever our daughter, Jamie, gets a raise, we always take her out to dinner.
  – When I’m away on business, I try to stay at a suites hotel.
  – I always buy my wife flowers on Valentine’s Day.
Benefit Segmentation

- Segmenting on the basis of the most important and meaningful benefit
  - Prudential - financial security
  - Iomega - data protection
  - Wheaties - good health
  - Eclipse - fresh breath

Hybrid Segmentation Approaches

- Psychographic-Demographic Profiles
- Geodemographic Segmentation
- SRI Consulting’s Values and Lifestyle System (VALSTM)

Table 3.8 Demographic-Psychographic Profile of Newsweek

<table>
<thead>
<tr>
<th>Feature</th>
<th>%</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total adult readers</td>
<td>19,593,000</td>
<td>100.0</td>
</tr>
<tr>
<td>Men</td>
<td>55.9</td>
<td>117</td>
</tr>
<tr>
<td>Professionals/ Managers</td>
<td>35.3</td>
<td>174</td>
</tr>
<tr>
<td>Age 35-49</td>
<td>36.5</td>
<td>114</td>
</tr>
<tr>
<td>Household income &gt;$100,000</td>
<td>25.1</td>
<td>172</td>
</tr>
<tr>
<td>Married</td>
<td>62.4</td>
<td>109</td>
</tr>
<tr>
<td>Own laptop PC</td>
<td>12.0</td>
<td>150</td>
</tr>
<tr>
<td>Spent $3000+ on vacation last year</td>
<td>12.3</td>
<td>164</td>
</tr>
</tbody>
</table>
Table 3.9 Demographic-Psychographic Internet Shopping Styles

- E-bivalent Newbies
- Time-Sensitive Materialists
- Clicks & Mortar
- Hooked, Online, & Single
- Hunter-Gatherers
- Brand Loyalists

Table 3.10 Sample Claritas Geodemographic Clusters

Blue Blood Estates
- .8% of U.S. households
- Professional
- Elite super-rich
- College graduate
- 35-44, 45-54, 55-64
- Country club members, own mutual phones, play golf

Young Influentials
- 1.1% of U.S. households
- Professional
- College graduate
- Under 24, 25-34
- Yuppies, drink imported beer, read fashion magazines

Figure 3.8 VALS

ACTUALIZERS
- Principle-Oriented
- Status-Oriented
- Action-Oriented

FULFILLERS
- Achievers
- Experiencers

BELIEVERS
- Strivers
- Makers

STRUGGLERS
- Low Resources

MAKERS
- High Resources
Figure 3.9 VALS 2 Segments and Participation in Selected Sports

Table 3.11 Size of VALS Segment as Percent of U.S. Population

<table>
<thead>
<tr>
<th>VALSTM SEGMENT</th>
<th>PERCENT OF POPULATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actualizer</td>
<td>11.7%</td>
</tr>
<tr>
<td>Fulfilled</td>
<td>10.5%</td>
</tr>
<tr>
<td>Believer</td>
<td>17.0%</td>
</tr>
<tr>
<td>Achiever</td>
<td>14.7%</td>
</tr>
<tr>
<td>Striver</td>
<td>11.8%</td>
</tr>
<tr>
<td>Experiencer</td>
<td>12.9%</td>
</tr>
<tr>
<td>Maker</td>
<td>12.0%</td>
</tr>
<tr>
<td>Struggler</td>
<td>9.5%</td>
</tr>
</tbody>
</table>

Mindbase Segmentation

• Monitor Mindbase based on Yankelovich’s Monitor Survey of American Values and Attitudes
• Table 3.12
Table 3.12 Eight Major Mindbase Segments

- Up and Comers
- Young Materialists
- Stressed by Life
- New Traditionalists
- Family Limited
- Detached Introverts
- Renaissance Elders
- Retired from Life

Criteria For Effective Targeting of Market Segments

- Identification
- Sufficiency
- Stability
- Accessibility