

# Segmentation

Segmentation and Targeting

# Segmentation vs. Targeting

- Segmentation
  - Dividing the market into smaller, homogeneous groups for the purpose of target marketing
- Target Marketing
  - Developing a communications and marketing strategy designed to reach a specific market segment

# Two Important Terms

- Homogeneous (alike or similar)
  - A segmentation plan or strategy that does not rely on distinct differences in consumers
    - Works well for common products such as gas, milk, and other commodities
- Heterogeneous (different or distinct)
  - A market strategy that relies on grouping consumers with common characteristics into “segments”

# What Is a Market?

- Requirements of a Market
  - Must need or desire a particular product
  - Must have the ability to purchase the product
  - Must be willing to use their buying power to purchase the product
  - Must have the authority to buy the product

# Types of Markets

- Consumer Markets (B2C)
  - Purchasers and individuals in households
  - Purchases are for personal consumption, not resell
- Business Markets (B2B)
  - Individuals and groups that purchase products for resale, direct use to produce other products, or use in daily business operations
  - Purchasers can be categorized as producers, resellers, government, and institutional markets

# Why We Segment Our Markets

- Allows for manageable market sizes
  - US too large
  - Too diverse
- Specific messages and media
  - Customized for the target audience
- Establish Criteria
  - Measurable size
  - Adequate purchasing power
  - Must match the firm's product and brand image



How does the target market for Bud and this ad differ....

from the target market for Cakebread and this ad?



# Cakebread Cellars

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## Touring & tasting AT THE WINERY

**All Tastings and Tours are by Prior Appointment**  
 To make an appointment, please call (800) 588-0298



### A Family Tradition

The Cakebread family, owners of Cakebread Cellars in Rutherford, is among the most creative and successful winery families in California's famed Napa Valley. Since its founding in 1973, the winery has developed a reputation for producing world-class wines. Its success is built on quality, consistency and continuity, characteristics which apply equally to the grapes, the wines, the

We're delighted that you are interested in visiting our family owned winery. Each day we offer a variety of tastings and one daily tour to give you an inside look on how we craft our fine wine.

All of our tastings and tours are by appointment. They are conducted in various venues around the winery—in barrel rooms, in the fermentation room and occasionally alongside the vineyard or on a patio when production schedule and weather permits. Please call ahead to make an appointment; weekends and holidays book quickly, up to several days in advance.

We have 5 Visitor Center offerings available by appointment:



Do we sell to these people...



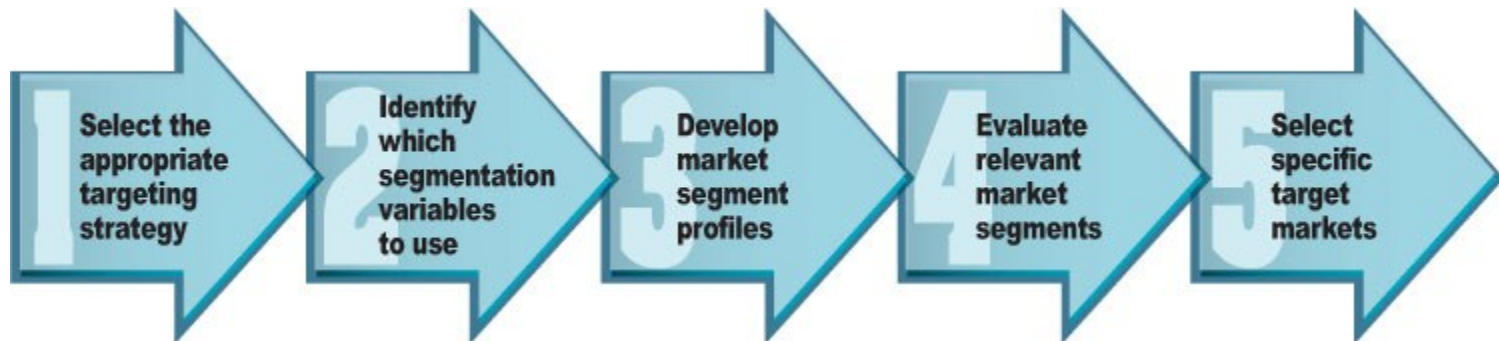


...the same way we sell to this guy?



# Target Market Selection Process

- Select a strategy
- Identify variables
- Develop segment profiles
- Evaluate the segments
- Select specific target markets



# Segmentation Example

- Throughout these slides we will use the example of a dog daycare company called Puppy Paradise
  - located in a metropolitan neighborhood
  - provides day and long-term boarding
  - uses Webcam to allow “parents” to watch their pets

# Step One

Select a Strategy

# Undifferentiated Targeting Strategy

- Defining an entire (homogeneous) market for a particular product as the target market
- Designing a single marketing mix for, and directing it at, the total market
- We would use this for products that all, or most, consumers, buy and use in a similar manner
  - milk
  - gasoline
  - other “commodities”
- Other than these commodity type products an undifferentiated strategy is relatively rare

# Targeting Strategies

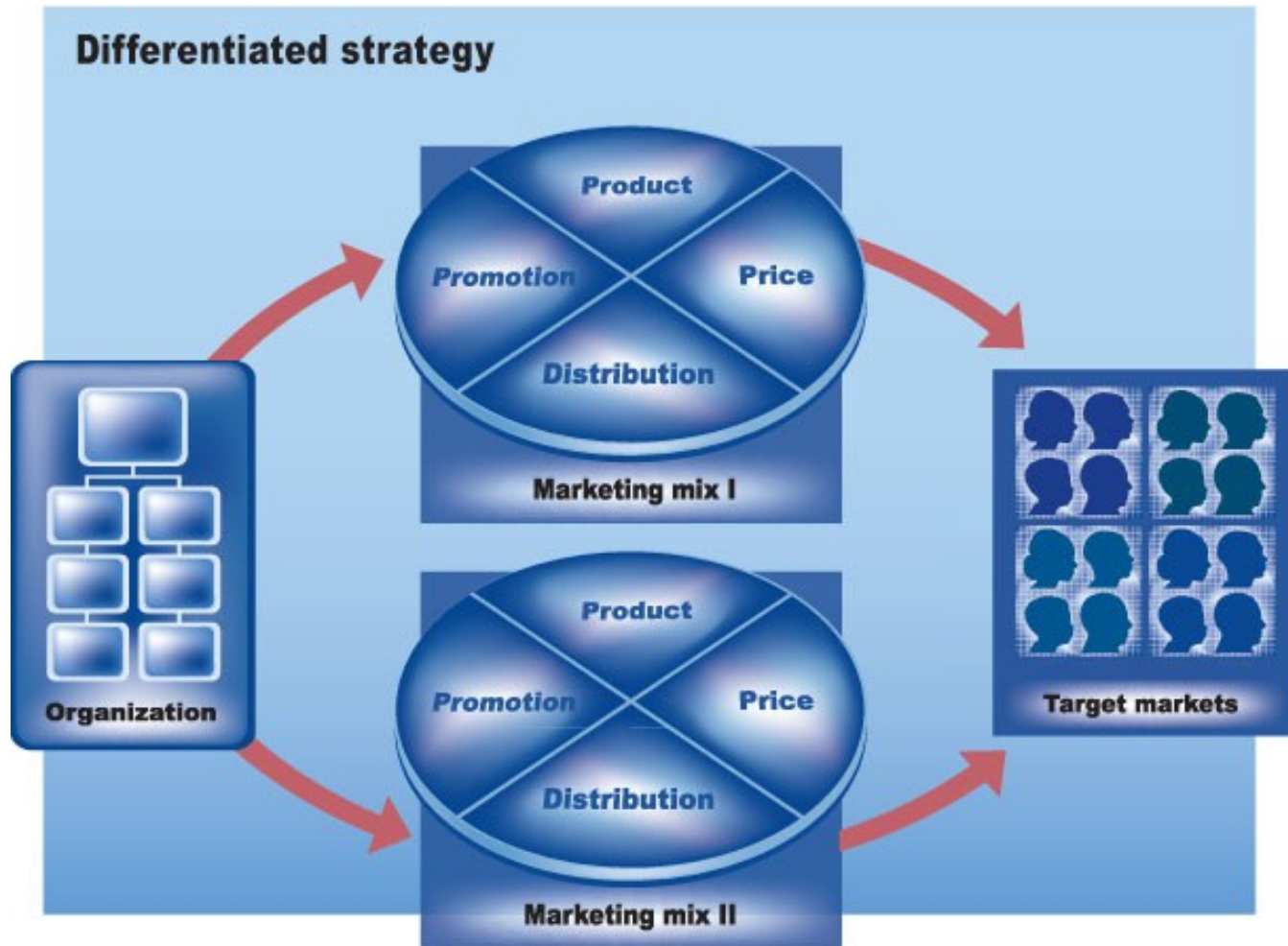
## Undifferentiated strategy



# Differentiated Targeting Strategy

- Targeting two or more segments by developing a marketing mix for each
- Aiming marketing mixes at more people may yield a competitive advantage
- This is the more common strategy for most consumer products and services

# Targeting Strategies





# Exercise Example

- Differentiated strategy
- For my doggie day care I have three segments:
  - Urban yuppies
  - Empty nesters
  - Travelers

These segments  
are often referred  
to as “personas”



# Personas

- Personas are just what the name implies – the characteristics and attributes that make up the personality of a consumer or group of consumers
- You and your classmates might have the persona of “Saint Leo Business Majors” and would have a set of characteristics you share
- Giving our segments names (personas) makes it easier to discuss them and sets each apart from others

# Creating Personas

- Before we can give our personas a name we need to understand them and their characteristics or attributes
- Those characteristics are made up of
  - demographics
  - psychographics
  - geographics
  - behavioristics
    - we'll address these in the next group of slides
- We also segment based on two important broad themes known as:
  - Needs (real or perceived)
  - Benefits sought

# Needs

- Needs can be real or perceived
- For example:
  - I have a real need for good shoes if I am a serious runner
  - a teenager has a perceived need for the latest Nike basketball shoes (although he may see it as real)
- These needs will help us segment our customers
- The key factor is “what need does our product or service fulfill for this segment of our customers?”

# Benefit Sought

- This is similar to need fulfillment
- The benefit the consumer is seeking to gain will help fulfill the need
- A benefit can also be real or perceived
- It can also be tangible or intangible
- For our new Nike shoes:
  - The runner is seeking the benefit of protecting their feet (a real and tangible benefit)
  - The teenager is seeking the benefit of status among his peers (a perceived and intangible benefit)

# For Puppy Paradise

- We have a Persona called “Urban Yuppies”
  - the need they are seeking to fill is real and tangible – they need to have their dog cared for during their long work day or on a weekend trip
  - the benefit to using our upscale business rather than a less expensive alternative is an intangible benefit – the status of using the best for pet – thus being good pet “parents”

## Step Two - Select Variables

What characteristics will most accurately define our segments?

# Segmentation Variables

- Characteristics of individuals, groups, or organizations used to divide a market into segments
- Groups will share common characteristics



# Segmentation Variables for Consumer Markets

## Demographic variables

- Age
- Gender
- Race
- Ethnicity
- Income
- Education
- Occupation
- Gender
- Religion
- Social class

## Geographic variables

- Region
- Urban, Suburban, rural
- City size
- State size
- Climate

## Psychographic variables

- Personality characteristics
- Lifestyles

## Behavioristic variables

- End use
- Brand loyalty
- Price sensitivity

# Demographics

- Quantifiable attributes of the target group
  - Age
  - Race
  - Income
  - Education
  - Gender
  - Household

# Example of Demographic Segmentation

- Suburban or rural
  - Do-it-yourselfer
  - Male
  - 18-55
  - HS or some college
  - Blue collar to middle income
- Urban
  - Apartment dweller
  - Female
  - 35-55
  - Likes the arts and music
  - Upper middle to upper income

Which of these is a better candidate for a Ford F-150?

# Example

- Urban Yuppies
  - 25-40
  - Mid upper income
  - College educated
  - Professional or business careers

# Geographic

- Variables based on specific physical location
  - Urban vs. suburban
  - Metro size
  - Regional differences
    - Weather
    - Culture
  - MSA
  - IKEA vs. John Deere

# Example

- Urban yuppies
  - Urban and suburban Tampa – 20 mile radius of daycare center

# Psychographic Variables

- Segmentation based on lifestyle, social class, and personality characteristics
  - Personality characteristics
  - Motives
  - Lifestyles
- Think of this as those things your segment does with their non-work time

# Psychographic Variables

- Hobbies
- Sports
- Activities
- Charities
- Family
- Church



# Personality Traits

- Active
- Outdoorsy
- Cocooning
- Shopper
- Conservative
- Liberal
- Thinker
- Image conscious

# Psychographics

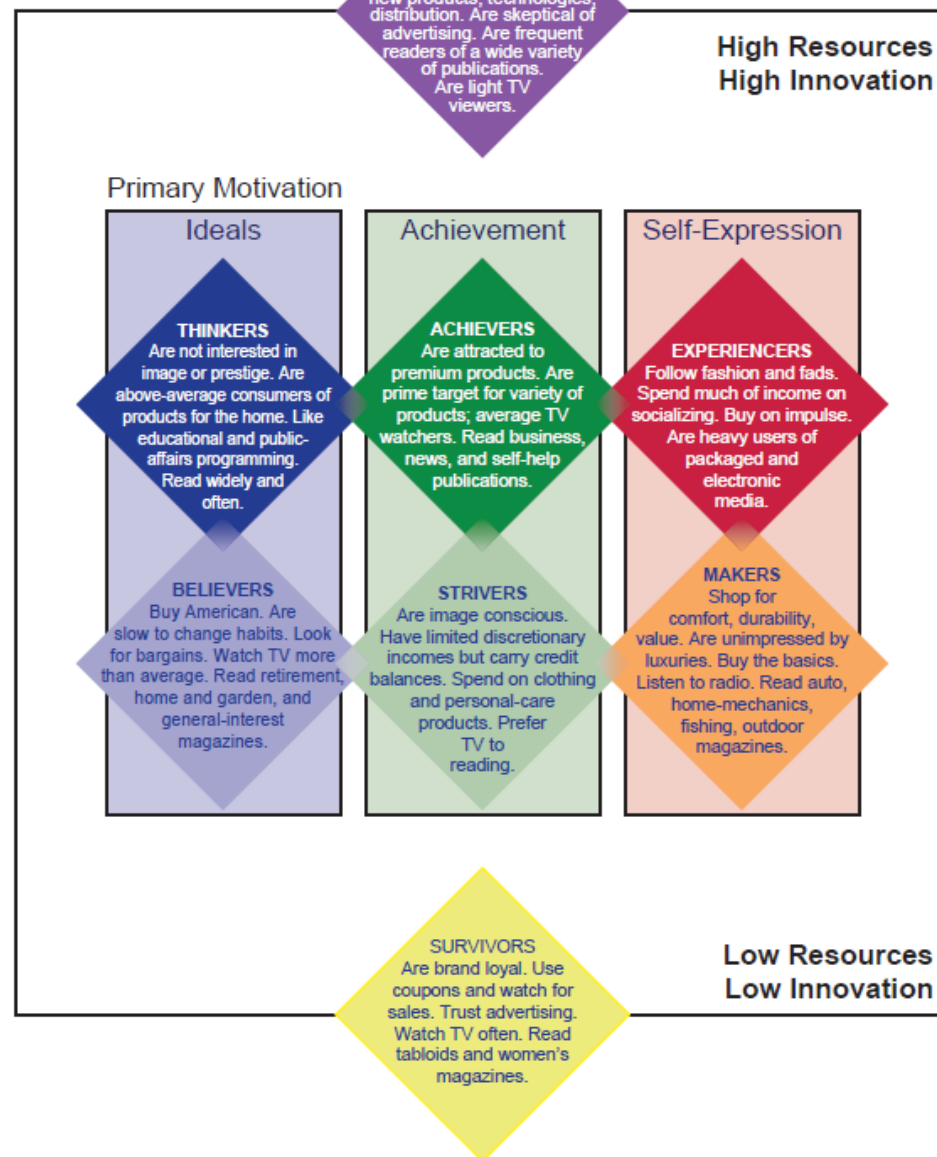
- Weekender #1
  - Cocktail party with the Animal Rights League
  - Polo match
  - Attend "Rent" at the theatre
  - Golf with broker and banker
  - Brunch
  - NY Times and wine on the lanai
- Weekender #2
  - Stop for a couple of beers after work
  - Bowling league
  - Peewee football game with son
  - Fix the sink and install new faucet
  - Church softball game
  - Football and BBQ with the neighborhood

Will you market the same products in the same way to both guys?

- People express values through behavior
- That behavior in the marketplace is often expressed by what the consumer buys
- Allows for segmentation based on personality traits

The next slide shows the VALS™ Framework...

## VALS™ Framework



# Example

- Urban Yuppies
  - See pets as “kids” – member of the family
  - Do-ers
  - Image oriented
  - Socially conscious

# Behavioristic Variables

- Benefit segmentation
  - The division of a market according to benefits that customers want from the product
  - Individuals purchase and use products that provide them with benefits that meet their needs

# Product Related

- Benefits sought
- Usage rates
  - 80/20 rule
  - Heavy users
- Brand loyalty

# Occasion Segmentation

- Occasion--product or life event
  - Flowers for Mother's Day or Valentine's Day
  - Candy for Halloween
  - Orange juice for breakfast
  - Graduation
  - Marriage
  - New Home





# Benefits Segmentation

- One of the most powerful methods
- Measures consumer values and perceptions
- Toothpaste study in early 1960's helped P&G launch Crest to the Worrier/Medicinal segment. Decay prevention / large families / conservative / heavy users

# Loyalty Segmentation

- Hard-Core (one brand only)
  - Study to identify product strength
- Split Loyals (loyal to 2-3 brands)
  - Study to pinpoint the competition
- Shifting Loyals (sequential loyalty)
  - Study to determine marketing weakness
- Switchers (no loyalty; want deal or variety)
  - May not be worth attracting; ask sales staff



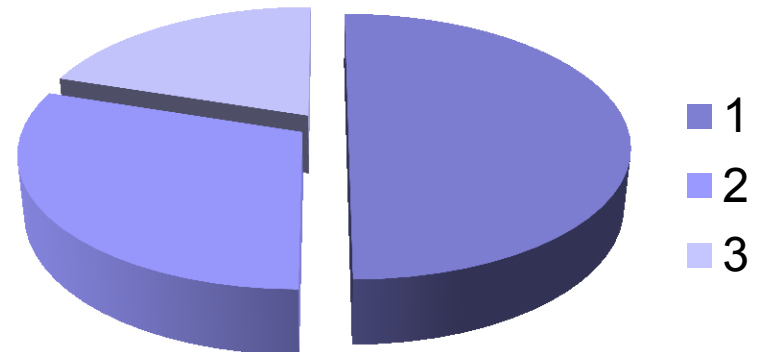
## Step 3 - Develop Targeted Profiles

# Profiles

- Matching the characteristics of our firm and product to segmentation variables
  - Primary
    - Our most likely consumers
  - Second
  - Perhaps tertiary
  - Specialty or niche

# Example

- Primary:
  - Urban yuppies 50%
- Secondary:
  - Empty nesters 30%
  - Travelers 20%



## Step 4 - Evaluate our Segments

# Evaluate for Potential Sales and Profits

- Size and potential
  - Determine current size and forecast growth
- Profitability
  - What costs are associated with this segment
- Strategic value
  - Opinion leaders
- Cannibalization risk
  - What impact on the rest of our product line
- Competitive analysis
  - Is the competition targeting the same segment

## Step 5 - Develop a Targeting Plan for Each Segment

How and where do we reach these consumers?



# What's in the Plan?

- Message
  - What to say to this segment
  - Values and motivations
- Medium
  - What media does the segment use
  - Which do they not use
- Positioning
  - How does this segment view the competition
- Distribution
  - Where does this segment shop

# Segmenting Business Markets

- Geographic Location
  - Location affects the level of product demand.
- Type of Organization
  - Variations in firms' characteristics leads to segmentation by type.
- Customer Size
  - Larger customers strongly influence how they are treated in the marketplace.
- Product Use
  - Firms use basic inputs in ways different from one another.

# Segmenting Business Markets

- Operating Variables
  - Technology: What customer technologies should we focus on?
  - User or Nonuser Status: Heavy, medium, light or nonusers
  - Customer Capabilities: Should we serve customers needing many or few services?

# Segmenting Business Markets

- Personal Characteristics
  - Buyer-seller similarity: companies with values and people like ours
  - Attitudes towards risk: risk-takers or risk-avoiders
  - Loyalty: Companies that show high or low loyalty to suppliers