Market Segmentation and Strategic Targeting

LEARNING OBJECTIVES

After studying this chapter students should be able to understand:

1. Why market segmentation is essential.

2. The criteria for targeting selected segments effectively.

3. The bases for segmenting consumers.

4. How segmentation and strategic targeting are carried out.

CHAPTER SUMMARY

Market segmentation is the opposite of mass marketing and is part of the segmentation, targeting, and positioning framework. Segmentation is defined as the process of dividing a potential market into distinct subsets of consumers with a common need or characteristic and selecting one or more segments to target with a specially designed marketing mix. Besides aiding in the development of new products, segmentation studies assist in the redesign and repositioning of existing products, in the creation of promotional appeals, and the selection of advertising media.

In order to be a viable target market, a segment must be identifiable (by some criteria such as demographics, lifestyles, or others), sizeable (i.e., large enough to be profitable), stable or growing, accessible (i.e., can be reached economically), and congruent with the marketer's objectives and resources.

Consumer-rooted behaviors and cognitions as well as consumption-specific facts and attitudes can be used to segment consumers. The most common categories used in segmentation are demographics and psychographics (or lifestyles). However, in most cases, hybrid segmentations are used. The primary examples of hybrid frameworks are VALSTM and the PRIZMTM geodemographic clusters. Other consumer-rooted variables used to segment markets are personality traits and sociocultural values and beliefs. The key consumption-specific segmentation factors are usage behavior (including usage rate and situation), benefit segmentation, and brand loyalty and relationship.

Behavioral targeting and microtargeting are emerging techniques rooted in marketers' abilities to identify and target increasingly smaller segments and even individual buyers with tailor-made messages (i.e., narrowcasting). In conventional segmentation, a company can choose to target several segments (differentiated marketing) or just one segment (concentrated marketing). In certain instances, a company must use countersegmentation and combine two or more segments into a larger one.

CHAPTER OUTLINE INTRODUCTION

1. Market segmentation is the opposite of mass marketing.
2. **Mass marketing** is offering the same product and marketing mix to all consumers and was practiced prior to the development of the marketing concept.
3. The market segmentation and targeting process is the identification of distinct segments within a given market or population, evaluation of each segment's marketing potential, selection of the segments to be targeted, and the creation of a marketing mix for each target segment selected.
4. Consumer can be segmented along several factors, including demographics, lifestyles, usage behavior and others.
5. After segmenting a consumer market and selecting one or several target markets, the product or service must be **positioned**.
6. **Positioning** is the unifying element of each marketing mix because it expresses the offering's value proposition which details the product's or service's capability to deliver specific benefits corresponding to consumers' unfulfilled needs.

WHY IS MARKET SEGMENTATION NECESSARY?

1. Prior to the development of market segmentation, mass marketing was the prevailing method. The same product and marketing mix were offered to all consumers.
2. Mass (undifferentiated) marketing costs less as a standardized product is offered, backed by a uniform marketing strategy.
3. Most marketers cannot use this approach as appealing to a generic need often results in not satisfying anyone.
4. Segmentation and targeting enable producers to avoid head-on competition in the marketplace by differentiating their offerings on the basis of such features as price, styling, packaging, promotional appeal, method of distribution, and level of service.
5. This approach is generally more profitable.
6. Services also segment their markets and target different offerings to different market segments.
7. Marketers use segmentation research to identify the most appropriate media in which to place advertisements.

CRITERIA FOR EFFECTIVE TARGETING

1. To be an effective target, a market segment should be: identifiable, sizeable, stable or growing, accessible, and congruent with the marketer's objectives and resources.

Identifiable

1. To divide the market into separate segments on the basis of common or shared needs or characteristics that are relevant to the product or service, a marketer must be able to identify these characteristics.
2. Some segmentation variables such as demographics are easy to identify, while others such as benefits sought, more difficult.

Sizeable

1. In order to be a viable market, a segment must consist of enough consumers to make targeting it profitable.

Stable

1. Most marketers prefer to target consumer segments that are relatively stable in terms of lifestyles and consumption patters and avoid "fickle" segments that are unpredictable.

Accessible

1. To be targeted, a segment must be accessible, which means that marketers must be able to reach that market segment in an economical way.

Congruent with the Company's Objectives and Resources

1. Not every company is interested or has the means to reach every market segment, even if that segment meets the four preceding criteria.

BASES FOR SEGMENTATION

1. A segmentation strategy begins by selected the base(s) representing the core attribute(s) of a group of existing or potential customers.

2. Figure 3.3 depicts a four-way classification of the characteristics used to segment the buyers of consumer goods.

3. A single characteristic is never used alone.

4. virtually all segmentation plans are in the forms of **hybrid segmentation** that includes attributes from two or more of the four quadrants in Figure 3.3.Copyright © 2010 Pearson Education, Inc. publishing as Prentice Hall

5. The four groups stem from dividing consumers' characteristics along two criteria:(1) **facts**, which can be determined from direct questioning and categorized by a single objective measure, versus, **cognitions**, which are abstract, can be determined only through more complex questioning, and where most of the constructs measured have no single, universal definitions; and (2) **consumer-rooted** features stemming from the consumer's physical, social, and psychological characteristics versus **consumption-and product-specific** usage- behaviors or attitudes and preferences toward specific products or buying situations.

CONSUMER-ROOTED SEGMENTATION BASES

1. This group includes two types of **personal attributes**: facts that are evidence-

based and can be readily determined and categorized along an objective criterion and cognitions, which can mostly be determined through indirect, psychological tests and classified into subjective categories.

2. **Demographics**, **social class**, and geographic location are objective and empirical.
3. **Psychographics**, which consist of **activities**, **interests**, and **opinions,** cannot be classified according to standardized definitions.
4. Similarly, **personality traits** or one's **sociocultural values** are abstract cognitions that can be measured via one of several psychological tests.

Demographic Segmentation

1. The core of almost all segmentations is demographics because:
   a. Demographics are the easiest and most logical way to classify people and can be measure more precisely than other segmentation bases.
   b. Demographics offer the most cost-effective way to locate and reach specific segments because most of the secondary data compiled about any population stems from demographics.
   c. Demographics enable marketers to identify business opportunities in the form of shifts in age, income distribution, and populations of various regions.
   d. Many consumption behaviors, attitudes, and media exposure patterns are directly related to demographics.
      i. Product needs often vary with consumers' age.
      ii. Age is a key factor in marketing many products and services.
      iii. Age influences buying priorities.
      iv. A study discovered that marketplace decision difficulty (MPDD) – an attribute depicting one's hardship in making buying decisions – was more typical of older, less-educated female consumers.
   e. Gender is a factual distinguishing segmentation variable, and many products and services are inherently designed for either males or females.
   f. Marital status is also a segmentation variable.
      i. Traditionally, the family has been the focus of most marketing efforts, and the household continues to be the focal consuming unit of many products and services.
      ii. Marketers have also discovered the benefits of targeting specific marital status groupings, such as singles, divorced individuals, single parents, and dual- income married couples.
   g. **Family life cycle** segmentation is based on the premise that many families pass through similar phases in their formation, growth, and final dissolution.
      i. At each phase, the family unit needs different products and services.
      ii. Family life cycle is a classification stemming from factual variables including marital status, employment status, and the presence or absence of children in the household.

      iii. Each stage in the traditional family life cycle represents an important target segment to many marketers.

  h. Income, education, and occupation tend to be closely correlated.

Geodemographic Segmentation

1. Where a person lives determines some aspects of consumption behavior.
2. The most popular use of geography in strategic targeting is **geodemographics** – a hybrid segmentation scheme based on the premise that people who live close to one another are likely to have similar financial means, tastes, preferences, lifestyles, and consumption habits.
   a. The primary commercial application of this technique is the Claritas PRIZM NE classification.
   b. This system uses the ZIP + 4 postal system to classify all of the nation's households into 66 segments.

Personality Traits

1. If asked directly, people are unlikely to disclose their personality traits either because they are guarded or because they do not consciously recognize them.
2. **Projective techniques**, designed to overcome this barrier
3. Personality tests – which are generally in the form of questions or statements presented to the respondent – can be used by researchers to determine one's personality and use it in segmentation.
   a. For example, consumers who are open-minded and generally perceive less risk than others in trying new things are likely to be **consumer innovators** – that is, more likely to buy a new product when it is first introduced and before many other consumers buy it.
   b. Marketers of new products must identify these individuals and target them during the product's introduction.
   c. If personality tests discover that innovators tend to score high on exhibition – a trait where a person wants to be the center of a group – the promotion directed at this group should encourage the innovators to initiate positive **word of mouth** and tell others about the new product.

Lifestyles

1. Lifestyles, also known as psychographics, consist of **activities**, **interests**, and **opinions** (**AIOS**).
   a) The interests and opinions portions are cognitive constructs, which can be measured via surveys but are not evidence-based.
   b) A psychographic study includes a battery of statements selected from a **psychographic inventory** and usually accompanied by **Likert** scales on which respondents are asked to indicate their level of agreement or disagreement with each statement.
   c) Because of their versatility, psychographics are widely used in segmentation

and are part of almost any hybrid segmentation framework.

    d) If it often stated that while **demographics** determine consumers' needs for products and the ability to buy them **psychographics** explain buyers' purchase decisions and the choices they make within the buying options available to them.

    e) **VALS** (an acronym for "values and lifestyles") is the most popular segmentation system combining lifestyles and values.

    f) VALS focuses explicitly on explaining consumer purchasing behavior.

        a. VALS includes three primary motivations: ideals motivated, achievement motivated and self-expression motivated.

            i. Each of these three major self-motivations represents distinct attitudes, lifestyles, and decision-making styles.

        b. VALS also reflects a continuum in terms of resources and innovations.

        c. The VALS framework was developed as a result of administering a large psychographic inventory to sizeable samples of consumers.

        d. A recent study developed a questionnaire designed to measure the extent of the consumer's difficulty in making choices among the many alternatives available when purchasing consumer goods.

            i. This psychological attribute was named the **marketplace decision difficulty** (or MPDD).

Sociocultural Values and Beliefs

1. Marketers can segment some populations on the basis of cultural heritage because members of the same culture tend to share the same values, beliefs, and customs.
2. In the United States, companies using cultural segmentation focus on widely held cultural values with which most American consumers identify such as youthfulness, fitness and health.
3. Within the larger culture, distinct subgroups (subcultures) often are united by certain characteristics associated with specific values and beliefs.
    a. These groupings can be based on demographic characteristics, ethnicity, or some other factors.
    b. In the United States, African Americans, Hispanic Americans, Asian Americans and the elderly are important subcultural market segments.

Consumption-Specific Segmentation Bases

1. This group includes two types of consumption-specific bases for segmentation:
    a. Facts about actual consumption behavior.
    b. Cognitions consumers have about products and services in the form of attitudes, preferences, and the like.
    c. Usage Rate Segmentation stems from differences among heavy, medium and light users, and nonusers of a specific product, service, or brand.
        i. Marketers have found that within some product categories that a relatively small group of heavy users account for a

disproportionately large percentage of total product usage.
  ii. Targeting heavy users is a common marketing strategy, and it can be more profitable than targeting other user categories.
  iii. However, since all competitors are likely to target the same heavy users, trying to attract these buyers requires a lot of expensive advertising.
  iv. Some marketers prefer to target light and medium users with products that are distinct from those preferred by heavy users.
  v. A sophisticated approach to usage rate involves identifying the factors that directly impact the usage behavior.
  vi. Understanding nonusers is essential.
  vii. Consumers can also be segmented in terms of their **awareness status** and also **level of involvement**.
  viii. **Product involvement** is also a segmentation factor.
d. The occasion or situation often determines what consumers will purchase or consume, therefore marketers sometimes use the **usage situation** as a segmentation variable.
  i. Many products are promoted for special usage occasions.
e. The benefits that consumers seek from products and services are the essence of **benefit segmentation** and many believe also the core of all segmentation strategies.
  i. Sought benefits represent unfilled consumer needs whereas buyers' perceptions that a given brand delivers a unique and prominent benefit result in loyalty to the brand.
  ii. Therefore, benefit segmentation is often used to develop a **positioning** approach.
f. Media benefits is another segmentation tool.
  i. In one study, consumers singled out immediacy, accessibility and free cost as the most relevant features of digital newspapers, while identifying writing style and more depth and details as the key features of traditional newspapers.
g. **Brand loyalty** consists of two components: **behavior** – the frequency and consistency of buying a given brand and **attitude** – the consumer's feeling of commitment to the brand.
  i. The most common applications of brand loyalty are **frequency award programs** where marketers offer rewards and special benefits to buyers who purchase their offerings consistently.
  ii. Increasingly, marketers realize that their relationships with customers are complex and multidimensional.