Market Segmentation

By Jerry W. Thomas

When the term "market segmentation" is used, most of us immediately think of psychographics, lifestyles, values, behaviors, and multivariate cluster analysis routines. Market segmentation is a much broader concept, however, and pervades the practice of business throughout the world.

What is market segmentation? At its most basic level, the term "market segmentation" refers to subdividing a market along some commonality, similarity, or kinship. That is, the members of a market segment share something in common. The purpose of segmentation is the concentration of marketing energy and force on the subdivision (or the market segment) to gain a competitive advantage within the segment. It's analogous to the military principle of "concentration of force" to overwhelm an enemy. Concentration of marketing energy (or force) is the essence of all marketing strategy, and market segmentation is the conceptual tool to help achieve this focus. Before discussing psychographic or lifestyle segmentation (which is what most of us mean when using the term "segmentation"), let's review other types of market segmentation. Our focus is on consumer markets rather than business markets.

Geographic Segmentation

This is perhaps the most common form of market segmentation, wherein companies segment the market by attacking a restricted geographic area. For example, corporations may choose to market their brands in certain countries, but not in others.

A brand could be sold only in one market, one state, or one region of the United States. Many restaurant chains focus on a limited geographic area to achieve concentration of force. Regional differences in consumer preferences exist, and this often provides a basis for geographic specialization. For example, a company might choose to market its redeye gravy only in the southeastern U.S. Likewise, a picante sauce might concentrate its distribution and advertising in the southwest. A chain saw company might only market its products in areas with forests. Geographic segmentation can take many forms (urban versus rural, north versus south, seacoasts versus interior, warm areas versus cold, high-humidity areas versus dry areas, high-elevation versus low-elevation areas, and so on). These examples also reveal that geographic segmentation is sometimes a surrogate for (or a means to) other types of segmentation.

Distribution Segmentation

Different markets can be reached through different channels of distribution. For example, a company might segment the "tick and flea collar" market by selling the product to supermarkets under one brand name, to mass merchandisers under another brand, to pet stores under another brand name, and to veterinarians under yet another brand name. This type of distributional segmentation is common, especially among small companies that grant each channel a unique brand to gain distribution within that channel. Other examples of distributional segmentation would be an upscale

The purpose of segmentation is the concentration of marketing energy and force on the subdivision (or the market segment) to gain a competitive advantage within the segment.

line of clothing sold only in expensive department stores, or a hair shampoo sold only through upscale beauty salons.

Media Segmentation

While not common, media segmentation is sometimes a possibility. It is based on the fact that different media tend to reach different audiences. If a brand pours all of its budget into one media, it can possibly dominate the segment of the market that listens to that radio station or reads that magazine. Media segmentation is most often practiced by companies that have some control over the media and can somehow discourage competitors from using that media.

Price Segmentation

Price segmentation is common and widely practiced. Variation in household incomes creates an opportunity for segmenting some markets along a price dimension. If personal incomes range from low to high, then a company should offer some cheap products, some medium-priced ones, and some expensive ones. This type of price segmentation is well illustrated by the range of automotive brands marketed by General Motors, historically. Chevrolet, Pontiac, Oldsmobile, Buick, and Cadillac varied in price (and status) along a clearly defined spectrum to appeal to successively higher income groups.

Demographic Segmentation

Gender, age, income, housing type, and education level are common demographic variables. Some brands are targeted only to women, others only to men. Music downloads tend to be targeted to the young, while hearing aids are targeted to the elderly. Education levels often define market segments. For instance, private elementary schools might define their target market as highly educated households containing women of childbearing age. Demographic segmentation almost always plays some role in a segmentation strategy.

Time Segmentation

Time segmentation is less common, but can be highly effective. Some stores stay open later than others, or stay open on weekends. Some products are sold only at certain times of the year (e.g., Christmas cards, fireworks). Chili is marketed more aggressively in the fall, with the onset of cooler weather. Football is played in the fall, basketball in the winter and spring, and baseball in the spring and summer (or at least this used to be the pattern). The Olympics come along every four years. Department stores sometimes schedule midnight promotional events. The time dimension can be an interesting basis for segmentation. In addition to the foregoing, markets can be segmented by hobbies, by political affiliation, by religion, by special interest groups, by sports team loyalties, by university attended, and hundreds of other variables. You are only limited by your marketing imagination.

Psychographic or Lifestyle Segmentation

Lastly, we come to psychographic (or lifestyle) segmentation, based upon multivariate analyses of consumer attitudes, values, behaviors, emotions, perceptions, beliefs, and interests. Psychographic segmentation is a legitimate way to segment a market, if we can identify the proper segmentation variables (or lifestyle statements, words, pictures, etc.). Qualitative research techniques (focus groups, depth interviews, ethnography) become invaluable at this stage. Qualitative research provides the insight, the conceptual knowledge, and the consumer's exact language necessary to design the segmentation questionnaire. Typically, verbatim comments from consumers are used to build batteries of psychographic or lifestyle statements (these two terms are used interchangeably). A large representative sample of consumers (generally, 1,000 or more) are then asked about the degree to which they agree or disagree with each statement.

For example, if you were designing a market segmentation questionnaire for an airline, you might conduct a series of depth interviews to help design the questionnaire. You probably would include a behavioral section (frequency of flying, how purchase tickets, who travel with, cities flown to, where sit, airlines flown, money spent on airline tickets, etc.). You would include a major section on attitudes toward air travel (motivations for air travel, fears related to air travel, positive emotions of flying, attitudes about airline employees, checking

luggage, buying tickets, and so forth). You would also want to include a section on perceptions of the different airlines; that is, their "brand images." You could go further and add a section on media consumption, or personal values as well. It is at this point that you realize the questionnaire is too long, and you have to make some hard decisions about what questions or statements to include.

The method of data collection is very important, because the questionnaire is so long (often 45 to 90 minutes in length). The telephone is not recommended for segmentation studies because of questionnaire length. Moreover, the various rating scales and attitudinal statements are difficult to communicate by phone, and the resulting phone data tends to be "insensitive" and rife with "noise." In-person interviews, or Internet-based interviews, or even mail surveys, are much better. Rating scales and attitudinal statements can be seen and fully comprehended by respondents. Seeing is much better than hearing, and it produces more accurate answers. The Internet is especially valuable for segmentation studies, since respondents can take the survey at a time of their own choosing, when they can give it their full, undivided attention. A mail survey offers some of the same advantages, but without the questionnaire controls, checks, and safeguards built into an Internet survey.

Analytical Methods

Most segmentation analyses are based upon various types of "cluster analysis," a set of well-defined statistical procedures that group people according to the proximity of their ratings. Unfortunately, cluster analysis (regardless of its many types and forms) has inherent limitations and seldom yields coherent market segments. Cluster analysis routines ignore the pattern of respondent ratings and rely primarily upon the proximity of respondent ratings. Too often, this leads to clusters, or market segments, that don't seem to make much sense when crosstabulated against the original segmentation variables. Another limitation of clustering approaches is that all statements are treated as equal; whereas, in truth, some statements might be much more important than others in explaining consumer behavior in a particular product category.

A better way to achieve a good psychographic segmentation is to first identify the statements that are more important (i.e., the statements that tend to explain or cause specific consumer behaviors). Correlation analysis and regression can be used for this purpose. Factor analysis is also a powerful technique to identify the statements and groups of statements that account for much of the variance in the attitudinal data set. Directly, and indirectly, these techniques can help you identify the most important statements (i.e., attitudes, perceptions, values). Then, these statements become the inputs to the final segmentation analysis. Many different methods can be used to "cluster" or group the statements at this point. The final step is to attach a segment code to each market segment identified and then crosstab all of the questionnaire variables by the segments. You must then study the segments and the attitudes/statements that make up each segment to make sure they make sense and hang together. If the segmentation results don't make sense, then you have to go back, change some of your assumptions or methods, rerun the analysis, and repeat the crosstab exercise to apply the "common sense" validity check.

Common Mistakes

Segmentation studies tend to be large and complicated, so it's easy for errors and mistakes to be made. Some of the most common mistakes:

1. *Segmenting a segment.* For example, someone might want to segment the market for widgets among 18- to 24-year-olds who live in Vermont and buy brand XYZ. As is evident, the client is asking that a of data. It is easy to get lost in this treasure trove of answers and come up with confusing and baffling results.

2. *Overlooking the basics.* The dazzle and glitter of the advanced, rocket-science multivariate analyses attract everyone's attention. No one ever opens up the crosstabs and looks at the answers to the hundreds of questions asked. Often, hidden in plain view in the plain old crosstabs are tremendous findings that could form the basis for new or improved marketing strategies, advertising campaigns, or

new products. Rarely does anyone analyze this basic data, however.

3. *Targeting people instead of dollars.* A market segment might represent a large percentage of the population, but a small part of the market. Always look at the dollar potential of market segments, not just the number of people in the segments.

Nonmutually Exclusive Segments

Virtually all segmentation work, historically, has been based upon the assumption of mutually exclusive market segments. The mutually exclusive model, however, does not always apply to psychographic or lifestyle segmentation (since most of us hold many overlapping and/or conflicting beliefs and attitudes). Therefore, it is wise to develop two distinctly different segmentation solutions: one based upon mutually exclusive segments and one based upon overlapping segments. Both of these segmentation "solutions" should be crosstabulated by the original questionnaire variables to identify which type of solution yields the most meaningful (and actionable) market segments.

Final Thoughts

The concept of market segmentation is sound. It's a way to apply greater marketing energy or force to a subset of the market. A great deal of money is wasted on psychographic segmentations that never lead to any marketing actions.

If you segment the market by psychographics, there are several essential uses of the segmentation: first, target your brand to the largest segment with relevant brand fit (or even target two closely related segments) by media advertising and message. That is, the advertising message is the way to reach the psychographic segment (rarely can a psychographic segment be defined by demographics or geography). Second, segmentation can provide the guide rails for brand positioning. That is, positioning assumes, or takes place in relation to, a target market segment; you are positioning your brand in relation to a market segment. Third, the segmentation can define opportunities for new products targeted to each psychographic segment. That is, the market segments can be a template for new product development. For example, if you find that 15% of the U.S. population belongs to a "safety first" segment when it comes to buying cars, then you can design and build the safest car in the world to target this segment. So psychographic segmentation's greatest value lies in positioning, targeting via advertising message, and defining new product opportunities. Go forth and segment.

About the Author

Jerry W. Thomas (jthomas@decisionanalyst.com) is the President/CEO of Decision Analyst. Decision Analyst is a leading international marketing research and analytical consulting firm. The company specializes in advertising testing, strategy research, new product ideation, new product research, and advanced modeling for marketing-decision optimization. The author may be reached at 1-800-262-5974 or 1-817-640-6166.

Decision Analyst
Strategic Research ▪ Analytics ▪ Modeling ▪ Optimization

604 Avenue H East • Arlington, TX 76011-3100, USA
1.817.640.6166 or 1.800. ANALYSIS • www.decisionanalyst.com