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B.3 *Segmentation of Markets*

APPROACHES TO MARKET SEGMENTATION

Segmentation of the market is the first step in a three-stage process that leads to **positioning** of the product. The steps are to (1) segment the market (presented in this entry), (2) select a target market (GLOSSARY entry B.3), and (3) position the product (GLOSSARY entry B.1).
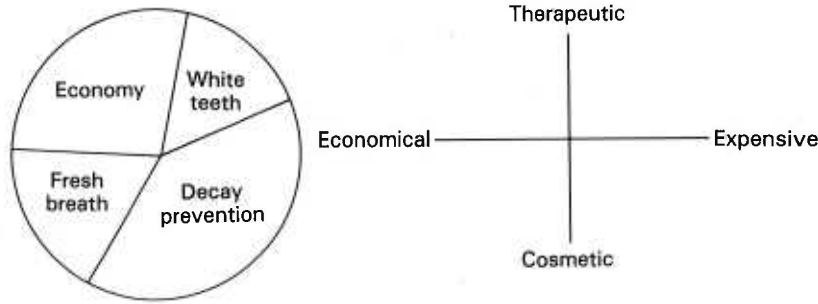
Why Markets Are Segmented. **Market segmentation** is the process of dividing a market into subgroups of consumers who are homogeneous in their response to a particular **marketing mix.** Thus a **market segment** is a subgroup of consumers who have some characteristic in common that leads them to respond to a marketing mix in the same way. Consumers are motivated to respond (buy products) by unfulfilled needs or unresolved problems. However, any market is composed of consumers with a variety of needs or problems. Market segmentation, then, is the process of separating this collection of consumers into subgroups of consumers motivated by the same needs, and a market segment, at the most fundamental level, is a subgroup of consumers trying to satisfy common needs.

Why should a marketer segment a market? The **marketing concept** suggests that success will come to the organization that focuses its efforts on developing marketing mixes that best meet the needs of the consumer (see GLOSSARY entry A.9). However, if consumer needs within a market vary, one marketing mix may not adequately meet the needs of the entire market. If the marketer divides the market into subgroups with homogeneous needs, it will then be possible to tailor marketing mixes to specific segments, better meeting their needs. Market segmentation is one of the most important ideas in modern-day marketing. The powerful advantages that accrue to the business that focuses on serving the needs of individual segments are detailed in GLOSSARY entry B.4 on **target market selection.**

The Market Segmentation Process. The process for segmenting a market is straightforward. However, complexity is added if, as is frequently the case, marketing research is required to carry out some of the steps. Market segmentation research is considered in a later section. There are five steps to segmenting a market.

■ *Step 1: Define the Market.* The market to be segmented must be defined in terms of the product groups and geographic territory to be included. Approaches to market definition are discussed in GLOSSARY entry A.17, **situation analysis.** The market definition should coincide with the one used in the situation analysis. The level of aggregation used in the market definition influences the resulting segments. If the "eating out" market is defined to include all restaurants, then the need satisfied by fast-food restaurants could represent a segment. However, if the total market is defined to include only fast-food restaurants, then the segments would have to represent varieties of the need for convenient dining. (In this case, the first market definition is probably most useful. Differences within the "fast-food" segment would be recognized by the positioning decision.)

■ *Step 2: Select a Segmentation Base.* A **segmentation base** is the dimension by which the market will be subdivided. For example, if the market were divided into subgroups of consumers in the same age range, then the segmentation base would be age. A variety of possible segmentation bases might be used. The best known are described and evaluated in the next section. The choice of segmentation base determines the effectiveness of the resulting segments. Frequently more than one segmen-

TOOTHPASTE MARKET

FIGURE B.3-1

One- and Two-Dimensional Depictions of Market Segments

tation base must be tried to find the most useful one.

■ *Step 3: Apply the Segmentation Base.* The segmentation base is applied to the total defined market to divide it into segments. It is helpful to depict the resulting segmentation as a pie chart if a single segmentation base is used or as a matrix if two segmentation dimensions are used. Hypothetical examples are shown in Figure B.3-1.

■ *Step 4: Describe the Segments.* In order to permit the marketer to reach segment members with a marketing mix, it is essential that the segment members be identified. This is best done by determining the demographic characteristics of consumers in each segment. Standard demographic categories have been established that allow matching of segment characteristics with media audiences, store clientele, or other marketing mix variables. Additional descriptive characteristics such as social class, stage in the family life cycle, media habits, and life style provide helpful insights when designing the marketing mix.

■ *Step 5: Evaluate the Segments.* As a final step, the segmentation process must be evaluated to assure that the resulting segments will be effective. Criteria for evaluating segment effectiveness are presented in GLOSSARY entry B.2. If segment effectiveness proves deficient, the segmentation process should cycle back to step 1 or step 2, redefining the market or selecting a different segmentation base.

Figure B.3-2 summarizes the market segmentation process.

Alternative Segmentation Bases. If, as suggested above, segments are made up of consumers who are motivated by the same need or problem, why not use consumer needs or consumer problems as the segmentation base, subdividing the total market into homogeneous need groupings? Sometimes this can be done, but often neither consumer needs nor the problems resulting from consumer needs are easy to determine or measure. Such information is rarely available from secondary sources and it is difficult to elicit from consumers through primary research. As a result, marketers tend to select segmentation bases for which secondary data are available, that are directly ob-
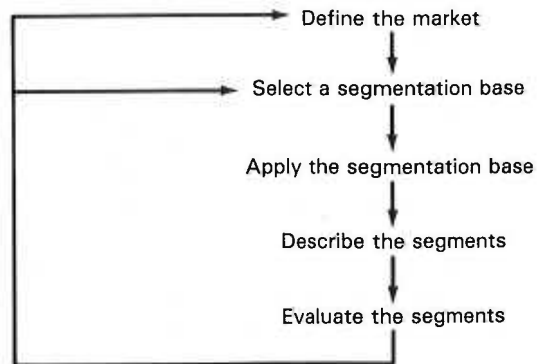

FIGURE B.3-2

The Market Segmentation Process

servable, or that lend themselves to direct research among consumers.

Segmentation bases can be characterized as causal or descriptive. **Causal segmentation bases** use dimensions that are the reasons, or are closely related to the reasons, why consumers respond to marketing mixes. For example, consumers purchase a particular brand when the benefits that the brand offers meets their needs. Therefore, benefits are considered a causal segmentation base. Causal segmentation bases are most appropriate to use at steps 2 and 3 of the segmentation process because they result in segments of consumers that require and respond to the same marketing mix. **Descriptive segmentation bases** use dimensions that identify the people in a segment, but do not cause their response to particular marketing mixes. Demographic characteristics, such as age, sex, and education level, are usually descriptive rather than causal bases. They are better suited to use in stage 4, describe the segments, than as segmentation bases.

In selecting a segmentation base, the marketer should realize that there is no one best segmentation base that will result in effective segmentation in all cases. Instead, .the marketer must find a base that best fits the decision to be made and the purchase situation. Some of the most widely used segmentation bases are discussed below as suggestions, but creative marketers should be willing to go beyond this list in searching for an effective segmentation approach.

■ *Demographic, Socioeconomic, Geographic.* Among the most widely used segmentation bases are such variables as age, sex, marital status, income, education level, and geographic location. These segmentation bases are popular because the variables are readily measurable and are often available through secondary data. However, demographic variables are usually descriptive rather than causal. Sometimes these variables appear closely related to response, but closer examination will reveal a more fundamental causal variable at work. The cereal market, for example, appears at first glance to segment by age (infants, children, teens, adults, older adults), but age is probably only a shorthand way of talking

about the different taste and nutritional benefits sought. If a more fundamental causal variable can be identified, it will provide far better guidance to formation of a satisfying marketing mix.

Geographic segmentation can be useful where there are regional differences in needs. Some food marketers have effectively used this approach to cater to regional tastes in foods. The stage in the family life cycle (see GLOSSARY entry A.5) is a helpful descriptive base. For some purchases, such as furniture and appliances, change in family status can be strongly related to the reasons for purchase. Segmentation by subculture (see GLOSSARY entry A.5) can be a causally linked segmentation base, but only when there are differences in product preferences that stem from identification with the subculture.

■ *Social Class.* **Social class** is the stratification of society into groups with **equivalent** social standing in the community (see GLOSSARY entry A.5). Social class has been popular as a segmentation base in part because it can be identified through such related measures as income, occupation, and place of residence. As such, it is a helpful descriptive variable. However as a segmentation base, it has not proven useful. Research has failed to demonstrate that there is a substantial difference in products or brands purchased by social class.[1] It appears that as a result of social and cultural changes in our society, most products are available and purchased across social classes with little distinction among classes.

■ *Personality, Life Style, Self-Concept.* Use of personality as a segmentation base has had disappointing results. Although heavily studied, researchers have not found a dependable relationship between personality and product choice.

Life style, or the pattern of living adopted by an individual, has proven a more useful segmentation base than personality.[2] Life style is measured by surveying the activities, interests, and opinions (AIO) of consumers plus standard demographics. Life style can serve the segmentation process in two ways. If there

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[1]Ronald Frank, William Massy, and Yoram Wind, *Market Segmentation* (Englewood Cliffs, N.J.: Prentice Hall, 1972), pp. 44–50.

[2]See Joseph T. Plummer, "The Concept and Application of Life-Style Segmentation," *Journal of Marketing* 38 (January 1974), pp. 33–37.

is evidence that consumers select a product as a way of expressing or carrying out their life style, then it can be used as a segmentation base by forming groups or segments made up of people with similar AIO responses. Marketing mixes can then be formed to fit the life style requirements of the target segment. Automobiles are an example of a product class where life style segmentation has been used.

Self-concept is a person's perception of himself or herself (see GLOSSARY entry A.6). According to congruity theory, consumers are motivated to choose products whose image fits the individual's self-concept. Self-concept then is a causative variable and could appropriately be used as a segmentation base, especially for socially visible products. Unfortunately, measurement of self-image is difficult and the results may not be easily clustered into homogeneous subgroups.

■ *Product Usage, Brand Loyalty.* Markets can be segmented into those loyal to the marketer's brand and those not loyal.[3] The characteristics of the segments are then described, allowing the marketer to identify the loyal and non-loyal consumers and determine factors that lead to their loyalty in brand choice. With this knowledge, the marketer can tailor the marketing mix to each group, reinforcing loyal behavior and trying to modify nonloyal behavior. Unfortunately, this approach remains largely descriptive. It remains difficult to uncover the variables that cause brand loyalty. In addition, the assumption that the cause of brand loyalty is the same for all consumers is probably not warranted.

Related to brand loyalty is the use of volume of usage as a segmentation base, dividing the market, for example, into light, medium, and heavy user segments.[4] A common phenomenon in a wide variety of markets is that a small percentage of total consumers account for a heavy proportion of product consumption. Using an approach similar to the one explained for brand loyalty, the market is segmented by usage and then the characteristics of consumers in each usage segment are determined, particularly the characteristics of heavy users. The marketing mix can then be tailored to the selected usage segment, usually focusing on the profitable heavy user group. The approach has a number of problems. It tends to result in uncovering descriptive rather than causal variables, which may assist in locating the segment, but do not reveal what the consumers seek in a product. There is little support for the presumption that all heavy users are motivated by a common need. In addition, if all products in the market are focused on the heavy user segment, there may be little competitive advantage in the approach.

■ *Attitudes, Preferences, and Perceptions.* Consumer **attitudes** are predispositions toward products and are part of the internal information used by consumers in evaluating how well products meet their needs (see GLOSSARY entry A.6). Since attitudes toward products are a determinant of product choice, they generally serve as a causal segmentation base.

Market structure analysis is a specialized form of attitude segmentation that focuses on the perceptions and preferences that consumers have for brands currently on the market.[5] Consumers are asked their perceptions of the similarities between brands along a number of dimensions. The results are plotted on a preference map, perceptual map, or product space that provides a picture of the segments and the position of each of the products in those segments.[6] Dimensions for the preference map are determined by asking consumers for the dimensions along which they judge the similarities of the products. These dimensions become the segmentation bases. The preferences developed can be directly used in making positioning decisions for an existing product or for developing new products to address unmet consumer preferences. The approach relies upon the presumption that consumers' product evaluations are consistent with the stated judgment dimensions and their product choices are consistent with their stated preferences.

■ *Benefits.* Benefit segmentation is another special case of attitude segmentation, but it deserves separate treatment because of its broad

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[3]Frank, Massy, and Wind, *Market Segmentation,* pp. 69–72.

[4]See Stephen M. Barker and John F. Trost, "Cultivate the High Volume Consumer," *Harvard Business Review* (March–April 1973), pp. 118–22.

[5]See Norman L. Barnett, "Beyond Market Segmentation," *Harvard Business Review* (January–February 1969), pp. 152–66.

[6]For examples, see Richard M. Johnson, "Market Segmentation: A Strategic Management Tool," *Journal of Marketing Research* 8 (February 1971), pp. 13–18.

use and its causal nature. Haley, the originator states: "Experience with this approach has shown that benefits sought by consumers determine their behavior much more accurately than do demographic characteristics or volume of consumption."[7]

In this approach, markets are segmented according to the benefits that consumers seek in the product. Haley gives the example of the toothpaste market that he suggested might be segmented into decay prevention, flavor, bright teeth, and economy benefit segments.[8] Benefit segmentation, because it is causal, gives strong direction to focused development of marketing strategies. A difficulty with the approach is that differences between segments tend not to be sharp, the consumers may overlap segments, and the descriptive characteristics of consumers may not differ substantially between segments, making it difficult to reach the segments without overlap.

- *Usage Situation.* A more recent development is segmentation by usage situation.[9] It is well established in consumer behavior that product choice is, in part, dependent upon the occasion for which the product is to be used (see GLOSSARY entry A.5). Thus the market for a snack product might be segmented into the at home dessert segment, the after-school-snack segment, the lunch-box segment and so forth. The segmentation base is causal, suggesting that different choice criteria are employed depending upon the usage situation. It attempts to improve upon benefit segmentation by inquiring into the benefits desired under different usage situations. The results can give strong marketing mix direction.

Industrial Market Segmentation. Because of the differences between organizational buyer behavior and consumer buyer behavior, the segmentation bases used in industrial markets tend to be different. Industrial markets are more concentrated (making narrower segmentation feasible), motives are different, shopping behavior is different,

and more people are likely to be involved in the purchasing process (see GLOSSARY entry A.13). Segmentation bases often used in industrial markets reflect these differences. Frequently used bases include demographic characteristics of the firms, application of the product, and buying classes.

Several authors have proposed multistage application of segmentation bases to industrial markets.[10] Wind and Cardozo, for example, propose that an industrial market first be divided into "macrosegments" based on characteristics of the firms such as size, location, SIC category, product application, and buying class. Macrosegments of interest are then divided into "microsegments" using the characteristics of the decision making unit (DMU) within the firms. The base might be, for example, the criteria used by the DMU in selecting a supplier. The result of this approach will be relatively narrow segmentation, probably appropriate in concentrated markets.

Segmentation Research. All of the segmentation bases discussed above can be applied intuitively, that is, based on experience in the market, and many of them can be applied using secondary data. However, marketing research can also be used in segmentation either as the primary source of data or to confirm intuition.

Thus segmentation research can be either a priori or a posteriori.[11] In **a priori** segmentation research, the marketer first intuitively defines the segmentation base to be used. Then a sample of consumers is drawn and divided into segments using the selected base. Sample members are interviewed to

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[7]Russell I. Haley, "Benefit Segmentation: A Decision-oriented Research Tool," *Journal of Marketing* 32 (July 1968), pp. 30–35.

[8]Ibid., pp. 32–33.

[9]Geraldine Fennell, "Consumers' Perceptions of the Product-Use Situation," *Journal of Marketing* 42 (April 1978), pp. 38–47.

[10]See Yoram Wind and Richard Cardozo, "Industrial Market Segmentation," *Industrial Marketing Management* 3 (1974), pp. 153–66; Jean Marie Choffray and Gary L. Lilian, "A New Approach to Industrial Market Segmentation," *Sloan Management Review* (Spring 1978), pp. 17–29; and Benson P. Shapiro and Thomas V. Bonoma, "How to Segment Industrial Markets," *Harvard Business Review* (May–June 1984), pp. 104–10.

[11]This section is based on Yoram Wind, "Issues and Advances in Segmentation Research," *Journal of Marketing Research* 15 (August 1978), pp. 317–37.

determine segment size, descriptive characteristics by segment, and product-related characteristics such as purchase behavior, product attitudes, and consumption patterns. Research results can be used to confirm the effectiveness of the segmentation base and to gain information about the characteristics of the segments that will be essential in designing marketing mixes to meet their needs.

The alternate **a posteriori** research approach does not determine the segmentation base in advance, but generates it from the survey responses of consumers. A sample of consumers is drawn and asked a large number of questions to gather information relevant to potential segmentation bases, such as benefits desired, product perceptions, or attitudes. In addition, descriptive information is gathered. Clustering techniques are then used to divide consumers into segments based on the similarity of their responses. The clusters are examined to determine the basis for their commonality and usually a descriptive name is given to each segment. The demographic and other descriptive characteristics of each segment are also tabulated to aid in identification of the segments.

MARKET SEGMENTATION IN MARKETING DECISION MAKING

The segmentation of markets concept has application at all stages of the marketing planning process and is useful in marketing decision making at all levels.

Application to Market Analysis. Although it is presented as part of the process leading to the positioning decision, segmentation in the marketing planning process is usually done as part of the **situation analysis** (see GLOSSARY entry A.17). Understanding the structure of a market as the situation analysis is being conducted permits the marketer to direct the analysis toward explanation and description of the segments as well as the total market. Market analysis can look not only at total market size and projected growth, but also segment size and segment growth. Product analysis can consider the competitive advantages of the marketer's product segment by segment rather than just in total. Consumer analysis can examine buying behavior overall as well as differences by segment. Competitive analysis can examine competitiveness by segment in addition to across the total market. Each of these "by segment" analyses yields information that is essential in the target market selection process and in positioning the product.

Application to Positioning. Segmentation of the market is the first step in the process leading to **positioning** of the product (see GLOSSARY entry B.1). **Target market selection** requires deciding how broadly the market will be covered (one segment or the total market) and picking the segment that will be the target market (see GLOSSARY entry B.4). This step can obviously not be taken without understanding what segments are available as target markets. In addition, selection of the target market depends upon an understanding of the characteristics of the segments so that the desirability of alternative segments can be evaluated. In positioning the product, the marketer must decide how the product will set itself apart from competition within its market. This is dependent, in part, on knowing the characteristics of segment consumers learned during the segmentation process.

Application to the Marketing Mix Design. Segmentation of a market provides insight into the reasons that underlie consumer response to marketing mixes and also provides descriptions of segment consumers and their buying behavior. The segmentation base, if causal, defines a condition that the product must meet if it is to meet target consumer needs. Descriptive dimensions of segment consumers provide detailed guidance in marketing mix design. For example, knowing the media habits of consumers dictates **advertising media selection.** Understanding target consumer shopping behavior influences **retailer selection** for the chan-

nel of distribution. Understanding the life styles of target consumers influences the tone and context of **advertising copy.**

SUGGESTIONS FOR FURTHER READING

FRANK, RONALD, WILLIAM MASSY, and YORAM WIND. *Market Segmentation.* Englewood Cliffs, N.J.: Prentice Hall, 1972.

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