



Chapter 2

Market segmentation: segmenting, targeting and positioning for diverse consumer markets

Book Content

Learning Objectives

After reading this chapter you should be able to:

- understand why market segmentation is essential
- understand who uses market segmentation
- understand how market segmentation operates
- understand the criteria for targeting selected segments effectively
- understand the bases for segmenting consumers into markets
- understand how segmentation and strategic targeting are carried out and strategies implemented.

Discussion Questions

1. What is market segmentation? How is the practice of market segmentation related to the marketing concept?

Market segmentation is the process of dividing a potential market into distinct subsets of consumers with common needs or characteristics and selecting one or more segments to target with a distinct marketing mix. Before the widespread adoption of the marketing concept, most companies practiced mass marketing - that is, offering the same product and marketing mix to all consumers. The

marketing concept states that a company must determine the needs and wants of specific market segments and satisfy them better than competition. Thus, companies who adopted the marketing concept must segment their markets and develop products or services targeting different consumer groups. For example, the Accor group operates Ibis Hotels (mostly 3 Star) for the inbound leisure market and budget conscious corporate traveler, Mercure Hotels (3-5 Star) for the short stay corporate traveler, Novotel Hotels (mostly 4 Star) for the medium range short stay corporate and quality leisure market, and Sofitel (international 5 Star Hotels) for the upmarket corporate traveler and conference groups.

2. How are market segmentation, targeting and positioning interrelated? Illustrate how these three concepts can be used to develop a marketing strategy for a product of your choice.

Segmentation consists of subdividing the market into homogeneous clusters and it is the first step in a three-phase market strategy. After segmenting the market, the marketer must select one or more segments to target with a specific marketing mix. The third step is to position the product so that it is perceived by the target market to satisfy its needs better than other competitive offerings. For example, a toothpaste manufacturer can segment the market according to the benefits that consumers look for in the product. The firm may select one segment, such as those consumers who are primarily concerned with plaque prevention, as its target market. Then, the company must position the product so that it is perceived as providing better plaque prevention than other toothpaste brands on the market.

3. Discuss the advantages and disadvantages of using demographics as a basis for segmentation. Can demographics and psychographics be used together to segment markets? Illustrate your answer with a specific example.

Demographic information is the most accessible and cost effective way to identify a target market. Demographics are easier to measure than other segmentation variables. Most secondary data (e.g. census data) are expressed in demographic terms and most media develop demographic profiles of their audiences. Also, demographic trends reveal shifts in age and income distribution (e.g. a 55+ population segment with a large spending power) that signal business opportunities for marketers. However, demographics tend to be one-dimensional because they

provide information on the potential for usage but not on why a particular brand is used or exactly who uses it. Thus, demographics help locate a target market, while psychological and sociocultural characteristics help describe who its members are - how they think, feel and behave. Table 2.1 illustrates selected demographic and psychographic characteristics of readers of *Cosmopolitan* magazine.

4. Many marketers have found that a relatively small group of heavy users accounts for a disproportionately large amount of the total product consumed. What are the advantages and disadvantages of targeting these heavy users?

Heavy users represent the most profit potential. For example, research shows that 41% of households buy beer, but heavy users accounted for 87% of the beer sold. In another product category, 94% of households buy soaps and detergents, but heavy users accounted for 75% of the sales - three times as much as light users (Kotler, *Marketing Management*, 8th Ed. 1994, p. 276). Therefore, many companies target heavy users rather than try and increase the consumption among light and medium users of their products. However, if too many companies target the heavy users, these markets will become saturated. Marketers must therefore take note of gaps in targeting light and medium users, and pursue these consumer groups more aggressively.

5. Under which circumstances and for what types of products should a marketer segment the market on the basis of:

- (a) awareness status?**
- (b) brand loyalty?**
- (c) user situation?**
- (d) a hybrid form?**

(a) Awareness status is most appropriate for segmenting the market for a new product. For example, if most potential consumers are unaware of the product, the marketer should design an awareness-building promotional campaign. Later on, when most potential buyers become aware of the product, the advertising should be designed to get consumers to desire and actually buy the product.

(b) Brand loyalty can be used in segmentation in several ways. For example, a marketer of instant coffee should:

- i. Study the characteristics of its 'hard core' loyal customers and support their loyalty with special deals and promotions. The company should also target consumers with similar characteristics within the larger population.
- ii. The marketer should also study consumers who are loyal to two or three, including its own, brands of coffee because such data will show the firm which brands are its closest competitors.
- iii. By studying consumers who show no loyalty to any brand, the company may decide whether such customers are worth attracting and how to do so.

(c) User situation analysis can help marketers to increase product usage. For example, confectionery, flowers and greeting cards marketers aggressively promote their products around Mother's Day and Father's Day. Recently, camera film marketers started to promote their products for these occasions by encouraging consumers to take pictures of their parents on those holidays.

(d) Hybrid segmentation involves combinations of attributes. In reality, virtually all segmentation plans are in the form of hybrid segmentation. Hybrid segmentation includes attributes from two or more of the four quadrants in Figure 2.3.

6. Some marketers consider benefit segmentation as the segmentation approach most consistent with the marketing concept. Do you agree or disagree with this view? Why?

Benefit segmentation is built upon the premise that consumers are basically purchasing needs, wants and satisfactions. Thus, it is entirely consistent with the marketing concept. Benefit segmentation allows marketers to position various brands within the same product category by stressing those benefits/desired satisfactions appropriate to each segment served. For example, in the toothpaste market, Close-Up is marketed by using a social appeal that stresses bright teeth and is targeted to young people; Aim is targeted to parents as a good-tasting toothpaste that will encourage children to brush longer; Colgate Tarter Control is targeted to adults as a means to remove tartar (cosmetic benefit) and plaque (health benefit).

7. Club Med is a prominent company in the holiday and travel industry. Describe how the company can use demographics and psychographics to identify TV shows and magazines in which to place its advertisements.

Club Med's catalogue describes the company's resorts and includes a chart that specifies which ones are particularly suited for families with babies, families with young children, couples, honeymooners and singles; obviously, the company relies on demographics in segmenting its market. Within each of the demographic groups listed above, the company should identify additional socioeconomic factors (e.g. income, education, occupation) of consumers to whom a Club Med vacation 'away from it all' may appeal. The company should identify the psychographics of consumers in the different segments, combine demographics and psychographics and create several profiles of its likely customers. Then, Club Med should identify TV shows and magazines that have 'audience profiles' matching its customers' profiles, and place its advertisements in such media.

8. How can a marketer use the VALS 2™ segmentation profiles to develop an advertising campaign for a chain of gyms? Which segment should be targeted? How should the gym be positioned to each of these segments?

The VALS 2™ segments are described in Box 2.1. The best prospects for health clubs appear to be the *Actualisers* and *Achievers* because members of these groups are interested in growth, control of their lives, self-discovery and self-expression. Many of them are probably already involved in some form of physical activity; however a gym that is positioned as, say, 'for people who are in the best shape they have ever been in but still aren't satisfied' will appeal to them. The gym should be portrayed as a mechanism that will help these people control an additional aspect of their lives - their health and physical well-being - through exercise. The *Experiencers* and *Makers* are not good prospects for a health club because they are interested in *outdoor* sports and recreation. The *Believers* are probably too set in their ways to join a gym, and the *Strivers* and *Strugglers* do not have the financial resources to join one. The *Fulfilled* represent a good target market because they are mature, educated and financially secure individuals who might want to broaden their horizons. To them, the gym should be positioned as a new, highly fulfilling and beneficial experience; value should be stressed in the promotion because these consumers are practical and concerned with the functionality of their purchases.

9. For each of the following products, identify the segmentation base that you consider to be the best one for targeting consumers:

- a) **coffee**
- b) **soups**
- c) **home exercise equipment**
- d) **mobile telephones**
- e) **non-fat frozen yogurt.**

Explain your choices.

a) *Coffee* - demographics (size and composition of family); geographic factors (regional taste differences); benefit segmentation (health concerns, taste); user behaviour (usage situation, time pressure and rate of usage).

b) *Soups* - demographics (size and composition of family); geographic factors (regional taste differences); usage situation (e.g. family dining versus entertaining); brand loyalty; rate of usage (e.g. suggesting new users through recipes on the package).

c) *Home exercise equipment* - a combination of demographics and psychographics.

d) *Mobile telephones* - occupation and income.

e) *Non-fat frozen yogurt* - geographic factors; benefit segmentation; usage rate (i.e. identifying the psychographics and demographics of heavy users).

10. Apply the criteria for effective segmentation to marketing a product of your choice to university students.

The criteria for effective targeting of market segments are identification, sufficiency, stability, accessibility and congruence with corporate objectives and resources. Marketing credit cards to university students provides a good illustration of utilising the criteria. Thus, a bank offering its credit card to students has apparently **identified** a common need for the service among students, determined that there is a **sufficient** number of consumers in this segment to make it profitable for the company and that the segment is **stable** (i.e. not 'fickle,' eager to buy and able to spend) and that it is **accessible** (i.e. can be reached in an economical way). Offering credit cards to students must be consistent with the bank's objectives and resources.

Exercises

1. Select a product and brand that you use frequently and list the benefits you receive from using it. Without disclosing your list, ask a fellow student who uses a different brand in this product category (preferably a student of the opposite sex) to make a similar list for his or her brand. Compare the two lists and identify the implications for using benefit segmentation to market the brand.

This exercise is designed to illustrate the variability of the benefits that consumers seek in the same product and that knowledge of desired benefits can be used to position different brands within the same product category.

2. Does your lifestyle differ significantly from your parents' lifestyle? If so, how are the two lifestyles different? What factors cause these differences?

This is an interesting way to illustrate similarities and differences between the **activities, interests and opinions** of two distinct groups, as the factors that determine one's lifestyle.

3. Do you anticipate any major changes in your lifestyle in the next five years? If so, into which VALS 2™ segment are you likely to belong five years from now? Explain.

Students' responses to this assignment are likely to illustrate as one obtains additional **resources** one's **self-orientation** is likely to change. An interesting discussion develops when students who are likely to obtain similar financial resources following graduation characterise their future lifestyles differently. The VALS 2™ segments are outlined in Figure 2.9 and described in Box 2.1 and Figure 2.10.

4. The owners of a local health food restaurant have asked you to prepare a psychographic profile of families living in the community surrounding the

restaurant's location. Construct a ten-question psychographic inventory appropriate for segmenting families on the basis of dining-out preferences.

The psychographic items developed by the students can fall into any of a large number of dining-out and meal-related categories (price consciousness, food venturesomeness, social dimensions of eating, home-orientation etc.). The instructor should maintain an inventory of student responses to this question and use them to demonstrate the different types of psychographic statements when this exercise is discussed.

5. Find three print advertisements that you believe are targeted at a particular psychographic segment. How effective do you think each ad is in terms of achieving its objective? Why?

Students can easily find numerous ads that are based on psychographics. Their responses will illustrate that markets of many well-known brands utilise psychographic segmentation.

Case Study Solutions

Moleskine: Integrating the techno and the retro

Question 1

Describe the characteristics of the Moleskine consumer. Write down a list of the various personalities you think they might possess. Do they have anything in common with other consumers?

Answer

Moleskine consumers cover a range of age brackets, however, they all share a common desire to be creative and keep record of their passions, experiences and personal stories. They are most likely well-travelled individuals, or at least exhibit a strong interest in other cultures and pastimes. Because of the range of products on offer, Moleskine consumers could be white collar workers or full-time artists or students.

Personality traits are the relatively enduring personal qualities of an individual that determine how they respond to the world around them. Moleskine consumers are most likely to be creative and imaginative individuals. They are open to experience, and comfortable socialising with others. There may be an element of materialism in their personalities, if they purchase Moleskine products that exemplify their lifestyle and self-image. They are less likely to conform to other's expectations or standards because they like to be unique. Overall, they are likely to be high in their need for cognition, which measures an individual's craving for enjoyment and thinking.

Moleskine consumers seek variety in their behaviour. They are motivated by new experiences and base their purchase decisions on factors such as brand loyalty, quality and value. They are fairly conscious of their image and social position, thus they are likely to buy products that are not only functional, but also look good.

In view of these characteristics and traits, Moleskine consumers may share common characteristics with artists, writers and travel enthusiasts.

Question 2

Outline the VALS program and Roy Morgan Values Segments. Where do you think Moleskine consumers fit into those systems? How could these systems assist marketers in planning the marketing mix?

Answer

VALS is one of the most widely used segmentation systems. It focuses on explaining consumer purchasing behaviour, and includes three primary motivations: ideals motivated, achievement motivated and self-expression motivated. Each of these three primary motivations represents distinct attitudes, lifestyles, and decision-making styles of consumers. They also reflect the types of goals and behaviours of individuals, and the types of products they are likely to purchase. The VALS program was developed as a result of administering a large psychographic inventory to sizeable samples of US consumers in the late 1970s. The revised version contains eight psychographic segments: Innovators; Thinkers; Believers; Achievers; Strivers; Experiencers; Makers; and Survivors. Moleskine consumers are most likely to fit into the Innovators segments of the VALS program. Image is important to Innovators, and thus they are likely to purchase products that allow them to express their taste, independence and personality. They enjoy the finer things in life and are generally sophisticated people with high self-esteem.

The Roy Morgan Values Segments is an Australian tool for understanding how people (consumers) think, their aspirations, how they see themselves, and their attitudes to a wide range of issues. It comprises ten value segments: Basic Needs; A Fairer Deal; Traditional Family Life; Conventional Family Life; Look At Me; Something Better; Real Conservatism; Young Optimism; Visible Achievement; and Socially Aware. Consumers are placed into these categories depending on their degree of life satisfaction, individualism, quality expectations, price expectations, innovation and progressiveness. Moleskine consumers are likely to fit into the Young Optimism value segment. Individuals in this segment are generally students or young professionals, are ambitious and forward thinking. Students may also describe Moleskine consumers as Socially Aware, as individuals in this segment are early adopters of new products and technology, and are socially active.

Both systems can be used by marketers to better understand the opinions, attitudes and values of consumers in each of the value segments each tool provides. Once consumers have been segmented on this basis, the marketing mix can be devised and the most appropriate marketing communication tools and media channels can be selected. Students should be encouraged to think of tools and channels that would be appropriate for a range of segments across both value systems.

Question 3

What marketing communication tools do Moleskine use to connect with the modern consumer? What additional strategies could they use, and how would these resonate with a global market?

Answer

The case study suggests that Moleskine use a range of digital communication tools to connect with their consumers. Students should unpack how they use the primary tools of interactive websites and social media. Discussion could then include how Moleskine integrate their online presence with a range of offline tools such as public relations, in store advertising and point of sale material. Though the latter two is not mentioned in the case, Moleskine pays careful attention to its in store branding.

In relation to an international market, students should be encouraged to explore what other marketing strategies Moleskine could use to further develop their

relationship with the global consumer. Strategies could include not only other marketing communication tools, but also product, price or distribution strategies. Students may also come up with ideas of other brands Moleskine could partner with as part of their co-branding strategies.

Question 4

Is it possible for other traditional - paper-based, or other analogue - products to use similar segmentation and marketing strategies to Moleskine? If it is, what products could do so? If not, why not?

Answer

In a general way, linking a firm's 'tradition' to a range of current products and keeping the brand relevant to the modern consumer is a strategy that is used on a regular basis, typically in luxury brands. Good examples are Dunhill and Jaguar.

Certainly, Moleskine's success lies very much in its ability to develop and market products that its consumers want and feel they need, while simultaneously meshing the 'new' with the 'old'. They understand the lifestyles and interests of their consumers and continually produce a range of traditional and modern-day products that allow consumers the opportunity to display their creative talents. Similarly, Moleskine's use of interactive websites and social media has enabled them to raise the profile of the brand and increase the level of engagement with the global consumer segment.

If other traditional products targeted consumers with similar personality characteristics, then they may have success using similar segmentation and marketing strategies. Students will come up with their own examples of other traditional products, but manufacturers of watches are an obvious example. There are a number of luxury brand watchmakers that do so (Breitling, Bell & Ross and TAG Heuer for instance). Again, these products are not tied down to a geographic or demographic base, but more of a global consumer segment. The key issue is that there needs to be a clear connection between product and consumer that would allow the brand to be marketed in this way - the strategies need to resonate with the target market to be effective.

Teaching Notes

Lectures

1. When discussing VALS, students could be directed to the online survey available at <http://www.strategicbusinessinsights.com/vals/>. If facilities are available, several students could complete the survey independently and then compare their VALS type.

2. When discussing the criteria for effective targeting of market segments, ask students to consider the following. One in ten consumers are left-handed and consumer research indicates they often struggle with household appliances designed for right-handed consumers (e.g. tangled cords). A household appliance company targeting the Chinese market needs to decide whether to redesign all of its products specifically for left-handed consumers. The purpose is for students to apply the criteria. While the market may be sufficient (10% of 1 billion consumers), students should realise that identification and accessibility would present problems, as the targeted consumers share only one characteristic – being left handed.

Discussion Notes

Psychographic segmentation - To illustrate to students why demographics alone don't always suffice; use the following example:

Two women have identical demographic profiles: 35 years old, married, two children, household income of \$60,000, college educated, product managers for a national company etc. If marketers relied solely on demographics, this profile would lead them to target both women in the same way. Now consider this: Woman #1 places her top priority with her family, while Woman #2's priority is with her career. Do you think there will be differences in: (a) how they spend their time, (b) their beliefs about themselves, and (c) the importance of things in their surroundings?

Family Life Cycle - Discuss how the concept of the family life cycle has changed over the past several years, and the implications for marketers.

Criteria for segmentation - Point out that marketers have only recently come to realise the importance of the over-65 segment of the market. For a couple of reasons: (1) Older people are living longer and maintaining their health longer, and therefore remaining independent longer. Traditionally, they often lived with adult children and were not accessible. Now with the growth of senior citizen housing, marketers can reach them; (2) Seniors' purchasing power was not seen as significant. Marketers, however, took a second look at what constituted their income. Since most over-65ers were not in the work force, the bulk of their income was from interest. So a seemingly insignificant income of \$10,000, now became significant since this probably represented interest on savings.

Repositioning – Point out that positioning strategies are not static. Marketers need to routinely re-evaluate their positioning strategies in the face of competitive efforts and decide whether repositioning may be needed or may offer strategic benefits.

Application Assignments

1. To illustrate how companies use various segmentation criteria, have students in groups do the following:

- (a) Choose 5 brands of laundry detergents. Describe the benefit segments each brand is appealing to.
- (b) Choose 5 brands of women's cosmetics. Identify the demographic and psychographic segments each brand is appealing to.
- (c) Choose 5 brands of men's cologne. Identify the demographic and psychographic segments each brand is appealing to.

Have students compare their responses and summarise customer profiles on charts.

2. Using Table 2.1 as a base, develop a demographic and psychographic profile for a magazine of your choice for both its offline and online versions. Do the profiles differ for the offline and online versions? If so, why? If not, why not? Compare profiles with students who have selected other magazines.

Additional Readings

Hassan, S. & Craft, S. 2012, 'Examining world segmentation and brand positioning strategies', *The Journal of Consumer Marketing*, vol. 29, no. 5, pp. 344-356.

This article looks at segmentation as applied to world markets and segmentation's ability to enhance the strategic position of the brand. The decision to segment lies in understanding the degree of globalisation achieved in any given market - e.g. if there are no mass markets a single universal marketing strategy would be unlikely to be effective.

This article reinforces the strategic benefits that come from segmentation.

Winters, L. C. 1992, 'International Psychographics', *Marketing Research: A Magazine of Management & Applications*, September, pp. 48-49.

Several advertising agencies and SRI International provide segmentation tools to help marketers support their international market development decisions. People in 12 countries have been classified into segments by the system.

This article provides insight into the international and cross-cultural implications of segmentation.

Moschis, G. P. 1992, 'Gerontographics: A Scientific Approach to Analyzing and Targeting the Mature Market', *Journal of Services Marketing*, vol. 6, no. 3, pp. 17-26.

Because of differences in attitudes, values and behaviours among older consumers, a 'shotgun' approach to marketing does not appear to be an effective strategy. A more effective strategy to reach a heterogeneous market is to match company offerings with the needs of subgroups. A model is presented which identifies four segments.

This reading illustrates the fact that new and creative approaches to segmentation are useful and that the marketer shouldn't feel 'locked-in' to traditional approaches.