**Slaying the Mythical Beast: The Role of Segmentation**

Dr. P.V. (Sundar) Balakrishnan
(425) 861-6516
Sundar@u.washington.edu
Managing World-Class Organizations

---

**Outline**

- **Overview of Segmentation**
  - The Marketing Philosophy
  - The Average Joe Fallacy
  - Definition
- **Value of Segmentation**
  - Why Segment
  - Segmentation in Action
  - Vocabulary of segmentation
  - Criteria for segmentation
- **Segmentation and the Firm**
  - Impact on Firm Strategies
  - Evolution in Segmentation

---

**Building on Business Smarts:**

Demographics:
- We now understand:
  - We are not all alike!
    - "the Star-Belly sneetches had bellies with stars,
      the Plain-Belly sneetches had none upon thars..."
      - *The Sneetches* by Dr. Seuss (c 1950s).
  - Okay. So what?
    - "...Sneetches are Sneetches..."
      - message was important,...
      - but needs to be more actionable for today.

---

**Average Joe**

Traditionally we characterized the market by the needs of this mythical creature.

*Who or What is this? Does this beast exist?*

---

**Where do we go from there?**

- Need a More Useful Message:
  - Ex: A Drink for the Average Person--Tea for Two!
  - Impact on Firm’s decisions.
  - We make Lukewarm (Tea) tradeoffs everyday.
  - We are all not satisfied/excited by the same things.
    - Mindset Challenge: Get rid of the “Average Joe”
    - One Size doesn’t fit all
      - Ford’s Model T only in black.
      - Product Differentiation to the rescue!
      - “Some like it hot, ... in the pot nine days old”

---

**Slaying the Mythical Beast: Segmentation to the Rescue**

- Employing a process of dividing a heterogeneous market into homogenous subsets of customers -- or segments.
  - I.e., dividing a market into groups of potential buyers who have similar needs and wants,
  - value perceptions, or purchasing behaviors.

**Segments**

- Members are different between segments but similar within.
Why Segment?

• Aggregation across segments may provide misleading information
• Consumers may be too numerous, widely scattered and varied in their needs and Organizations have limited resources
• Competing organizations may be better able to attract certain groups of customers (segments) in the market
• Each Organization should, therefore, identify the most attractive parts of the market that it could effectively serve (i.e., Target Market)

Segmentation can be used to:

◊ Identify Target Markets for Direct Mail Campaigns
◊ Guide in the Design of New Products
◊ Determine appropriate products and promotional campaigns for different groups
◊ Assign Customers and Prospects to Channels

Value of Segmentation:

• Who are our Customers?
  • Some times even the best firms do not know who they are reaching or even who are purchasing their product!
  • Example: Campbell Soup & Curtis Publishing Co.
  • Do you know who YOUR customers are?
    • Are they all 51 year old men?
    • Do all 51 year olds dream the same dream

Segmentation in Action: Marriott Hotel

A Marriott Hotel used to be a Marriott Hotel: An upscale hotel catering to business people, pleasure seekers and international and group travelers.

Today, besides the Marriott Hotels, there are Marriott Suites, Residence Inns, Courtyards by Marriott and Fairfield Inns—Each serves a smaller, targeted segment of the market.

—Lemmens and Stanton, "Mining for Niches," Business Horizons

Any HOGS here?

Response-based segmentation:

Putting the horse before the cart

<table>
<thead>
<tr>
<th>Who customers are (Identifier variables)</th>
<th>Traditional Approach</th>
<th>What customers want/do (Response Variables)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

• Traditional ("A Prior") Segmentation Approach:
  ➢ Start by dividing customers into groups that look the same on identifier variables (demographics, psychographics, etc.). Work forward, hoping to discover meaningful differences in what they want and need.

• Response-based ("Post-Hoc") Segmentation Approach:
  ➢ Start with groups of customers who have similar needs and benefits and respond similarly to marketing variables. Work backward to see if the groups can be identified based on differences in demographic or firmographic variables.
**Vocabulary and Bases of Segmentation**

- **Bases**—characteristics that tell us why segments differ (e.g., needs, preferences, decision processes).
- **Descriptors**—characteristics that help us find and reach segments.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Age/Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>Education</td>
</tr>
<tr>
<td>Location</td>
<td>Profession</td>
</tr>
<tr>
<td>Organization</td>
<td>Life styles</td>
</tr>
<tr>
<td>structure</td>
<td>Media habits</td>
</tr>
</tbody>
</table>

**Basis of Segmentation: Geographic**

- Geographic
  - Region (Pacific Northwest, Atlantic, ...)
  - Climate (warm, cold, ...)
  - Population density (urban, suburban, rural)

  Examples:
  - Campbell Soup makes:
    - Nacho Cheese Soup spicier for Texas and California markets
    - Cream of Chile Poblano for Mexico; Peppery Tripe for Poland; Watercress and Duck Gizzard for China
  - Ski products are not sold at near equator.
  - How about Coca-Cola?

**Basis of Market Segmentation: Demographic**

- Dividing the market into groups based on variables such as:
  - Age
  - Gender
  - Family size or life cycle
  - Income
  - Occupation
  - Education
  - Religion
  - Race
  - Generation
  - Nationality

**Basis of Segmentation: Psychographic**

- Psychographic:
  - Social class (lower, middle, upper, ...)
  - Lifestyle (traditionalist, sophisticate, swinger)
  - Personality (aggressive, detached, ...)

  EX:
  - Ford owners were identified as independent, impulsive, masculine, alert to change, and self-confident,
  - while Chevy owners were conservative, thrifty, prestige-conscious, less masculine, and seeking to avoid extremes.

**Basis of Segmentation: Behavioral**

- Buyer thoughts and feelings
  - Attitudes (positive, neutral, negative)
  - Benefits sought (convenience, economy, prestige)
  - Readiness stage (unaware, aware, informed, ...)
  - Innovativeness (early adopter, laggard, ...)

  EX:
  - Crest by Procter and Gamble offered the benefit of anticavity protection
  - Airlines: Business and Pleasure Travelers
    - Business: Reliability; Convenient Schedules; Easy-to-use airports; comfortable service
    - Pleasure: Price; feasible schedules

**Basis of Segmentation: Behavioral - 2**

- Purchase behavior
  - Usage rate (light, medium, heavy)
  - Source loyalty (purchase from one, two, three or more suppliers)
  - User status (non-users, ex-user, potential user, ...)

  EX:
  - Buy Online: from Amazon.com, Soma.com: Affiliate
  - 41% of the sampled households buy beer. But heavy users accounted for 87% of the beer consumed.
  - A beer company would prefer to attract one heavy user to its brand rather than several light users.

  *Journal of Consumer Marketing (1984)*
Segmenting Business Markets

- Demographics
- Operating Variables
- Purchasing Approaches
- Situational Factors
- Personal Characteristics

Business Marketers Use Many of the Same Consumer Variables, Plus:

Segmenting International Markets

- Geographic Location
- Cultural Factors
- Factors Used to Segment International Markets
- Economic Factors
- Political and Legal Factors

Criteria for Effective Segmentation

- Measurable
  - Size, purchasing power, profiles of segments can be measured.
- Accessible
  - Segments can be effectively reached and served.
- Substantial
  - Segments are large or profitable enough to serve.
- Differential
  - Segments must respond differently to different marketing mix elements & programs.
- Actionable
  - Effective programs can be designed to attract and serve the segments.

Cases for not Conducting Segmentation

- When the market is small
- When the brand is dominant in the market
- When heavy users make up such a large proportion of the sales
- When you already know what you are going to do – Organizational realpolitik!
- When Targeting could be criticized as unethical. Two key factors:
  - The perceived harmfulness of the product
  - The perceived vulnerability of the target

Not by Jeans Alone - Levis

- Heileman’s PowerMaster Malt Liquor
  - Malt liquor was mainly consumed by blacks and low-income neighborhood
  - PowerMaster was 31 % stronger than Heileman’s Colt 45, which was the market leader, and had 65 % more alcohol than regular beer
- Caused uproar among anti-alcohol groups and black leaders
- Black men had a 40 % higher death rate from cirrhosis of the liver than did whites
- Asked brewer to stop distribution by saying “Higher octane alcoholic beverages have no place on the market, especially in communities where residents already suffer disproportionately from alcohol and other drug problems”

Caveat: Ethical Issues in Segmentation

- Heileman’s PowerMaster Malt Liquor
  - Malt liquor was mainly consumed by blacks and low-income neighborhood
  - PowerMaster was 31 % stronger than Heileman’s Colt 45, which was the market leader, and had 65 % more alcohol than regular beer
- Caused uproar among anti-alcohol groups and black leaders
- Black men had a 40 % higher death rate from cirrhosis of the liver than did whites
- Asked brewer to stop distribution by saying “Higher octane alcoholic beverages have no place on the market, especially in communities where residents already suffer disproportionately from alcohol and other drug problems”
Example of Segmentation

- Segmentation and Michael DELL
- Newspaper Subscriptions
  - Cold calling Not effective.
  - Purchase highest for
    - Newly married and New Home Owners
    - Get data from County on Marriage Licenses & Mortgage lists.
- Response to DELL Computer Ads
  - Germans not comfortable with telephoning in response to an Ad.
  - Too forward! But are willing to Fax in their information and have the salesperson call them.
  - Requires: Modification of strategy to account for cultural differences!

Segmentation Strategies

- Undifferentiated Strategy
  - Company Mix
    - Market

- Differentiated Strategy
  - Marketing Mix 1
    - Segment 1
  - Marketing Mix 2
    - Segment 2
  - Marketing Mix 3
    - Segment 3

- Concentrated Strategy
  - Company Marketing Mix
    - Segment 1
    - Segment 2
    - Segment 3

Evolution in Approaches to Serving Markets

<table>
<thead>
<tr>
<th>Approach</th>
<th>Description</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mass Marketing Segment marketing</td>
<td>A single marketing mix for the entire market</td>
<td>Phone service, WEB pages</td>
</tr>
<tr>
<td></td>
<td>A single marketing mix for one segment of the market</td>
<td>Women’s Workout World (exercise facilities for women); American Association for Retired Persons</td>
</tr>
<tr>
<td>Individual marketing</td>
<td>Separate marketing mixes for two or more segments of the market</td>
<td>McDonald’s (Happy Meals for young children, Big Macs for Teens, Arch Deluxe for adults); Xerox copiers (several sizes and features to meet different levels of business needs)</td>
</tr>
<tr>
<td></td>
<td>A marketing mix customized for an individual or organization</td>
<td>Personalized amenities for repeat guests at Ritz-Carlton hotels; Customized WEB pages</td>
</tr>
</tbody>
</table>

Summary Remarks

- Don’t fall prey to the myth of the average consumer.
  - Remember that 2.1 kids don’t exist!
  - Look alikes don’t necessarily think alike!
- Customers’ are all NOT alike in their Needs.
  - “Some like it hot, Some like it cold, ... in the pot nine days old” => One Size doesn’t fit all.
  - Your Employees are the frontline in this Intelligence gathering; understanding evolving preferences.
- Need to be willing differentiate the offerings to different segments
  - “peas porridge hot, peas porridge hot ...”!
- Not all Segments need to be/can be served.

Summary Remarks

- For Employees: Need to
  - recognize the need to build distinct products and services for each customer segment;
  - be the eyes and ears of the organization
- Ultimate Segment is of Size One.
  - one way to do this is through information technology.
  - MyIdea.COM