

## 5.2: How Markets Are Segmented

### Learning Objectives

1. Understand and outline the ways in which markets are segmented.
2. Explain why marketers use some segmentation bases versus others.

Sellers can choose to pursue consumer markets, business-to-business (B2B) markets, or both. Consequently, one obvious way to begin the segmentation process is to segment markets into these two types of groups.

Different factors influence consumers to buy certain things. Many of the same factors can also be used to segment customers. A firm will often use multiple segmentation bases, or criteria to classify buyers, to get a fuller picture of its customers and create real value for them. Each variable adds a layer of information. Think of it as being similar to the way in which your professor builds up information on a PowerPoint slide to the point at which you are able to understand the material being presented.

There are all kinds of characteristics you can use to slice and dice a market. “Big-and-tall” stores cater to the segment of population that’s larger sized. What about people with wide or narrow feet, or people with medical conditions, or certain hobbies? Next, we look primarily at the ways in which consumer markets can be segmented. Later in the chapter, we’ll look at the ways in which B2B markets can be segmented.

### Types of Segmentation Bases

Table 5.1 shows some of the different types of buyer characteristics used to segment markets. Notice that the characteristics fall into one of four segmentation categories: *behavioral*, *demographic*, *geographic*, or *psychographic*. We’ll discuss each of these categories in a moment. For now, you can get a rough idea of what the categories consist of by looking at them in terms of how marketing professionals might answer the following questions:

- **Behavioral segmentation.** What benefits do customers want, and how do they use our product?
- **Demographic segmentation.** How do the ages, races, and ethnic backgrounds of our customers affect what they buy?
- **Geographic segmentation.** Where are our customers located, and how can we reach them? What products do they buy based on their locations?
- **Psychographic segmentation.** What do our customers think about and value? How do they live their lives?

Table 5.1 Common Ways of Segmenting Buyers

By Behavior	By Demographics	By Geography	By Psychographics
<ul style="list-style-type: none"> <li>• Benefits sought from the product</li> <li>• How often the product is used (usage rate)</li> <li>• Usage situation (daily use, holiday use, etc.)</li> <li>• Buyer’s status and loyalty to product (nonuser, potential user, first-time users, regular user)</li> </ul>	<ul style="list-style-type: none"> <li>• Age/generation</li> <li>• Income</li> <li>• Gender</li> <li>• Family life cycle</li> <li>• Ethnicity</li> <li>• Family size</li> <li>• Occupation</li> <li>• Education</li> <li>• Nationality</li> <li>• Religion</li> <li>• Social class</li> </ul>	<ul style="list-style-type: none"> <li>• Region (continent, country, state, neighborhood)</li> <li>• Size of city or town</li> <li>• Population density</li> <li>• Climate</li> </ul>	<ul style="list-style-type: none"> <li>• Activities</li> <li>• Interests</li> <li>• Opinions</li> <li>• Values</li> <li>• Attitudes</li> <li>• Lifestyles</li> </ul>

### Segmenting by Behavior

Behavioral segmentation divides people and organization into groups according to how they behave with or act toward products. *Benefits segmentation*—segmenting buyers by the benefits they want from products—is very common. Take toothpaste, for example. Which benefit is most important to you when you buy a toothpaste: The toothpaste’s price, ability to whiten your teeth, fight tooth decay, freshen your breath, or something else? Perhaps it’s a combination of two or more benefits. If marketing professionals know what those benefits are, they can then tailor different toothpaste offerings to you (and other people like you).

For example, Colgate 2-in-1 Toothpaste & Mouthwash, Whitening Icy Blast is aimed at people who want the benefits of both fresher breath and whiter teeth.

#### Video Clip



A Vintage Colgate Commercial from the 1950s

Watch the YouTube video to see a vintage Colgate toothpaste ad that describes the product's various benefits to consumers. (Onscreen kissing was evidently too racy for the times.)

Another way in which businesses segment buyers is by their usage rates—that is, how often, if ever, they use certain products. Harrah's, an entertainment and gaming company, gathers information about the people who gamble at its casinos. High rollers, or people who spend a lot of money, are considered "VIPs." VIPs get special treatment, including a personal "host" who looks after their needs during their casino visits. Companies are interested in frequent users because they want to reach other people like them. They are also keenly interested in nonusers and how they can be persuaded to use products.

The way in which people use products is also be a basis for segmentation. Avon Skin So Soft was originally a beauty product, but after Avon discovered that some people were using it as a mosquito repellent, the company began marketing it for that purpose. Eventually, Avon created a separate product called Skin So Soft Bug Guard, which competes with repellents like Off! Similarly, Glad, the company that makes plastic wrap and bags, found out customers were using its Press'n Seal wrap in ways the company could never have imagined. The personnel in Glad's marketing department subsequently launched a Web site called 1000uses.com that contains both the company's and consumers' use tips. Some of the ways in which people use the product are pretty unusual, as evidenced by the following comment posted on the site: "I have a hedgehog who likes to run on his wheel a lot. After quite a while of cleaning a gross wheel every morning, I got the tip to use 'Press'n Seal wrap' on his wheel, making clean up much easier! My hedgegie can run all he wants, and I don't have to think about the cleanup. Now we're both GLAD!"



Figure 5.4: Encouraging consumers to use your products for multiple purposes is a smart marketing strategy. Last Human Getaway – Hedgehog – CC BY-NC-ND 2.0.

Although we doubt Glad will ever go to great lengths to segment the Press 'n Seal market by hedgehog owners, the firm has certainly gathered a lot of good consumer insight about the product and publicity from its 1000uses.com Web site. (Incidentally, one rainy day, the author of this chapter made “rain boots” out of Press 'n Seal for her dog. But when she later tried to tear them off of the dog’s paws, he bit her. She is now thinking of trading him in for a hedgehog.)

## Segmenting by Demographics

Segmenting buyers by personal characteristics such as age, income, ethnicity and nationality, education, occupation, religion, social class, and family size is called demographic segmentation. Demographics are commonly utilized to segment markets because demographic information is publicly available in databases around the world. You can obtain a great deal of demographic information on the [U.S. Census Bureau’s Web site](#). Other government Web sites you can tap include FedStats ([www.fedstats.gov](http://www.fedstats.gov)) and [The World Factbook](#), which contains statistics about countries around the world. In addition to current statistics, the sites contain forecasts of demographic trends, such as whether some segments of the population are expected to grow or decline.

### Age

At this point in your life, you are probably more likely to buy a car than a funeral plot. Marketing professionals know this. That’s why they try to segment consumers by their ages. You’re probably familiar with some of the age groups most commonly segmented (see Table 5.2) in the United States. Into which category do you fall?

Table 5.2 U.S. Generations and Characteristics

Generation	Also Known As	Birth Years	Characteristics
Seniors	“The Silent Generation,” “Matures,” “Veterans,” and “Traditionalists”	1945 and prior	<ul style="list-style-type: none"> <li>Experienced very limited credit growing up</li> <li>Tend to live within their means</li> <li>Spend more on health care than any other age group</li> <li>Internet usage rates increasing faster than any other group</li> </ul>

Note: Not all demographers agree on the cutoff dates between the generations.

Generation	Also Known As	Birth Years	Characteristics
Baby Boomers		1946–1964	<ul style="list-style-type: none"> <li>• Second-largest generation in the United States</li> <li>• Grew up in prosperous times before the widespread use of credit</li> <li>• Account for 50 percent of U.S. consumer spending</li> <li>• Willing to use new technologies as they see fit</li> </ul>
Generation X		1965–1979	<ul style="list-style-type: none"> <li>• Comfortable but cautious about borrowing</li> <li>• Buying habits characterized by their life stages</li> <li>• Embrace technology and multitasking</li> </ul>
Generation Y	“Millennials,” “Echo Boomers,” includes “Tweens” (preteens)	1980–2000	<ul style="list-style-type: none"> <li>• Largest U.S. generation</li> <li>• Grew up with credit cards</li> <li>• Adept at multitasking; technology use is innate</li> <li>• Ignore irrelevant media</li> </ul>

Note: Not all demographers agree on the cutoff dates between the generations.

Today’s college-age students (Generation Y) compose the largest generation. The baby boomer generation is the second largest, and over the course of the last thirty years or so, has been a very attractive market for sellers. Retro brands—old brands or products that companies “bring back” for a period of time—were aimed at baby boomers during the recent economic downturn. Pepsi Throwback and Mountain Dew Throwback, which are made with cane sugar—like they were “back in the good old days”—instead of corn syrup, are examples (Schlacter, 2009). Marketing professionals believe they appealed to baby boomers because they reminded them of better times—times when they didn’t have to worry about being laid off, about losing their homes, or about their retirement funds and pensions drying up.

Baby boomers are aging and the size of the group will eventually decline. By contrast, the members of Generation Y have a lifetime of buying still ahead of them, which translates to a lot of potential customer lifetime value (CLV), the amount a customer will spend on a particular brand over his/her lifetime, for marketers if they can capture this group of buyers. However, a recent survey found that the latest recession had forced teens to change their spending habits and college plans and that roughly half of older Generation Yers reported they had no savings<sup>1</sup>.

So which group or groups should your firm target? Although it’s hard to be all things to all people, many companies try to broaden their customer bases by appealing to multiple generations so they don’t lose market share when demographics change. Several companies have introduced lower-cost brands targeting Generation Xers, who have less spending power than boomers. For example, kitchenware and home-furnishings company Williams-Sonoma opened the Elm Street chain, a less-pricey version of the Pottery Barn franchise. The Starwood hotel chain’s W hotels, which feature contemporary designs and hip bars, are aimed at Generation Xers (Miller, 2009).

The video game market is very proud of the fact that along with Generation X and Generation Y, many older Americans still play video games. (You probably know some baby boomers who own a Nintendo Wii.) Products and services in the spa market used to be aimed squarely at adults, but not anymore. Parents are now paying for their tweens to get facials, pedicures, and other pampering in numbers no one in years past could have imagined.



Video Clip: Evian Water: Roll, Baby, Roll! Watch the YouTube video to see a fun generational type of advertisement. No, the ad isn't designed to appeal to babies. It's aimed at us adults! <https://youtu.be/HiaTr8qqalc>

As early as the 1970s, U.S. automakers found themselves in trouble because of changing demographic trends. Many of the companies' buyers were older Americans inclined to "buy American." These people hadn't forgotten that Japan bombed Pearl Harbor during World War II and weren't about to buy Japanese vehicles, but younger Americans were. Plus, Japanese cars had developed a better reputation. Despite the challenges U.S. automakers face today, they have taken great pains to cater to the "younger" generation—today's baby boomers who don't think of themselves as being old. If you are a car buff, you perhaps have noticed that the once-stodgy Cadillac now has a sportier look and stiffer suspension. Likewise, the Chrysler 300 looks more like a muscle car than the old Chrysler Fifth Avenue your great-grandpa might have driven.

Automakers have begun reaching out to Generations X and Y, too. General Motors (GM) has sought to revamp the century-old company by hiring a new younger group of managers—managers who understand how Generation X and Y consumers are wired and what they want. "If you're going to appeal to my daughter, you're going to have to be in the digital world," explained one GM vice president (Cox, 2009).

Companies have to develop new products designed to appeal to Generations X and Y and also find new ways to reach them. People in these generations not only tend to ignore traditional advertising but also are downright annoyed by it. To market to Scion drivers, who are generally younger, Toyota created Scion Speak, a social networking site where they can communicate, socialize, and view cool new models of the car. Online events such as the fashion shows broadcast over the Web are also getting the attention of younger consumers, as are text, e-mail, and Twitter messages they can sign up to receive so as to get coupons, cash, and free merchandise. Advergaming is likewise being used to appeal to the two demographic groups. Advergaming is electronic games sellers create to promote a product or service. Would you like to play one now? Click on the following link to see a fun one created by Burger King to advertise its Tender Crisp Chicken.

#### Burger King Advergame

You could boss the "subservient chicken" around in this advergame. He will do anything you want—well, *almost* anything. Unfortunately the game requires Adobe Flash which is no longer supported, but the video shows the Chicken in action



## Income

Tweens might appear to be a very attractive market when you consider they will be buying products for years to come. But would you change your mind if you knew that baby boomers account for 50 percent of all consumer spending in the United States? Americans *over* sixty-five now control nearly three-quarters of the net worth of U.S. households; this group spends \$200 billion a year on major “discretionary” (optional) purchases such as luxury cars, alcohol, vacations, and financial products (Reisenwitz, 2007).

Income is used as a segmentation variable because it indicates a group’s buying power and may partially reflect their education levels, occupation, and social classes. Higher education levels usually result in higher paying jobs and greater social status. The makers of upscale products such as Rolexes and Lamborghinis aim their products at high-income groups. However, a growing number of firms today are aiming their products at lower-income consumers. The fastest-growing product in the financial services sector is prepaid debit cards, most of which are being bought and used by people who don’t have bank accounts. Firms are finding that this group is a large, untapped pool of customers who tend to be more brand loyal than most. If you capture enough of them, you can earn a profit (von Hoffman, 2006). Based on the targeted market, businesses can determine the location and type of stores where they want to sell their products.





Figure 5.5: Automobile companies may segment markets based on income, age, social class, and gender. Tetyana Pryymak – CC BY-NC-ND 2.0.

Sometimes income isn't always indicative of who will buy your product. Companies are aware that many consumers want to be in higher income groups and behave like they are already part of them. Mercedes Benz's cheaper line of "C" class vehicles is designed to appeal to these consumers.

## Gender

Gender is another way to segment consumers. Men and women have different needs and also shop differently. Consequently, the two groups are often, but not always, segmented and targeted differently. Marketing professionals don't stop there, though. For example, because women make many of the purchases for their households, market researchers sometimes try to further divide them into subsegments. (Men are also often subsegmented.) For women, those segments might include *stay-at-home* housewives, *plan-to-work* housewives, *just-a-job* working women, and *career-oriented* working women. Research has found that women who are solely homemakers tend to spend more money, perhaps because they have more time.



Figure 5.6: Considering the rising number of U.S. women who live without spouses, entrepreneurs have launched handyman services in many markets. Let Ideas Compete – Handyman, up close, fixing a door – CC BY-NC-ND 2.0.

In addition to segmenting by gender, market researchers might couple gender with marital status and other demographic characteristics. For example, did you know that more women in America than ever before (51 percent) now live without spouses? Can you think of any marketing opportunities this might present? (Barry, 1985)

## Family Life Cycle

Family life cycle refers to the stages families go through over time and how it affects people's buying behavior. For example, if you have no children, your demand for pediatric services (medical care for children) is likely to be slim to none, but if you have children, your demand might be very high because children frequently get sick. You may be part of the target market not only for pediatric services but also for a host of other products, such as diapers, daycare, children's clothing, entertainment services, and educational products. A secondary segment of interested consumers might be grandparents who are likely to spend less on day-to-day childcare items but more on special-occasion gifts for children. Many markets are segmented based on the special events in people's lives. Think about brides (and want-to-be brides) and all the products targeted at them, including Web sites and television shows such as *Say Yes to the Dress*, *My Fair Wedding*, *Platinum Weddings*, and *Bridezillas*.



Figure 5.7: Many markets are segmented based on people's family life cycle needs. [Wikimedia Commons](#) – public domain.

Resorts also segment vacationers depending on where they are in their family life cycles. When you think of family vacations, you probably think of Disney resorts. Some vacation properties, such as Sandals, exclude children from some of their resorts. Perhaps they do so because some studies show that the market segment with greatest financial potential is married couples without children (Hill, et. al., 1990).

Keep in mind that although you might be able to isolate a segment in the marketplace, including one based on family life cycle, you can't make assumptions about what the people in it will want. Just like people's demographics change, so do their tastes. For example, over the past few decades U.S. families have been getting smaller. Households with a single occupant are more commonplace than ever, but until recently, that hasn't stopped people from demanding bigger cars (and more of them) as well as larger houses, or what some people jokingly refer to as "McMansions."

The trends toward larger cars and larger houses appear to be reversing. High energy costs, the credit crunch, and concern for the environment are leading people to demand smaller houses. To attract people such as these, D. R. Horton, the nation's leading homebuilder, and other construction firms are now building smaller homes.

## Ethnicity

People's ethnic backgrounds have a big impact on what they buy. If you've visited a grocery store that caters to a different ethnic group than your own, you were probably surprised to see the types of products sold there. It's no secret that the United States is becoming—and will continue to become—more diverse. Hispanic Americans are the largest and the fastest-growing minority in the United States. Companies are going to great lengths to court this once overlooked group. In California, the health care provider Kaiser Permanente runs television ads letting members of this segment know that they can request Spanish-speaking physicians and that Spanish-speaking nurses, telephone operators, and translators are available at all of its clinics (Berkowitz, 2006).

African Americans are the second-largest ethnic group in America. Collectively, they have the most buying power of any ethnic group in America. Many people of Asian descent are known to be early adapters of new technology and have above-average



incomes. As a result, companies that sell electronic products, such as AT&T, spend more money segmenting and targeting the Asian community<sup>2</sup>. Table 5.3 contains information about the number of people in these groups and their buying power.

Table 5.3 Major U.S. Ethnic Segments and Their Spending

Group	Percentage of U.S. Population	Annual Spending Power (Billions of Dollars)
Hispanics	13.7	736
African Americans	13.0	761
Asians	5.0	397

Source: New American Dimensions, LLC.

As you can guess, even within various ethnic groups there are many differences in terms of the goods and services buyers choose. Consequently, painting each group with a broad brush would leave you with an incomplete picture of your buyers. For example, although the common ancestral language among the Hispanic segment is Spanish, Hispanics trace their lineages to different countries. Nearly 70 percent of Hispanics in the United States trace their lineage to Mexico; others trace theirs to Central America, South America, and the Caribbean.

All Asians share is race. Chinese, Japanese, and Korean immigrants do not share the same language<sup>2</sup>. Moreover, both the Asian and Hispanic market segments include new immigrants, people who immigrated to the United States years ago, and native-born Americans. So what language will you use to communicate your offerings to these people, and where?

Subsegmenting the markets could potentially help you. New American Dimension, a multicultural research firm, has further divided the Hispanic market into the following subsegments:

- **Just moved in'rs.** Recent arrivals, Spanish dependent, struggling but optimistic.
- **FOBrs (fashionistas on a budget).** Spanish dominant, traditional, but striving for trendy.
- **Accidental explorers.** Spanish preferred, not in a rush to embrace U.S. culture.
- **The enlightened.** Bilingual, technology savvy, driven, educated, modern.
- **Doubting Tomásés.** Bilingual, independent, skeptical, inactive, shopping uninvolved.
- **Latin flavored.** English preferred, reconnecting with Hispanic traditions.
- **SYLrs (single, young latinos).** English dominant, free thinkers, multicultural.

You could go so far as to break down segments to the individual level, which is the goal behind one-to-one marketing. However, doing so would be dreadfully expensive, notes Juan Guillermo Tornoe, a marketing expert who specializes in Hispanic marketing issues. After all, are you really going to develop different products and different marketing campaigns and communications for each group? Probably not, but “you need to perform your due diligence and understand where the majority of the people you are trying to reach land on this matrix, modifying your message according to this insight,” Tornoe explains (Tornoe, 2008).

## Segmenting by Geography

Suppose your great new product or service idea involves opening a local store. Before you open the store, you will probably want to do some research to determine which geographical areas have the best potential. For instance, if your business is a high-end restaurant, should it be located near the local college or country club? If you sell ski equipment, you probably will want to locate your shop somewhere in the vicinity of a mountain range where there is skiing. You might see a snowboard shop in the same area but probably not a surfboard shop. By contrast, a surfboard shop is likely to be located along the coast, but you probably would not find a snowboard shop on the beach.

Geographic segmentation divides the market into areas based on location and explains why the checkout clerks at stores sometimes ask for your zip code. It's also why businesses print codes on coupons that correspond to zip codes. When the coupons are redeemed, the store can find out where its customers are located—or not located. Geocoding is a process that takes data such as this and plots it on a map. Geocoding can help businesses see where prospective customers might be clustered and target them with various ad campaigns, including direct mail. One of the most popular geocoding software programs is PRIZM NE, which is produced by a company called Claritas. PRIZM NE uses zip codes and demographic information to classify the American population into segments. The idea behind PRIZM is that “you are where you live.” Combining both demographic and geographic information is referred to as geodemographics or neighborhood geography. The idea is that housing areas in different zip codes

typically attract certain types of buyers with certain income levels. To see how geodemographics works, visit the following page on Claritas' Web site: [www.claritas.com/MyBestSegmen...ault.jsp?ID=20](http://www.claritas.com/MyBestSegmen...ault.jsp?ID=20).

Type in your zip code, and you will see customer profiles of the types of buyers who live in your area. Table 5.4 shows the profiles of buyers who can be found the zip code 76137—the “Brite Lites, Li'l City” bunch, and “Home Sweet Home” set. Click on the profiles on the Claritas site to see which one most resembles you.

Table 5.4: An Example of Geodemographic Segmentation for 76137 (Fort Worth, TX)

Number	Profile Name
12	<i>Brite Lites, Li'l City</i>
19	<i>Home Sweet Home</i>
24	<i>Up-and-Comers</i>
13	<i>Upward Bound</i>
34	<i>White Picket Fences</i>

The tourism bureau for the state of Michigan was able to identify and target different customer profiles using PRIZM. Michigan's biggest travel segment are Chicagoans in certain zip codes consisting of upper-middle-class households with children—or the “kids in cul-de-sacs” group, as Claritas puts it. The bureau was also able to identify segments significantly different from the Chicago segment, including blue-collar adults in the Cleveland area who vacation without their children. The organization then created significantly different marketing campaigns to appeal to each group.

City size and population density (the number of people per square mile) are also used for segmentation purposes. Have you ever noticed that in rural towns, McDonald's restaurants are hard to find, but Dairy Queens (DQ) are usually easy to locate? McDonald's generally won't put a store in a town of fewer than five thousand people. However, this is prime turf for the “DQ”—because it doesn't have to compete with bigger franchises like McDonald's.



Figure 5.8: Virgin Mobile is helping stores capitalize on proximity marketing by sending text messages to Virgin Mobile users when they opt to receive them. Billboards outside stores tell Virgin Mobile users to (Who wouldn't want free stuff?). D@LY3D – Richard Branson – CC BY 2.0.

Proximity marketing is an interesting new technology firms are using to segment and target buyers geographically within a few hundred feet of their businesses using wireless technology. In some areas, you can switch your mobile phone to a “discoverable mode” while you're shopping and, if you want, get ads and deals from stores as you pass by them, which is often less expensive than hiring people to hand you a flier as you walk by<sup>3</sup>.

### Audio Clip

Interview with Apurva Ghelani

<http://app.wistia.com/embed/medias/d0b89776be>

To learn about how proximity marketing works at a real company, listen to Apurva Ghelani in this audio clip. Ghelani is a senior sales engineer for Air2Web, a company that helps businesses promote their brands and conduct transactions with people via their mobile phones.

In addition to figuring out where to locate stores and advertise to customers in that area, geographic segmentation helps firms tailor their products. Chances are you won't be able to find the same heavy winter coat you see at a Walmart in Montana at a Walmart in Florida because of the climate differences between the two places. Market researchers also look at migration patterns to evaluate opportunities. TexMex restaurants are more commonly found in the southwestern United States. However, northern states are now seeing more of them as more people of Hispanic descent move northward.

## Segmenting by Psychographics

If your offering fulfills the needs of a specific demographic group, then the demographic can be an important basis for identifying groups of consumers interested in your product. What if your product crosses several market segments? For example, the group of potential consumers for cereal could be “almost” everyone although groups of people may have different needs with regard to their cereal. Some consumers might be interested in the fiber, some consumers (especially children) may be interested in the prize that comes in the box, other consumers may be interested in the added vitamins, and still other consumers may be interested in the type of grains. Associating these specific needs with consumers in a particular demographic group could be difficult. Marketing professionals want to know *why* consumers behave the way they do, what is of high priority to them, or how they rank the importance of specific buying criteria. Think about some of your friends who seem a lot like you. Have you ever gone to their homes and been shocked by their lifestyles and how vastly different they are from yours? Why are their families so much different from yours?

Psychographic segmentation can help fill in some of the blanks. Psychographic information is frequently gathered via extensive surveys that ask people about their activities, interests, opinion, attitudes, values, and lifestyles. One of the most well-known psychographic surveys is VALS (which originally stood for “Values, Attitudes, and Lifestyles”) and was developed by a company called SRI International in the late 1980s. SRI asked thousands of Americans the extent to which they agreed or disagreed with questions similar to the following: “My idea of fun at a national park would be to stay at an expensive lodge and dress up for dinner” and “I could stand to skin a dead animal” (Donnelly, 2002). Based on their responses to different questions, consumers were divided up into the following categories, each characterized by certain buying behaviors.

- **Innovators.** Innovators are successful, sophisticated, take-charge people with high self-esteem. Because they have such abundant resources, they exhibit all three primary motivations in varying degrees. They are change leaders and are the most receptive to new ideas and technologies. Innovators are very active consumers, and their purchases reflect cultivated tastes for upscale, niche products and services. Image is important to Innovators, not as evidence of status or power but as an expression of their taste, independence, and personality. Innovators are among the established and emerging leaders in business and government, yet they continue to seek challenges. Their lives are characterized by variety. Their possessions and recreation reflect a cultivated taste for the finer things in life.
- **Thinkers.** Thinkers are motivated by ideals. They are mature, satisfied, comfortable, and reflective people who value order, knowledge, and responsibility. They tend to be well educated and actively seek out information in the decision-making process. They are well informed about world and national events and are alert to opportunities to broaden their knowledge. Thinkers have a moderate respect for the status quo institutions of authority and social decorum but are open to consider new ideas. Although their incomes allow them many choices, Thinkers are conservative, practical consumers; they look for durability, functionality, and value in the products they buy.
- **Achievers.** Motivated by the desire for achievement, Achievers have goal-oriented lifestyles and a deep commitment to career and family. Their social lives reflect this focus and are structured around family, their place of worship, and work. Achievers live conventional lives, are politically conservative, and respect authority and the status quo. They value consensus, predictability, and stability over risk, intimacy, and self-discovery. With many wants and needs, Achievers are active in the consumer marketplace. Image is important to Achievers; they favor established, prestige products and services that demonstrate success to their peers. Because of their busy lives, they are often interested in a variety of timesaving devices.
- **Experiencers.** Experiencers are motivated by self-expression. As young, enthusiastic, and impulsive consumers, Experiencers quickly become enthusiastic about new possibilities but are equally quick to cool. They seek variety and excitement, savoring the new, the offbeat, and the risky. Their energy finds an outlet in exercise, sports, outdoor recreation, and social activities. Experiencers are avid consumers and spend a comparatively high proportion of their income on fashion, entertainment, and socializing. Their purchases reflect the emphasis they place on looking good and having “cool” stuff.

- **Believers.** Like Thinkers, Believers are motivated by ideals. They are conservative, conventional people with concrete beliefs based on traditional, established codes: family, religion, community, and the nation. Many Believers express moral codes that are deeply rooted and literally interpreted. They follow established routines, organized in large part around home, family, community, and social or religious organizations to which they belong. As consumers, Believers are predictable; they choose familiar products and established brands. They favor American products and are generally loyal customers.
- **Strivers.** Strivers are trendy and fun loving. Because they are motivated by achievement, Strivers are concerned about the opinions and approval of others. Money defines success for Strivers, who don't have enough of it to meet their desires. They favor stylish products that emulate the purchases of people with greater material wealth. Many see themselves as having a job rather than a career, and a lack of skills and focus often prevents them from moving ahead. Strivers are active consumers because shopping is both a social activity and an opportunity to demonstrate to peers their ability to buy. As consumers, they are as impulsive as their financial circumstance will allow.
- **Makers.** Like Experiencers, Makers are motivated by self-expression. They express themselves and experience the world by working on it—building a house, raising children, fixing a car, or canning vegetables—and have enough skill and energy to carry out their projects successfully. Makers are practical people who have constructive skills and value self-sufficiency. They live within a traditional context of family, practical work, and physical recreation and have little interest in what lies outside that context. Makers are suspicious of new ideas and large institutions such as big business. They are respectful of government authority and organized labor but resentful of government intrusion on individual rights. They are unimpressed by material possessions other than those with a practical or functional purpose. Because they prefer value to luxury, they buy basic products.
- **Survivors.** Survivors live narrowly focused lives. With few resources with which to cope, they often believe that the world is changing too quickly. They are comfortable with the familiar and are primarily concerned with safety and security. Because they must focus on meeting needs rather than fulfilling desires, Survivors do not show a strong primary motivation. Survivors are cautious consumers. They represent a very modest market for most products and services. They are loyal to favorite brands, especially if they can purchase them at a discount<sup>4</sup>.

To find out which category you're in, take a VALS survey at <http://www.strategicbusinessinsights.com/vals/presurvey.shtml>. VALS surveys have been adapted and used to study buying behavior in other countries, too. Note that both VALS and PRIZM group buyers are based on their values and lifestyles, but PRIZM also overlays the information with geographic data. As a result, you can gauge what the buying habits of people in certain zip codes are, which can be helpful if you are trying to figure out where to locate stores and retail outlets.

The segmenting techniques we've discussed so far in this section require gathering quantitative information and data. Quantitative information can be improved with *qualitative* information you gather by talking to your customers and getting to know them. (Recall that this is how Healthy Choice frozen dinners were created.) Consumer insight is what results when you use both types of information. You want to be able to answer the following questions:

- Am I looking at the consumers the way they see themselves?
- Am I looking at life from their point of view?

Best Buy asked store employees to develop insight about local consumer groups in order to create special programs and processes for them. Employees in one locale invited a group of retirees to their store to explain how to make the switch to digital television. The store sold \$350,000 worth of equipment and televisions in just two hours' time. How much did it cost? The total cost included ninety-nine dollars in labor costs plus coffee and donuts.

Intuit, the company that makes the tax software Quicken, has a "follow me home" program. Teams of engineers from Intuit visit people's homes and spend a couple of hours watching consumers use Quicken. Then they use the insights they gain to improve the next version of Quicken. Contrast this story with that of a competing firm. When a representative of the firm was asked if he had ever observed consumers installing or using his company's product, he responded, "I'm not sure I'd want to be around when they were trying to use it" (Nee, 2003). This company is now struggling to stay in business.

To read about some of the extreme techniques Nokia uses to understand cell phone consumers around the world, click on the following link: <http://www.nytimes.com/2008/04/13/magazine/13anthropology-t.html?pagewanted=all>.

## Segmentation in B2B Markets

Many of the same bases used to segment consumer markets are also used to segment B2B markets. For example, Goya Foods is a U.S. food company that sells different ethnic products to grocery stores, depending on the demographic groups the stores serve—

Hispanic, Mexican, or Spanish. Likewise, B2B sellers often divide their customers by geographic areas and tailor their products to them accordingly. Segmenting by behavior is common as well. B2B sellers frequently divide their customers based on their product usage rates. Customers that order many goods and services from a seller often receive special deals and are served by salespeople who call on them in person. By contrast, smaller customers are more likely to have to rely on a firm's Web site, customer service people, and salespeople who call on them by telephone.

Researchers Matthew Harrison, Paul Hague, and Nick Hague have theorized that there are fewer behavioral and needs-based segments in B2B markets than in business-to-consumer (B2C) markets for two reasons: (1) business markets are made up of a few hundred customers whereas consumer markets can be made up of hundreds of thousands of customers, and (2) businesses aren't as fickle as consumers. Unlike consumers, they aren't concerned about their social standing or influenced by their families and peers. Instead, businesses are concerned solely with buying products that will ultimately increase their profits. According to Harrison, Hague, and Hague, the behavioral, or needs-based, segments in B2B markets include the following:

- A **price-focused segment** is composed of small companies that have low profit margins and regard the good or service being sold as not being strategically important to their operations.
- A **quality and brand-focused segment** is composed of firms that want the best possible products and are prepared to pay for them.
- A **service-focused segment** is composed of firms that demand high-quality products and have top-notch delivery and service requirements.
- A **partnership-focused segment** is composed of firms that seek trust and reliability on the part of their suppliers and see them as strategic partners (Harrison, et. al., 2010).

B2B sellers, like B2C sellers, are exploring new ways to reach their target markets. Trade shows and direct mail campaigns are two traditional ways of reaching B2B markets. Now, however, firms are finding they can target their B2B customers more cost-effectively via e-mail campaigns, search-engine marketing, and "fan pages" on social networking sites like Facebook. Companies are also creating blogs with cutting-edge content about new products and business trends of interest to their customers. For a fraction of the cost of attending a trade show to exhibit their products, B2B sellers are holding Webcasts and conducting online product demonstrations for potential customers.

## Key Takeaway

Segmentation bases are criteria used to classify buyers. The main types of buyer characteristics used to segment consumer markets are behavioral, demographic, geographic, and psychographic. Behavioral segmentation divides people and organization into groups according to how they behave with or toward products. Segmenting buyers by personal characteristics such as their age, income, ethnicity, family size, and so forth is called demographic segmentation. Geographic segmentation involves segmenting buyers based on where they live. Psychographic segmentation seeks to differentiate buyers based on their activities, interests, opinions, attitudes, values, and lifestyles. Oftentimes a firm uses multiple bases to get a fuller picture of its customers and create value for them. Marketing professionals develop consumer insight when they gather both quantitative and qualitative information about their customers. Many of the same bases used to segment consumer markets are used to segment business-to-business (B2B) markets. However, there are generally fewer behavioral-based segments in B2B markets.

## Review Questions

1. What buyer characteristics do companies look at when they segment markets?
2. Why do firms often use more than one segmentation base?
3. What two types of information do market researchers gather to develop consumer insight?

<sup>1</sup>"Generation Y Lacking Savings," *Fort Worth Star-Telegram*, September 13, 2009, 2D.

<sup>2</sup>"Telecommunications Marketing Opportunities to Ethnic Groups: Segmenting Consumer Markets by Ethnicity, Age, Income and Household Buying Patterns, 1998–2003," The Insight Research Corporation, 2003, [www.insight-corp.com/reports/ethnic.asp](http://www.insight-corp.com/reports/ethnic.asp) (accessed December 2, 2009).

<sup>3</sup>"Bluetooth Proximity Marketing," April 24, 2007, [bluetomorrow.com/bluetooth-ar...marketing.html](http://bluetomorrow.com/bluetooth-ar...marketing.html) (accessed December 2, 2009).

<sup>4</sup>"U.S. Framework and VALS™ Type," *Strategic Business Insights*, <http://www.strategicbusinessinsights.com/vals/ustypes.shtml> (accessed December 2, 2009).



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