

6.2: Segment Your Market- Who's Out There?

LEARNING OBJECTIVES

After studying this section, students should be able to do the following:

1. *Recognize* the target marketing process that includes segmenting, targeting, and positioning.
2. *Describe* the key characteristics of market segments by examining the demographic, geographic, psychological/lifestyle (psychographic), and behavioral variables found in those segments.

Segmentation is the process of dividing a larger market into smaller pieces based on one or more meaningful and measurable shared characteristics. It's crucial to slice up the pie so you can focus your resources on customers whose needs you have the best chance of satisfying. These are the benefits of a segmentation approach.

Segmenting the population gives you a concrete vision of your potential customer. For example, targeting upper-income unmarried men with a college education gives you a more specific vision of the intended audience than does simply advertising to “people.”

Segmenting the population provides focus and specificity on those people most likely to buy your product. It's better to find the five million people who are 80 percent likely to buy than it is to find the eighty million people who have a 5 percent chance of buying.

Segmenting the population lets you estimate the number of people in a given category (such as “Affluent Retirees”), which gives you an idea of your potential market size. Knowing how many potential customers you'll have influences your sales estimates, your total marketing budget, and the advertising media you use. For example, if you'll be targeting Hispanic consumers in Phoenix, your total market size will be 1.36 million people.

Demographic Segmentation

Demographics are measurable aspects of a population. Each key variable is usually defined in terms of a small number of categories or ranges. For example, age data might record the number of thirty- to forty-year-olds in aggregate, rather than separately tallying each age group of people who are thirty, thirty-one, thirty-two, thirty-three, and so on.

These are widely used demographic measures:

- **Gender** of the individual or head-of-household (e.g., Female)
- **Age** (e.g., 18–24)
- **Life stage** (e.g., empty-nest parents who have more time for each other now that their kids are in college)
- **Household income** (e.g., \$30,000–\$40,000 per year)
- **Education** (e.g., college graduate)
- **Occupation** (e.g., banker)
- **Race/ethnicity** (e.g., African American)
- **Religion** (e.g., Buddhist)
- **Socio-economic status** or SES

SS+K Spotlight

While demographics can be an effective way to begin to understand your potential consumers, msnbc.com and SS+K knew that they would need to dig deeper to identify the specific audience for their branding campaign. While some product categories can move forward with demographic information only, services such as news, entertainment, and sports media need more information to fine-tune their targets. For example, the Bravo network, which has successfully created numerous high-style reality shows that revolve around upscale pursuits like gourmet cooking, fashion modeling, or home design, recently developed for advertisers a one-off (that is, one-time publication) magazine it called *Bravo Affluencer*. Each of the two people on the cover represented a distinct psychographic segment that is key to Bravo's targeting strategy: an attractive man and woman, both in their late twenties, shopping bags and PDAs in hand, passports visible in pockets, dressed casually but stylishly. These two models are reminiscent of the popular stars of the sitcom *Will and Grace*—and that's no accident. Bravo executives actually use the phrase “Will and Grace” to describe two of their key viewer segments: urban gay men and single female professionals. Many of the network's most popular shows such as *Project Runway* and *Top Chef* attract these viewers in large numbers.

Dig Deeper

MySpace recently launched a separate version of its site to reach twenty-eight million Americans who are Spanish speakers at latino.myspace.com. Users can still become friends with MySpace users across the network of sites. Nielsen//NetRatings reports that MySpace is one of the top five Web sites U.S. Hispanics visit. How do U.S. advertisers appeal to non-English speakers on social networking sites? What else might they do to broaden their reach?

Geographic Segmentation

Geography plays three roles in the target marketing process:

1. *Customer and market characteristics.* Geography defines key aspects of climate, culture, and customer density. Think about where people buy snowshoes, the time of year Midwesterners hold backyard barbecues, or the differences between laid-back Southern Californians and ambitious New Yorkers. News items and ads served on msnbc.com when possible need to be relevant to the geographic profile of a registered user; a web surfer in Florida probably isn't too interested in today's ski conditions.
2. *Advertising channels.* Some advertising strategies, such as newspapers and direct mail, are strongly tied to geography. For example, automobile companies tailor their ads by geography. Automakers purchase TV time on local cable stations and tailor the ads based on where people live. People who live in zip codes located in the suburbs see ads for SUVs, while those in the cities see commercials for cars—during the same programs. As you'll learn in the media planning chapter, msnbc.com made very strategic geographic media and messaging decisions in order to maximize the value of their buy.
3. *Product distribution:* Many companies, especially small and medium-size businesses, have a regional scope. Even national companies like Wal-Mart want to assess how many people live within ten miles of a store that carries a product that they will promote.

Most geographic segmentation schemes use definitions the government created for census, postal, and economic forecasting purposes.

- **Zip code.** **Zip codes**, as defined by the U.S. Postal Service, identify each of roughly forty-three thousand neighborhoods. Other countries, too, have analogous postal code systems. Zip codes are often the basis for direct mail advertising. Car dealers use zip code information as a proxy for income, making different offers, such as lease-to-own or cash incentives, to entice potential buyers in different neighborhoods.

Dig Deeper

In addition to other applications, a widely used system called **PRIZM** helps clients to fine-tune their advertising by directing mailings to specific types of customers based upon where they live (“birds of a feather flock together”). PRIZM (Potential Rating Index for Zip Markets) classifies all U.S. neighborhoods into sixty-two distinct clusters based upon very detailed data about the products and media people who live in different neighborhoods consume relative to the national average. PRIZM offers a little something for everyone, with groups like Urban Gold Coast (elite urban singles and couples), New Empty Nests (upscale suburban fringe couples), and Norma Rae-ville (young families in biracial mill towns).

Visit PRIZM's Web site and look up your zip code to see what category you fall into. Do you agree with this classification?

- **MSA. Metropolitan Statistical Areas (MSAs)** are important for local advertising channels (e.g., newspaper, radio, outdoor, local broadcast TV, and cable). The U.S. Office of Management and Budget (OMB) defines 363 MSAs in the United States. MSAs are defined using census data at a county level (or a group of economically linked contiguous counties) with at least one urbanized area of fifty thousand or more population. One MSA, called the “New York-Northern New Jersey-Long Island, NY-NJ-PA” MSA is the most populous MSA in America and contains approximately nineteen million people.
- **Civil boundary regions.**
 - *City.* Of U.S. cities, nine have a population over one million, and 254 have a population over one hundred thousand.
 - *County.* There are 3,066 counties in the United States.
 - *State.* Identifying customers by state can be important because laws may vary from state to state, especially for industries such as financial services (like insurance), tobacco, and alcohol. These regulations can affect advertising strategies. For example, California law heavily restricts distribution of coupons for cigarettes.
- **Census regions and divisions.** Four broad regions (West, Midwest, Northeast, and South) further divided into nine divisions.
- **DMA codes. Designated Market Areas (DMAs)** are markets in the United States that are within range of a particular broadcast television station. The term was originally defined by Nielsen Media Research to identify TV stations whose broadcast signals

reach a specific area and attract the most viewers. A DMA consists of all counties whose largest viewing share is given to stations of that same market area. Nielsen gathers data to verify DMAs four times a year; there are currently 210 nonoverlapping DMAs in the United States.

- *Sales or distribution regions.* Many companies create their own geographic subdivisions, which vary by company. For example, a product might be sold through a specialty retailer that only operates in the Northwest.
- *Climatic.* Some products are specific to or more prevalent in areas with a specific client. For example, Minnesotans buy more snowshoes than do Texans.

Dig Deeper

Like it or not, global warming is here to stay—at least in our lifetimes. Warmer (or at least more unpredictable) temperatures will have many consequences—some you may not have thought about. For example, think about how these changes will affect the \$200 billion American apparel industry. Will we still think about “winter clothes” versus “summer clothes” in a few years? At least a few companies are thinking ahead. Liz Claiborne hired a climatologist to help the company better time the shipments of seasonal garments to retailers. Target created a “climate team” to provide advice on what the retailer should sell throughout the year (hint: think lighter-weight fabrics). Weatherproof, a coat manufacturer, went so far as to take out a \$10 million insurance policy against unusually warm weather.

How will this new weather reality influence the way seasonal industries like apparel plan their advertising campaigns?

Psychographic Segmentation

While demographics are useful, advertisers often need to slice and dice even further. Traditional demographic segments (such as gender, age, and income) provide only a rough estimate of the attitudes and desires of different groups, so marketers often give consumer groups labels that capture something about their lifestyles and motivations as well.

Imagine an advertiser that defines a segment as *recent moms*. This label implies that all women who have recently given birth are fairly similar and that they all will respond the same way to an advertising message—how accurate is that assumption? Bloomingdale’s Quotation, a store-within-a-store, instead calls its target market “yummy mummies.” These are women age thirty-five to forty-five who have gained weight after their babies but don’t want to look matronly. They are affluent, suburban, and casual yet fashionable. Bloomingdale’s research department provided further insight into the target customer: she thinks classic sportswear like Jones New York is too formal but contemporary sportswear like Juicy Couture is too young. The mom wants clothes that look pretty and feminine and have flair but offer a generous, not-too-tight fit.

Psychographics refers to dimensions that segment consumers in terms of personality, values, attitudes, and opinions. While demographics can divide people along specific (often quantitative) dimensions, psychographics captures the reasoning and emotion behind people’s decisions. This information also enables advertisers to capture the themes, priorities, and “inside meanings” that a specific taste culture identifies with. For example, Svedka Vodka targets urban party people who are out drinking until three o’clock in the morning three nights a week. This target market is irreverent, and Svedka’s ads speak their language. The ads feature futuristic imagery and lines like “Svedka says ‘thank you’ for making the gay man’s fashion gene available over the counter in 2033.”

PRIZM NE classifies psychographic segments based on where they live.

Affluent people who live in wealthy exurban (beyond suburban) areas make up this segment. They like their space and their conveniences. They are typically Baby Boomers who balance their lives between high-powered jobs and laid-back leisure. They are mostly college-educated Whites between the ages of 35 and 54 with a median household income of \$84,851. They are most likely to travel for business, take a golf vacation, read *Skiing* magazine, and drive a Toyota Land Cruiser.

PRIZM NE classifies psychographic segments based on where they live.

	Older, middle-class seniors who live comfortably in the suburbs characterize this segment. These retired homeowners are opting to stay in their homes rather than move to a retirement community. The mostly White, college-educated suburbanites have a median household income of \$51,367. They are most likely to shop at Lord and Taylor, belong to a veterans' club, watch the U.S. Senior Open on TV, and drive a Buick LaCrosse.
	This segment includes upper-middle-class suburban couples, with children, who enjoy focusing on their families. They live in a large home in a subdivision. Their white-collar profession and young age (25–44) provides them the means to have it all. The segment includes a growing number of Hispanic and Asian Americans. The median household income is \$70,490. They are most likely to shop at The Disney Store, eat at Chuck-E-Cheese, watch Nickelodeon TV, and drive a Nissan Armada SUV.
	Young, working singles living active lifestyles in sprawling apartment complexes in fast-growing satellite cities compose this segment. They are under 35, ethnically diverse, and hip, and they want it all. Nightlife, restaurants, and convenience products and services are important to them. Their median household income is \$38,910. Since they don't have children, they are very active. They are most likely to go snowboarding, watch Fuse network, read <i>The Source</i> magazine, and drive a Nissan Sentra.

Sometimes marketing and advertising firms create psychographic segmentation systems with cute names or acronyms for the segments, such as DINKs (double income, no kids), who are good targets for yuppie products like expensive roadsters and exotic vacations, or even DINKWADs (double income, no kids, with a dog), who are like DINKs but would add in lots of treats for a pampered pooch. msnbc.com, for example, termed its new target audience the *News Explorer*.

These are some well-known psychographic segmentation tools that advertisers use to divide up their markets:

- **VALS2™** (Values and Lifestyle System): According to its parent, SRI International, “VALS reflects a real-world pattern that explains the relationship between personality traits and consumer behavior. VALS uses psychology to analyze the dynamics underlying consumer preferences and choices.” For more information, see www.sric-bi.com/VALS/. VALS2™ divides U.S. adults into eight groups according to what drives them psychologically as well as by their economic resources.

The system arranges groups vertically by their resources (including such factors as income, education, energy levels, and eagerness to buy) and horizontally by self-orientation. Three self-orientations make up the horizontal dimension.

1. Consumers with a *principle* orientation make purchase decisions guided by a strong internal belief system.
2. People with a *status* orientation base their decisions on what they think their peers think.
3. *Action*, or self-oriented individuals, buy products to have an impact on the world around them.

Actualizers, the top VALS2™ group, are successful consumers with many resources. This group is concerned with social issues and is open to change. The next three groups also have sufficient resources but differ in their outlooks on life.

1. *Fulfilleds* are satisfied, reflective, and comfortable. They tend to be practical and value functionality.
2. *Achievers* are career-oriented and prefer predictability to risk or self-discovery.
3. *Experiencers* are impulsive and young, and they enjoy offbeat or risky experiences.

The next four groups have fewer resources:

1. *Believers* have strong principles and favor proven brands.
2. *Strivers* are similar to achievers but have fewer resources. They are very concerned about the approval of others.

3. *Makers* are action-oriented and tend to focus their energies on self-sufficiency. They will often be found working on their cars, canning their own vegetables, or building their own houses.
4. *Strugglers* are at the bottom of the economic ladder. They are most concerned with meeting the needs of the moment and have limited ability to acquire anything beyond the basic goods needed for survival.

VALS2™ helped Isuzu market its Rodeo sport-utility vehicle by targeting Experiencers who believe it's fun to break rules. The company and its advertising agency promoted the car as a vehicle that lets a driver break the rules by going off road. One ad showed a kid jumping in mud puddles after his mother went to great lengths to keep him clean.

- Trend analyst Faith Popcorn's firm BrainReserve refers to segments based on life stages like MOBYs (mommy older, baby younger), DOBYs (the daddies); former yuppies divided into PUPPIEs (poor urban professionals) and WOOFs (well-off older folks); latchkey kids, sandwichers (adults caught between caring for their children and their older parents); and SKIPPIEs (school kids with income and purchasing power). The company also groups consumers based on special interests, like global kids (kids with strong feelings about the environment plus strong influence over family purchase choice); and new health age adults (consumers who consider their health and the health of the planet to be top priorities).
- Mediamark Research (MRI) divides the wealthiest 10 percent of U.S. households ("the upper deck") by lifestyles: the good life, well-feathered nests, no strings attached, nanny's in charge, and two careers.

SS+K Spotlight

The additional insights msnbc.com uncovered about the site's users, as a result of the psychographic information the company obtained in its primary and secondary research, allowed its analysts to start with broad demographic segments and then further slice these groups into smaller but more meaningful psychographic segments. As the company did the research described in Chapter 5, it was able to discriminate, for example, between News Explorers and News Junkies.

Behavioral Segmentation

Behavioral segmentation looks at **how and when a consumer decides to spend their money on a product or service**. It focuses on consumers' shopping behavior, how they make their decisions, why they choose one product over the other, and how they feel about a product, company, or service.

Segmenting by behavior often singles out heavy users of a product, because even though these consumers may be relatively small in number, they often are key to sales in a category. Indeed, there is a lot of truth to the so-called **80/20 rule**: this is a rough rule of thumb that says 20 percent of customers buy 80 percent of a product. Sure enough, for example, Kraft Foods began a \$30 million campaign to remind its core users not to "skip the zip" after its research showed that indeed 20 percent of U.S. households account for 80 percent of the usage of Miracle Whip—"heavy" users (pun intended) consume seventeen pounds of Miracle Whip per year!

Information sources that can pinpoint heavy users in a brand or product category include:

- **Industry group reports** (for example, the National Golf Foundation tracks the number of golfers in the United States and the extent of their participation in the game).
- **Surveys** of consumer behavior (for example, the number of people who eat fast food more than three times per week).
- **Product sales** (install base): Owners of particular products can be an affinity group. For example, a company can choose to target owners of Apple iPods either with accessories or with a brand image that resonates with that population.

Video Spotlight

SS+K

[\(click to see video\)](#)

Michelle Rowley explains how behavioral segmentation of the audience led to understanding the difference between a CNN.com user and an msnbc.com lover.

B2B (Business to Business) Segments

Many clients sell products used by businesses rather than (or in addition to) end users. B2B advertisers also segment their markets, but the dimensions they use are different. In addition to data the government collects about businesses, trade organizations often offer data about their members. In addition, services like Hoovers Online provide detailed breakdowns about many companies. Relevant dimensions include these: For more information, see www.hoovers.com.

- *Company size.* This comprises such things as revenues or headcount.
- *Industry.* Marketers often use the **North American Industry Classification System (NAICS)**, a numerical coding of industries the United States, Canada, and Mexico developed. The NAICS reports the number of firms, the total dollar amount of sales, the number of employees, and the growth rate for industries, all broken down by geographic region.
- *Geography.* This comprises such things as location of headquarters, sites, or geographic focus of distribution.
- *Buying cycle.* Companies often have a deliberative process for buying with known intentions to buy within a certain number of months.
- *Buyer role.* Advertising often targets specific people within an organization (e.g., those who influence, specify, and make buying decisions).

Dig Deeper

Encryption-product maker GlobalCerts targets companies that have one hundred to one thousand employees. When GlobalCerts began its direct mail campaign, it collected information on its key prospects, including their needs, buying cycle, and decision makers' contact information. Knowing the buying cycle of an organization is important because decision makers need different kinds of information, depending on where they are in the buying cycle. Early on, decision makers are looking for more general information about solutions that meet their business needs. In later stages, they want very product-specific performance information. Having a salesperson call a potential customer too early in the buying cycle will likely annoy the customer—they're not ready to buy—and waste the time of the salesperson.

SS+K Spotlight

Defining the audience is a job for both the left brain and the right brain. We use this expression because in general the left side of our brains is more rational and fact-oriented while the right side is more emotional and artistic. Some people tend to be more logical when they approach problems while others are more creative and emotional. For fans of the original *Star Trek* TV series, just think of Mr. Spock and Dr. McCoy and you'll get the difference immediately.

So, SS+K needs to combine both rational and emotional factors when they think about their target market. Even the most comprehensive demographic profile seldom communicates a sufficiently nuanced understanding of any group of consumers. At SS+K, the account planners and researchers that make up the AIU are charged with acquiring information beyond current user demographics that will allow the account, media, and creative team to visualize and understand the consumer. An insightful and comprehensive target profile should enable the writers and art directors to imagine the target consumer so well, in fact, that the creatives can develop an empathic understanding of that consumer's relevant needs and wants. The more complete the creatives' understanding of the audience, the more likely the team will be able to craft a message that speaks in an authentic, compelling voice to the target consumer.

Video Spotlight

Michelle Rowley: Primary Research Informs User Differences

[\(click to see video\)](#)

Listen as Michelle describes the process of working with Energy Infuser and what the triads uncovered.

If an agency relies on simple demographics to define its target market, the risks of oversimplification and naïve projections are considerable. The job of an account planner like SS+K's Michelle Rowley is to dig deeper; to see, understand, and report significant differences among potential target markets on the basis of characteristics that aren't immediately apparent to just anyone with access to a marketing database.

The profile provided Michelle with a basic understanding of the msnbc.com user. In addition to some telling demographics, Michelle had a good sense of how users describe their technological acumen and online news-gathering behavior and preferences.

After analyzing a veritable mountain of proprietary research already collected by the client, Michelle and her colleagues identified a trio of expectations consumers brought to their online news and information experiences. First, the online news audience assumed "the cost of entry" for credible sources was an ability to provide breaking news in a *timely* fashion; research indicated that consumers considered this a generic attribute and not a point of differentiation for any news provider. The second and third expectations were also considered essential *parity characteristics* (i.e., elements that any competitor would need): a *well-organized site* that provides ease of access and a *multi-faceted* presentation of text, photos, and video. Users said the most important attribute for news and online information providers was to provide *trusted* coverage.

Beyond that, there were still some significant gaps in the research that Michelle and company had to fill before they were prepared to commit fully to a target audience and position the brand in the marketplace. SS+K wanted to better understand the factors involved in making a choice for news and information:

- What role does news and information play in the lives of online consumers?
- What were the emotional drivers in choosing a source?
- Who was likely to influence others' choice of a news site, and how was this influence exercised?

Once these more global issues were better understood, SS+K could more effectively address how to position msnbc.com relative to its competition.

Understanding consumers' behaviors, as well as their motivations and gratifications for using particular sites, was a key focus of the next research phase. The ultimate goal was to find a voice, a tone, a way of presenting the brand that was relevant and clearly differentiated in the minds of the consumers as unique to msnbc.com. Michelle and her colleagues organized focus groups and interviews for further exploration of the opposing goals and perspectives suggested by the initial research. Among these were the following:

- Attraction versus retention
 - What is the relationship between what attracts you to a site and what keeps you interested once you're there?
 - Why are users accessing broadcast-related media online?
 - How can msnbc.com differentiate itself from MSN? What is the value of the association beyond driving traffic?
 - What type of content will motivate your current consumers to spend more time on the site?
 - Are light msnbc.com users clicking through on other sites?
- Credibility versus liability
 - What value do the NBC news brands bring to an online news site?
 - What is credible about the NBC brands?
 - How strong are the associations with NBC news personalities?
- Informed versus overwhelmed
 - What is the balance between knowledge as power and news as noise?
 - Do online news users want "all the news that's fit to print" or "enough information so I don't look stupid"?
 - Do your users want to know it all or just know enough?
- Entertained versus unfulfilled
 - What causes the negative reaction to the site among non-users? Are non-users reacting to the actual product or its reputation?
 - What is the appropriate balance between hard news and entertainment content?
 - How does the style of storytelling affect a user's perception of the content on the site?

SS+K needed answers to questions like these before the agency could identify the profile of the person most likely to be attracted to msnbc.com as a news source. That's where the targeting process comes in, so we'll turn to that next.

Key Takaway

It's very rare for an idea, product, or service to appeal to all consumers. Segmentation is the process of dividing the total population into groups that share important characteristics relevant to a client's product or service. These segments may be based on demographics, psychological/lifestyle characteristics (psychographics), or behavior (e.g., heavy users versus light users of the brand).

1. *Segmenting* subdivides the population to help you think about who are and are not the potential customers for your product and the potential audience of the advertising.
2. *Targeting* picks the segment(s) for the campaign that will be the focus of the advertising.
3. *Positioning* is how to think about the relationship between your product and the customer/audience, with the purpose of distinguishing your product from the competition.

EXERCISES

1. Target marketing requires that we use the STP process, which consists of three steps. List and briefly describe those steps.

2. Demographics are measurable aspects of a population. There are nine widely used demographic measures. List and briefly describe five of those demographic measures.
 3. Explain how advertisers might be able to use SRI International's VALS2™ to construct consumer ad campaigns.
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