

## 5.2: Market Segmentation and Consumer Markets

### Learning Objectives

By the end of this section, you will be able to

- Define market segmentation.
- Describe the benefits of market segmentation.
- Discuss methods of segmenting consumer markets.

### Market Segmentation Defined

You may have heard the saying “You can’t be all things to all people.” That sums up the essence and purpose of market segmentation—the process of dividing a target market into smaller, more precisely defined groups of consumers or organizations who have common needs and are expected to respond similarly to a marketing action.

### The Advantages of Market Segmentation to the Organization

The average person is estimated to see an astounding 4,000–10,000 advertising messages each day.<sup>3</sup> That’s why it’s critical to target the right market. Most marketers have limited advertising budgets, so using one marketing message to reach a broad audience may garner a few new customers, but it’s likely to come at a high advertising cost.

Consider a company that makes woodworking tools for the professional or home hobbyist. The company would waste a lot of money placing ads in “general interest” magazines like *Reader’s Digest* because the average reader likely has little interest in woodworking tools. A better bet would be placing ads in specialty magazines like *The Family Handyman* (published by the same company as *Reader’s Digest*), *Wood Magazine*, or *Popular Woodworking*—publications aimed at professional woodworkers and hobbyists. Not only would it likely cost less to advertise in specialty magazines like these, but the ads would be more relevant to the company’s desired customer base.

There are other benefits to market segmentation. Let’s look at a few:

- **Improved Focus on the “Important” Customers.** Customers are not all alike. Some will love your product or service, while others will be indifferent. Instead of trying to appeal to everyone, market segmentation enables marketers to focus their efforts and resources on those customers, which will likely result in revenue for the company.
- **Improved Product Development.** Market segmentation allows marketers to better understand what consumers want in a product or service, and that knowledge enables the marketer to make recommendations for refinements to existing products and services to meet those needs. This knowledge is equally important in terms of designing *new* products and services to meet the needs of the target market.
- **Improved Brand Loyalty.** When customers feel that your company’s products or services are a good fit for them, they are more likely to stick with your brand and recommend it to others (Kadence International, 2024).

### Methods of Segmenting Consumer Markets

There are several different types of marketing segments you can create. We’ll focus on four major types:

- Geographic segmentation: the “where”
- Demographic segmentation: the “who”
- Behavioral segmentation: the “how”
- Psychographic segmentation: the “why”

### Geographic Segmentation: The “Where”

Let’s first look at geographic segmentation, or dividing the market based on where your customers or potential customers live. There are several geographic parameters a marketer can use to focus their marketing efforts, including location, cultural preferences, climate, language, and population type and density (see Figure 5.2).

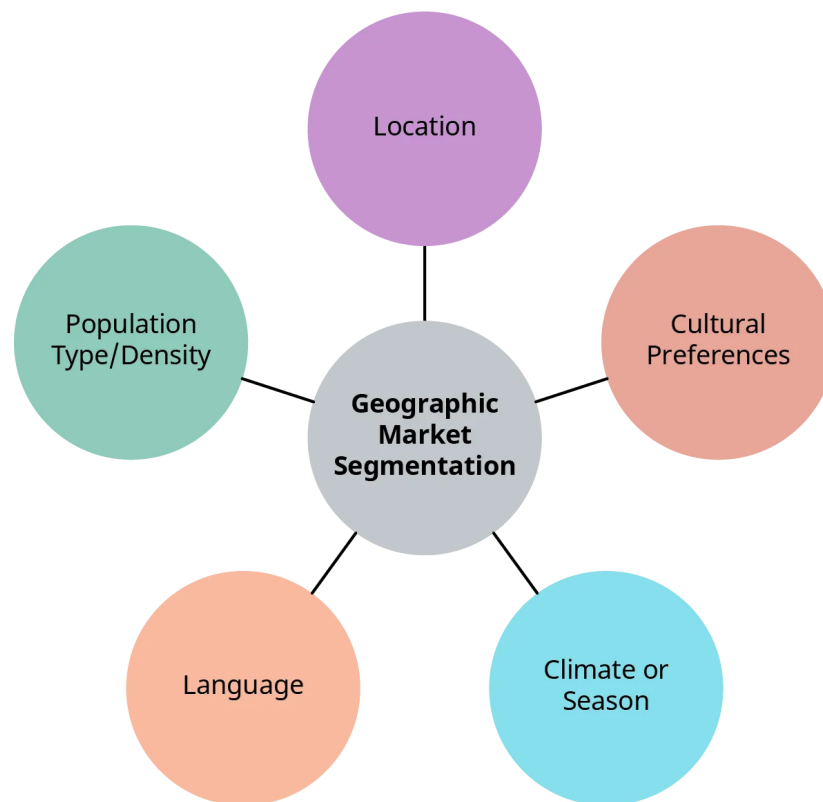


Figure 5.2 Geographic Market Segmentation (CC BY 4.0; Rice University & OpenStax)

Let's explore each of these individually.

Segmenting the market based on location can be as small as a county or zip code or as large as a country. Segmenting a market this way can also be used to identify a new geographic location into which the business may wish to expand.

Starbucks is a great example of a company that uses location segmentation. First, the company segments its markets according to global geographic segmentation—the Americas, China, Asia Pacific, Europe, Middle East, and Africa (Jones, 2015). Each of these segments is then subject to sub-segmentation to cater to markets that share cultural preferences. For example, in China, where tea is the beverage of choice, Starbucks offers a lengthy menu of tea-based drinks like Red Bean, Green Tea Frappuccino, and Black Tea Latte. In Taiwan, where consumers prefer creamy beverages, Starbucks offers Jeju Honey Peanut Latte and Happy Cheese White Mocha (Jacobs, 2020).

Customers' choices and market behavior can also be influenced by their location regarding climate or season. Segmenting the market this way also allows the marketer to present the most relevant information to the audience. There's not much need for snowmobiles during the summer, even in northern climates, and not much demand for convertibles in the middle of winter in those same northern climates. Similarly, companies that sell beachwear are more likely to record increased sales during the summer and in warmer climates.

Language can be used to segment a market geographically. For instance, there are several different languages spoken in different regions and states in India. Therefore, it stands to reason that an advertisement in Hindi would miss the mark in states where Assamese or Telugu is spoken. These advertisements must be translated for people in different regions (Hartley, 2021). To give you an idea of the complexity of this, however, there are more than 19,500 languages or dialects spoken in India and 121 languages spoken by 10,000 people or more (PTI News Agency, 2018)!

Finally, the marketer can segment the market based on population type or density—in other words, whether the market is urban, suburban, or rural. Think about this in terms of a company that does home lawn treatments like fertilization, weed control, or grub

control. That company would likely have more success targeting a suburban area where residents need extra yard care. It would be less successful in an urban area where residents have smaller yards or maybe no yards at all!

### Demographic Segmentation: The “Who”

Now, let’s look at dividing a market based on demographic segmentation (see Figure 5.3).

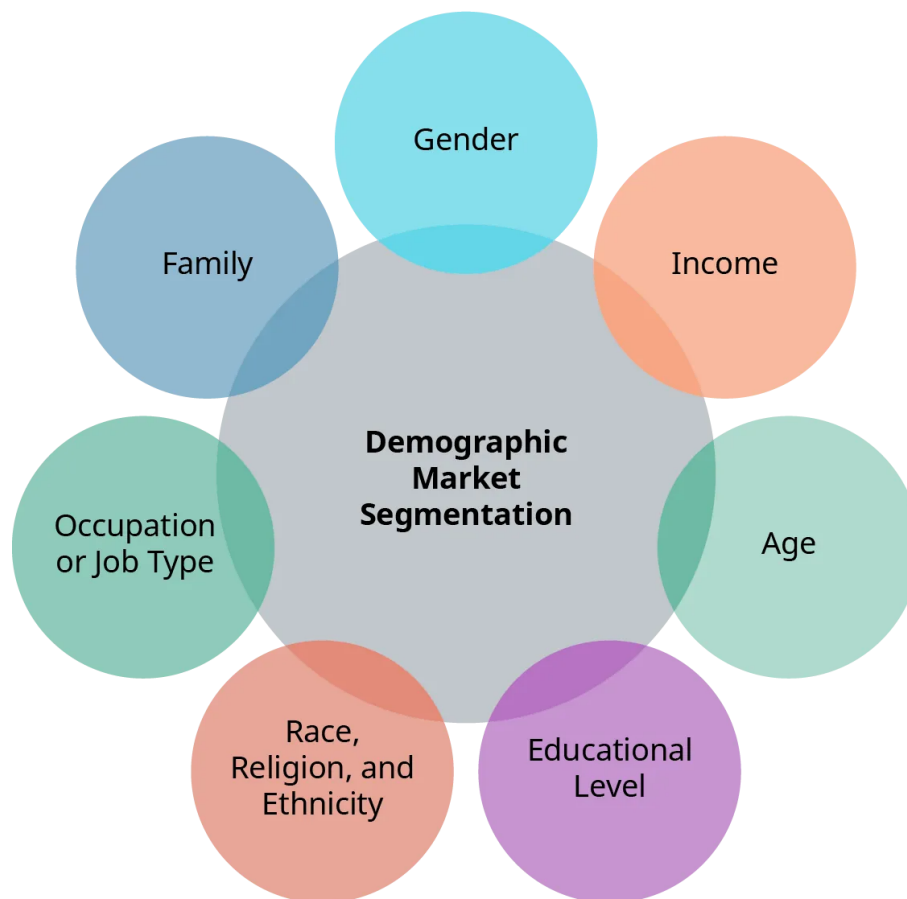


Figure 5.3 Demographic Market Segmentation (CC BY 4.0; Rice University & OpenStax)

With demographic segmentation, the marketer will divide the market into smaller groups, generally based on common demographic factors such as gender, income, age, educational level, race, religion, ethnicity, occupation or job type, and even family structure. These smaller segments enable marketers to focus their efforts and resources on those customers who will likely result in revenue for the company.

With gender segmentation, the market is divided into men and women. Those who identify as men and those who identify as women have different interests in terms of shopping for various products like apparel, shoes, and food. For example, look at the ad campaigns crafted for women in fashion magazines such as *Vogue* or *Vanity Fair*. You’ll likely see a different ad focus in magazines like *GQ* or *Men’s Health*.

Income segmentation involves segmenting the market based on monthly or yearly income. With income data, a company can determine how its potential consumer base spends money on both the high and low ends of the spectrum. Mercedes-Benz is a classic example of this as it markets different car models at different price points: A-Class vehicles starting in the low \$30,000 range, C-Class in the \$40,000–\$55,000 range, E-Class in the \$55,000–\$72,000 range, and, finally, its S-Class vehicles, which are priced at \$95,000 and up (Mercedes-Benz of Chandler, 2021).

Age is another common factor used to segment consumers. It’s likely no surprise to you that our preferences change with age. The products that appeal to us as teens or young adults are likely not the same products that appeal to us when we’re older. The age segmentation is threefold:

- **Age Range.** This type of segmentation represents a specific age group, such as children, teens, adults, and older adults. However, you also need to consider “perceived age” (i.e., how old you feel) versus “actual age” (i.e., your chronological age).

Purchases tend to reflect our perceived age rather than our chronological age.

- **Life Cycle or Life Stage.** In the same way our preferences change with age, they change with our life stage, and most people typically pass through many life stages, from childhood to adolescence to young adulthood, middle age, and older adulthood. This type of segmentation can be a little tricky, however, particularly given stereotypes and changing family dynamics. For instance, some teens or young adults may be parents, while middle-aged adults may be starting families, having second families, becoming empty nesters, or are single (or single again).
- **Generation Based.** This method of breakdown defines age by generation, such as baby boomers, millennials, and Generation X. Consumers within generations will differ slightly in age (for example, baby boomers were born between 1946 and 1964, and Gen Xers were born between 1965 and 1980, but these generational cohorts still tend to share certain characteristics and ideas (Robinson, 2017).

Education is another way marketers can segment a market, and it also affects the channels through which marketers reach the target market. For example, if you were going to open a bookstore in your hometown, you'd want to determine the average educational level in your community as part of your due diligence. Are most of your would-be customers elementary or middle school students? Their tastes in reading differ considerably from students at the same levels in a college town populated by several literary professors who prefer the classics (Li, 2021)

Race, ethnicity, and religion can be used to segment a market. It's always dangerous to stereotype, but consumers of different races, ethnicities, and religions have different preferences and needs. Consider a company like Zondervan, a leading Bible publisher. It would make sense for the company to segment its market based on religion because it offers products that complement a particular group's religious beliefs. Likewise, IMAN Cosmetics is designed for women with darker skin tones, so its target market would likely be women of color.

Marketers can also segment the market based on occupation or job type. Focusing on a smaller market segment enables a company to make better use of its limited resources. For example, AllHeart produces medical scrubs, nursing uniforms, shoes, and medical accessories, so it has segmented the market to focus on medical professionals. Another example can be found with Saf-Gard, a producer of safety shoes and work boots that meet or exceed safety standards. This company targets workers in the construction and farming industries.

Finally, a company can segment its market based on family structure, marital status, whether children are in the home, and the life stages of those in each family.

### Behavioral Segmentation: The "How"

Behavioral segmentation divides consumers into market segments depending on their behavior patterns when interacting with a product or service (see Figure 5.4).

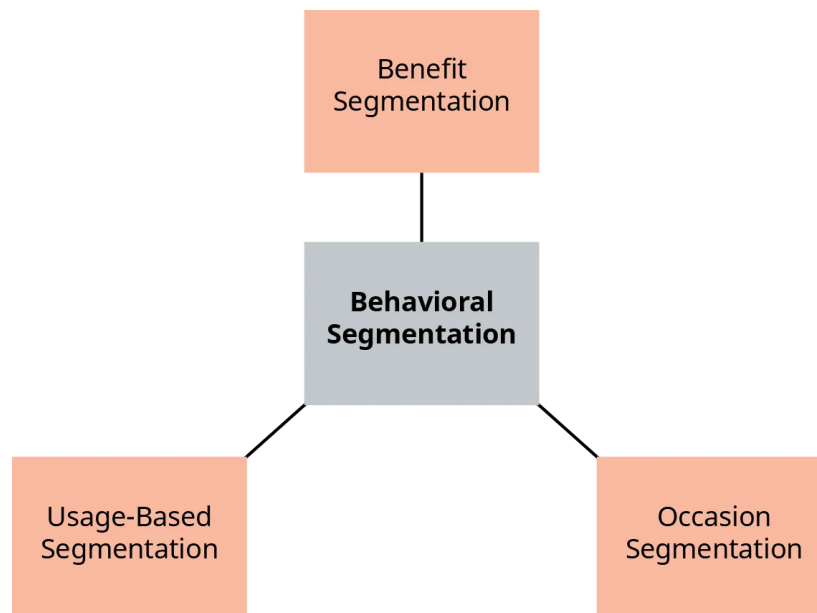


Figure 5.4 Behavioral Market Segmentation (CC BY 4.0; Rice University & OpenStax)

The behavioral pattern benefit segmentation focuses on which benefits or features of a product or service are most applicable to the customer. Consider toothpaste. People who buy toothpaste may do so for a variety of reasons—for instance, sensitive teeth, tartar control, whitening, fresh breath, or cavity prevention. This means that two consumers may look identical in terms of their demographics but have very different values regarding the benefits and features that are most important to them.

For example, Procter & Gamble markets various formulations of its Crest brand toothpaste, including Crest Kids, Gum Detoxify Deep Clean, Gum and Breath Purify Deep Clean, and more. Marketing messages sharing the toothpaste's benefits and differences are tailored for each formulation (Procter & Gamble, 2022).

Occasion segmentation divides consumers (or potential consumers) based on the occasions when they make purchases or plan to buy. Occasion marketing is huge because marketers know that consumers will purchase certain items on certain occasions. Just look at the number of Internet or TV ads advertising chocolates, flowers, and jewelry in the weeks preceding Valentine's Day or the sudden appearance of Peeps and chocolate bunnies before Easter.

Usage-based segmentation identifies various user segments based on how much they use a product. Consumers are typically divided into groups of non-, light, medium, and heavy product users. As a general rule, companies target heavy users because although heavy users may be a relatively small percentage of the market, they generally account for a high percentage of total buying. This is actually called the Pareto principle in marketing, which asserts that 80 percent of a company's revenue comes from the top 20 percent of repeat or loyal customers (Appanna, 2021).

#### Link to Learning: Pareto Principle

Regardless of which area of business you go into, the Pareto principle is a concept you will encounter often. It's a concept people adopt in both life and management. Check out these resources to learn more:

- Simply Psychology article: [Pareto Principle \(The 80-20 Rule\)](#)
- Better Than Yesterday video: [The Pareto Principle—80/20 Rule—Do More by Doing Less](#)



- Fresh Books Blog article: [How to Increase Productivity Using the Pareto Principle](#)
- HubSpot article: [www.blog.hubspot.com/marketing/pareto-principle](http://www.blog.hubspot.com/marketing/pareto-principle)

#### Psychographic Segmentation: The “Why”

Psychographic segmentation breaks down consumer groups into segments that influence buying behaviors, such as lifestyle, personality variables, and values (see Figure 5.5).

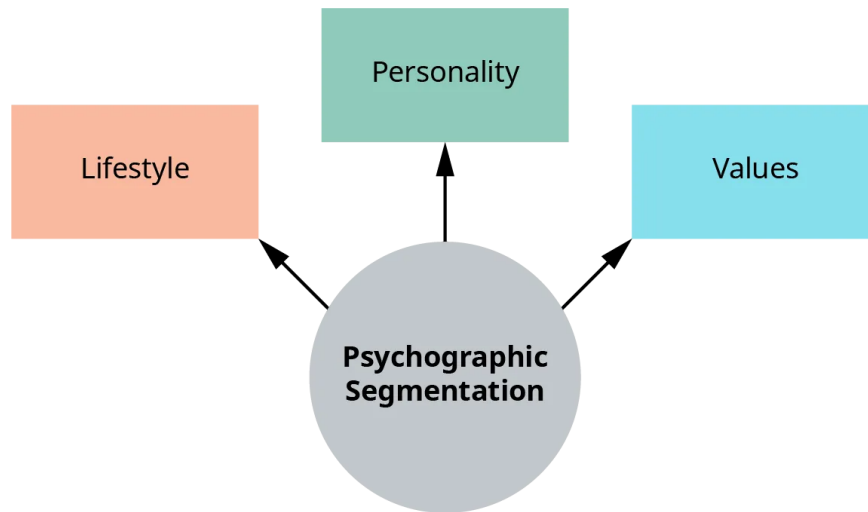


Figure 5.5 Psychographic Market Segmentation (CC BY 4.0; Rice University & OpenStax)

A person's lifestyle provides insight on what they value or how they spend their time and money. Marketers analyze three lifestyle dimensions, commonly called AIO (activities, interests, and opinions) variables:

- **Activities.** Activities focus on a person's daily routine and/or hobbies. For instance, if you're an urban dweller who rides your bike to work and works out regularly, your buying patterns will probably be vastly different from those of someone who drives to work and doesn't work out.
- **Interests.** Interests drive passions. What are your interests? Crypto investing? Gaming? Photography? That's important information for marketers because, by identifying your interests (assuming you're a target consumer), they can more easily determine what marketing messages will appeal to you.
- **Opinions.** Opinions matter, and especially in the age of social media, opinions spread fast. Companies monitor social media sites to gain insight about consumers' opinions of their products or services and respond accordingly—and quickly! Companies such as PepsiCo and Mastercard continuously monitor 24/7 all social media postings about their companies, products, and competitors worldwide.

#### Link to Learning: Social Media Segmentation

There are several ways to segment social media markets. Read more about it on HubSpot: "[8 Simple Ways to Segment Your Social Media Audience](#)." Understanding how social media influences market segmentation is critical. [Read this article from Marketing Tech](#) to gain insight.

Marketers can also segment a market based on personality variables to create a group of people with similar personality traits because personality and purchasing habits are strongly related. To illustrate this, look at the fitness tool Mirror. This interactive home trainer has performed well in the market since its inception in 2018 because it targets those people who want to work out but can't find the time to go to the gym.

#### Link to Learning: Personality Segmentation

Harley-Davidson is another great example of a company that segments its market based on personality. Check out this video from Harley-Davidson as an example of how it sends a message that resonates with motorcycle riders.



Values are the principles and important things that influence the way you live and work. As one example, environmental concerns are becoming a value issue for consumers, and they are looking for products from companies that are better for the earth. Knowing this, IKEA has incorporated a furniture buyback and resale program in the United States. If you have a piece of IKEA furniture that's an oldie but still a goody and you want to retire it, IKEA will buy it back and help you pave the way toward sustainable living (IKEA, 2024). Another great example is Lululemon's Like New program. You can bring in any used Lululemon gear, trade it in at the store, get an eGift card for use at a Lululemon store, and 100 percent of the Like New profits are reinvested in the company's sustainability initiatives (Lululemon, 2024).

In addition to the AIO model of psychographic segmentation, there is another model known as VALS (values, attitudes, and lifestyles) that segments consumers into eight different types (as shown in Figure 5.6).

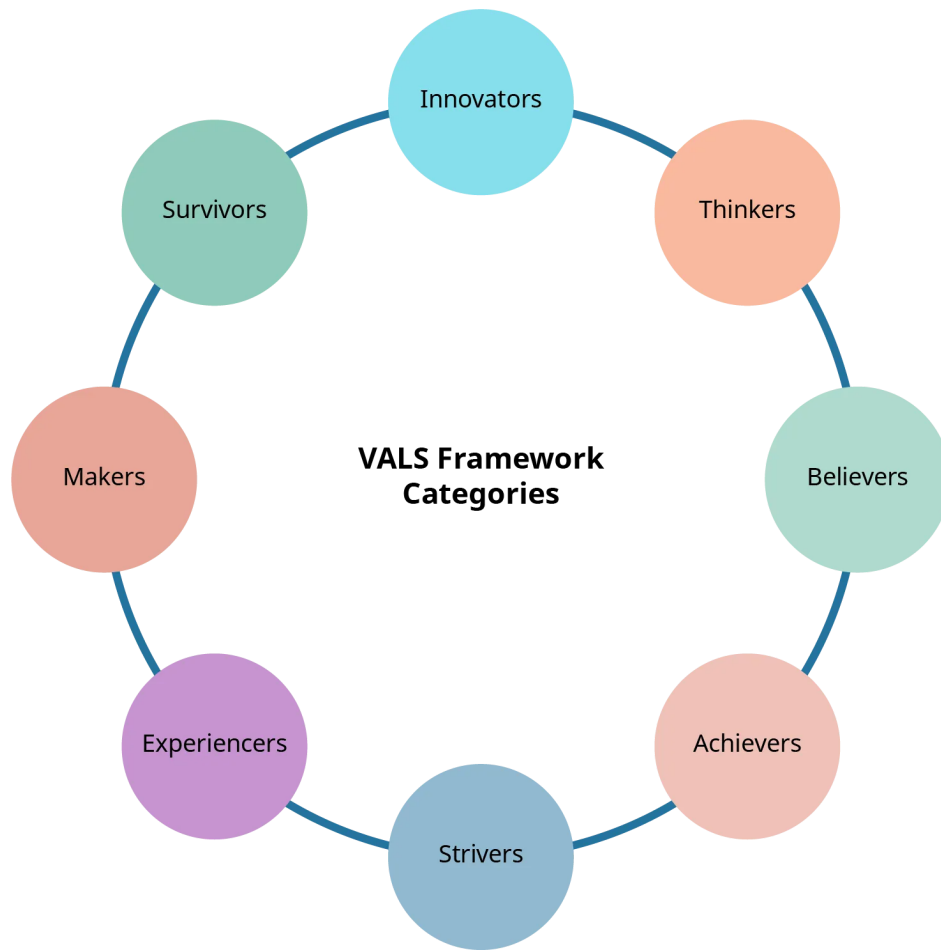




Figure 5.6 The VALS Framework (CC BY 4.0; Rice University & OpenStax)

The premise of VALS is relatively simple: if you know what consumers are thinking, you will know which promotions or marketing messages will attract them to your product or service. And you can use the framework to determine what consumers think by determining their values, attitudes, and lifestyles (Bhasin, 2020).

Let's take a look at these eight consumer types:

- *Innovators* are characterized by high income and high resources. These innovators have definite individual tastes and preferences and are motivated to achieve the “finer things” in life.
- *Thinkers* are consumers who have resources and are motivated by their knowledge.
- *Believers* are subtly different from thinkers in that thinkers typically make their own decisions, whereas believers look to their peers to affirm their decisions. They have fewer resources than innovators or thinkers.
- *Achievers* tend to be high-resource consumers who want to excel, both in the workplace and within their families. They are likely to purchase brands that have stood the test of time in terms of their success in the marketplace.
- *Strivers* tend to be lower-resource consumers. They have similar values as achievers but lack the same level of resources.
- *Experiencers* have relatively high resources and want to experience “being different.” The majority of those with these experiences (experiencers) are young adults.
- *Makers*, like experiencers, want self-expression, but they lack the resources to make that happen, so they tend to be more focused on building a better family than spending money.
- *Survivors* have the least number of resources and are the least likely to adopt innovative products. Survivors tend to be brand-loyal customers (Bhasin, 2020).

### Using Multiple Segmentation Bases

Keep in mind that a company doesn't have to use just one or two segmentation bases; it can use all of them or a mix of them, a process that's also known as multi-segment marketing. It's not uncommon for companies to develop products that compete against their own offerings as long as the new products offer different perceived benefits to consumers. For instance, Procter & Gamble sells several different types of laundry detergent, such as Tide, Gain, and Cheer. Each of these brands offers different benefits like all-temperature use, fresh scent, unscented, stain removal, or whitening. By having these different brands, P&G can appeal to multiple target markets.

#### Careers In Marketing: Market Research Analyst

What does a market research analyst do, you might ask? They study markets and data to determine potential new opportunities for a company. According to the Bureau of Labor Statistics, the typical entry-level education required is a bachelor's degree, and there are about 741,000 jobs with an expected growth rate of 22 percent from 2020 to 2030. This article from Coursera, [“What Is a Marketing Analyst? And How to Become One,”](#) outlines job roles and responsibilities, compares this job with other types of analyst jobs, and describes steps for becoming a marketing analyst.

Watch this video to learn about the typical marketing analyst job description. And watch this video from a real digital marketing analyst at Accenture to learn what a typical day includes.



### Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

In China, Starbucks offers tea-based drinks featuring regional ingredients. On what basis has Starbucks segmented its market?

- a. Demographic
- b. Behavioral
- c. Geographic
- d. Psychographic

2.

A travel agency offers adventure trips like hut-to-hut camping in the mountains as well as taking quieter vacations in all-inclusive resorts. On what basis has the travel agency segmented its market?

- a. Psychographic
- b. Demographic
- c. Behavioral
- d. Geographic

3.

Road Scholar is an American not-for-profit organization that provides educational travel programs geared primarily to older adults. On what basis has Road Scholar segmented the market?

- a. Geographic
- b. Psychographic
- c. Demographic
- d. Behavioral

4.

Garnier offers a wide range of shampoos, including hydrating shampoo, smoothing shampoo, color-safe shampoo, volumizing shampoo, and more. On what basis has Garnier segmented the market?

- a. Geographic
- b. Psychographic

- c. Behavioral
- d. Demographic

5.

Peloton's main products are Internet-connected stationary bikes and treadmills that enable subscribers to participate remotely in live classes via streaming media. This enables subscribers to have a "spin class" experience without going to the gym. On what basis has Peloton segmented the market?

- a. Demographic
- b. Behavioral
- c. Geographic
- d. Psychographic

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