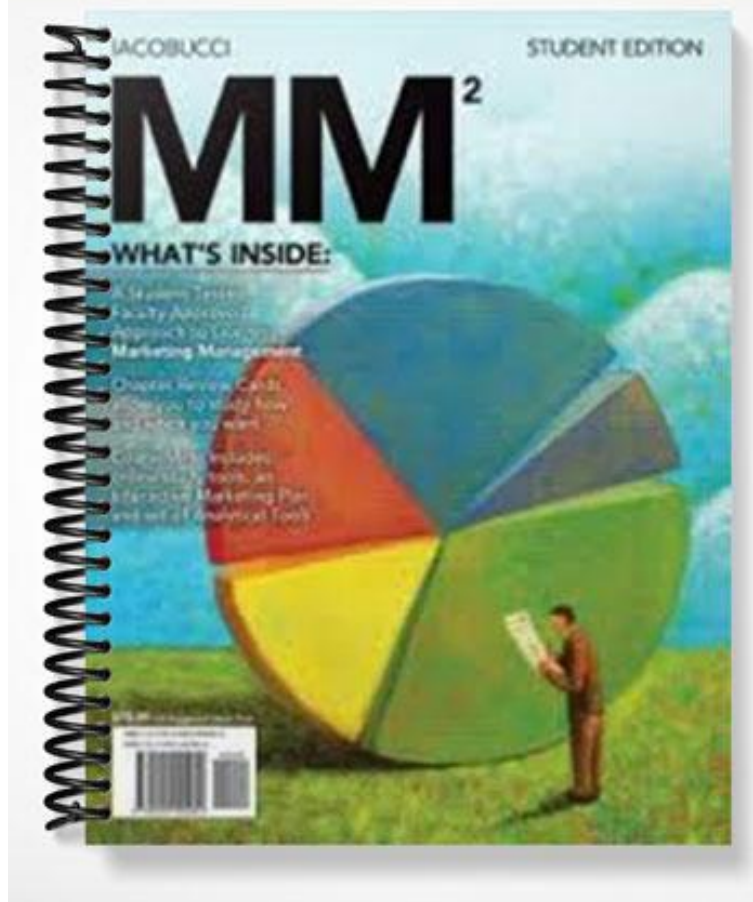


SOLUTIONS MANUAL



CHAPTER 2 – MARKETING SEGMENTATION

KNOWLEDGE OBJECTIVES

1. What is segmentation and why it is important to marketers
2. The bases for segmentation
3. The indicators of good segmentation
4. Implications for the remaining elements of the STP 4P framework

CHAPTER OUTLINE

- Reasons to segment
- What are market segments?
- Bases for segmentation
 - Consumer
 - Demographics
 - Geographic
 - Psychological
 - Behavior
 - Business to Business
- How marketers identify segments
- Evaluating segmentation schemes
- Summary

TEACHING NOTE: A simple way to start discussion is to ask students any of the following questions to begin discussion: do you live on campus? What part of the country/world are you from? What type of shoes are you wearing? What do you most like to do in your free time? All of these questions can be used as a basis to begin the discussion on segmentation. The above questions represent different bases for segmentation. Shoes offer a simple yet effective demonstration of segmentation: mens/womens, open/closed, casual/athletic, and there are many types of athletic shoes – basketball, tennis, running. Even within running there are many different types designed for different segments. Racing flats, distance shoes, and within distance shoes, road or trail and running shoes differ on foot type and bio-mechanics.

1. Why Segment?

This section is related to knowledge objectives 1 and 3.

Marketers need to examine any given market for differences among customers. There must be differences among the customer population in order for segmentation to be feasible. Using the example of a movie, the chapter notes that very few people will be in absolute agreement on any aspect of any given movie. Noting that consumers have unique needs and desires acknowledges that a market will demonstrate heterogeneity.

This means that due to these differences, different products will be required in order to satisfy the different needs in the market.

The ability to find smaller homogeneous markets within a larger heterogeneous market is the foundation for segmentation. Often times with these smaller homogenous markets demand can be less price elastic. So, marketers deal with customer variation through segmentation.

TEACHING NOTE: The issue of heterogeneity/homogeneity can be considered within the context of “perfect” competition versus “imperfect” competition. Students can be asked what are the assumptions underlying “perfect” competition. The assumptions being: many buyers and sellers, buyers willing to buy at a certain price, sellers willing to sell at a certain price, perfect information, low entry/exit barriers, firms are profit maximizers AND firms sell identical products. Simply ask students if this last assumption is realistic. More importantly, IF sellers only sell an identical product - what does that say about buyers – and how realistic is that? Ask students what they think if only Coca-Cola Classic was available – no Diet Coke, no Pepsi? What if the only automobile available was a Chevrolet Cobalt? No Corvette, no Honda Civics only Cobalts and only green Cobalts?

The introductory section concludes by offering three reasons why it is often impractical to try to market an offering to the entire market. First, is it realistic to think that a marketer could offer a product with sufficient quality to satisfy premium customers, yet priced low enough to satisfy the price-sensitive? Second, could the marketer afford to place advertising in the many media outlets needed to communicate with all the different audiences and could you afford the many different versions needed? Lastly, could you effectively develop a brand image that appeals to conformists, non-conformists and others seeking to express their individualism?

2. What are Market Segments?

This section is related to knowledge objective #1

The discussion on what are market segments begins with a definition of market segment. A market segment is a group of customers who share similar preferences or liking toward a product. In other words, segments are homogenous groups of customers.

Figure 2.1: Marketing Segmentation: Groups of Customers

This figure applies to knowledge objective #1

Figure shows the continuum between One-to-One Marketing and Mass Marketing with Marketing Segmentation lying between them. In One-to-One Marketing the firms makes a distinct product for each customer as represented by the individual lines going from the product triangle to each sphere. At the other end of the continuum, in Mass Marketing all of the customers are treated the same, represented by all of the spheres being surrounded

by a single circle and a single product is marketed to them as indicated by the single arrow from the product triangle. Marketing segmentation is represented by only some of the spheres being enclosed by the circle. In mass marketing all customers are treated identically. The problem is that in virtually every market customers are not identical – they differ. Flour is used as an illustrative example. There are many types of flour, bleached, unbleached, bread flour, pastry flour, wheat flour. This example emphasizes the point that different products are made available to better meet the distinct needs of different segments.

Conversely, in one-to-one marketing each customer is a segment. Using Dell Computers as an example, what often appears to be one-to-one marketing is in fact something less than that. General Mills and Reflect.com are provided as examples of firms that have attempted to provide one-to-one marketing but no longer do as the one-to-one model was not workable in either case.

Segmentation seeks a middle ground between one-to-one marketing and mass marketing. A key issue is that as segment size increases, so does heterogeneity and therefore difficulty of satisfying the segment with a single product. Conversely as segment size decreases, the ability to satisfy with a single product increases but if the segment is too small it might not be profitable. So at issue is finding optimal, serviceable segments.

The Niche strategy is introduced. A niche strategy is a small segment with needs that the company can meet particularly well.

TEACHING NOTE: Ask students to think of a company that uses or has used a niche strategy. What makes the product a niche product?

3. What Are Some Bases for Segmentation?

This section is related to knowledge objective #2

The text distinguishes between consumer markets and business to business markets

A. Bases for segmenting consumer markets

- I. **Demographics.** Noting that some bases are easily identified, the text provides several product categories in which the products can be segmented based upon gender. This includes razors, fragrances, vitamins and running shoes among others.

Other demographic bases for segmentation include: age, household composition, stage in the family lifecycle, education, and income. Examples for each basis are provided including technology for younger people, furniture for young couples, travel and leisure for older consumers.

Ethnicity is important due to the size of the populations and purchasing power. While demographic variables are clear and easy to recognize, generalizations can be simplistic and sometimes stereotypical. For the older person that does not know what the world-wide-web is there is an older person that is surfing the web and has a myspace profile. For the young person that loves technology there is the young person that has a technology phobia. So, if there are as many differences within the group as between them, the marketer should seek some other variables as a basis.

- II. Geographic segmentation may be used as it recognizes that there are often country-by-country differences and cultural differences. Geography can come into play as a basis as there may be differences due to urban versus suburban (population density), or due to climate. The section continues stating that much like demographic variables, geography is easy to identify but can be overly simplistic. PRIZM is a service that attempts to overcome such stereotypes.

TEACHING NOTE: The great Soda vs. Pop vs Coke debate. Use the following website <http://popvssoda.com:2998/> provides a map of the United States and provides a regional differences in the use of the terms, soda, pop, and coke in referring to a carbonated soft-drink. Near Waco, TX people may ask for a “Pepper” as in Dr. Pepper, since Dr. Pepper was created in Waco.

Figure 2.2 PRIZM Segments

This figure applies to knowledge objective #1

The figure provides an example of PRIZM segments. The use of Household Income and Geographic classification of urban or rural leads four classifications. Combining demographic with geographic variables lends more sophistication as high income individual residing in a rural location is “landed gentry” while an urban individual with a high income is labeled “urban uptown”. The example demonstrates that those with high income are more likely to have more in common with those upper income individuals living in rural locations than those high income individuals living in urban areas.

- III. Psychological variables are often used for segmentation purposes. Along with psychological variables such as personality or motivation, marketers frequently use lifestyle as a basis for segmentation. Lifestyles are those activities and interests that individuals find appealing.

VALS (values and lifestyles) has been developed as a tool for segmenting using psychographic data and distinguishes between two VALS segments: “strivers” those individuals that are trendy and fashionable and “achievers” who are more family and work directed.

For many product categories, there are segments of customers that seek premium products, those that are brand conscious, and those that are price sensitive. The challenge is to recognize that for one product category an individual may fall into one segment, but for another product category may be in a different category. Level of involvement and aspirations are also mentioned as important considerations in understanding segmentation.

TEACHING NOTE: Using the VALS2 segment descriptions from <http://www.sric-bi.com/VALS/types.shtml> select any segment and have students identify two products that they believe that those falling within that segment would be responsive to. Why do students think the segment would be responsive?

IV. Behaviors An important note is the statement that while marketers cannot directly observe attitudes and other psychological aspects, they can observe behavior to infer those psychological states. The section continues by noting that marketers look at users of the firms product and users of competing brands. This brings up the issue of loyalty and more importantly degrees of loyalty. Loyalty and frequency are then tied to the 80:20 principle and the commonly accepted idea that it is far more costly to acquire a customer than to retain a customer. Lastly, it is pointed out that marketers increasingly look at co-purchasing behavior to better market their products.

TEACHING NOTE: Loyalty programs such as frequent flyer miles can create a sunk cost effect as consumers often see a “cost” associated with switching to a competing product due to foregoing the accrued rewards associated with their current product or firm. The episode of “Seinfeld” in which the character of Elaine goes to great lengths to try and recover the loyalty ticket for the free sandwich demonstrates the psychological effect as Elaine had already purchased several sandwiches and only needed to buy one more in order to receive a free one.

B. Bases for segmenting B2B markets

Marketers frequently use size in segmenting business markets. However, size can be viewed in various ways including: number of employees, market share or company sales. Size is a frequent basis as marketers provide greater levels of service based upon purchase volume.

TEACHING NOTE: The now classic example of how the size of an account dictates level of service is Walmart. Walmart constitutes such a significant portion of sales for so many businesses, that many firms have a staff located in Bentonville, AR just to serve Walmart.

Figure 2.3 caption to come (Common bases for segmentation?)

Figure applies to knowledge objective #2

Provides four bases for segmenting consumer markets: geographic, demographic, behavior and attitudes. Also, gives four bases for segmenting businesses: geographic, demographic, type of firm, and attitudes.

An Illustration

Section applies to knowledge objective #2

Uses the automobile insurance industry as an example of how market segmentation can be used.

Figure 2.4 Auto Insurance: Looking for Segmentation Variables

Figure applies to knowledge objectives #2 and #3

Figure compliments the section on the illustration. First graph shows that most people place a value on “convenience” the ability for one-stop shopping. The second graph gives clear indication that there are two distinct groups. One willing to switch to save 10% and another group that is not willing to switch to save 10%.

4. How Do Marketers Segment the Market?

Section applies to knowledge objective #3

Observes that marketers consider both managerial and customer issues to identify segments. Marketers use their market-based knowledge and consider their own abilities. Uses examples drawn from financial services and the arts for illustration. Section is a nice precursor to both the section of evaluation and the next chapter on targeting.

5. How to Evaluate the Segmentation Scheme

Section applies to knowledge objective #3

Recognizes that the first challenge in evaluation is the ability to obtain data in order to determine segments. If the data is available and segments are developed is there data available on customers in the segment(s) so that prospective customers can be contacted? If not, are there other means of contacting prospective customers? While segments may be developed and a means of contact available, the segment must also be examined for potential profitability.

Marketers must assess the fit with corporate goals. Many segments that satisfy the criteria noted earlier, simply do not fit with corporate goals. Finally, given a viable

segmentation scheme, marketers must be able to take effective action. Marketers typically use a combination of variables in segmentation. Marketers typically want to understand “why” through attitudes and/or geography, but also want to know or describe “who” through demographics.

TEACHING SUGGESTION: While profitability is typically a key consideration, ask students why a firm would intentionally pursue a segment that is unprofitable? Answer may vary, but a firm may do this as a means of gaining favorable publicity. So called “orphan drugs” are often mentioned. These are drugs for illnesses that are extremely rare, so rare that there is no financial profit for the company.

Figure 2.5 Segments in the Marketplace

Figure applies to knowledge objective #1

Figure shows that in any market there are typically multiple segments. In addition, shows that segments are typically not totally separate from other segments. Segments tend to overlap. Think Venn diagram.

Figure 2.6 Breadth Strategy: Reaching Multiple Markets

Figure applies to knowledge objectives #1 & #4

The firm elects to market a single product to two or more segments.

Figure 2.7 Depth Strategy: Serving One Segment Well

Figure applies to knowledge objectives #1 & #4

A firm focuses on a single segment and has multiple offerings for the segment.

Figure 2.8 Tailoring Strategy: Customizing for Segments

Figure applies to knowledge objectives #1 & #4

A firm serves multiple segments, marketing a different product to each segment.

Figure 2.9 Serving a Segment and Branching Out

Figure applies to knowledge objectives #1 & #4

Over time, due to any number of reasons a marketer's strategy will likely morph. This may lead the marketer to try to expand the segment in some manner, use different communications strategies, or develop alternative pricing mechanisms.

6. Summary

Segments must be profitable. They must be identifiable, actionable, and fit with the marketer's goals. If a segment is not profitable, combining with other unprofitable segments might provide a possibility. However, as the number of segments served or the size of any given segment increases, so does the heterogeneity of the segment or segments and it becomes difficult to effectively market to the segment or segments.

- Marketers segment due to variation among customers.
- Segments are groups of customers that are similar in some way.
- Segments can be formed using: demographics, geographics, attitudes, and/or behaviors
- Segments should be evaluated from data and management understanding of the marketplace
- The segments should be based upon data, accessible, profitable, and fit with corporate goals.

SUGGESTED ANSWERS TO DISCUSSION QUESTIONS

1. Say one of your early jobs is overseeing brand managers at a Coca-Cola-sized beverage company. A team of MBAs who aren't as well-trained as you says that the project their group is developing will appeal to the entire market, just as Coca-Cola and Pepsi do. As a result, there's no need for segmentation. What's your reaction?

First, ask students if they can identify any beverage that has been introduced in the recent past that appeals to the entire marketplace. You can follow up with a question if students can identify any recent product introduction that has appealed to the entire market. Second, ask students IF either Coca-Cola or Pepsi does appeal to the entire market.

The very fact that there are two viable "colas" indicates that there are at least two segments to the market – Coca-Cola drinkers and Pepsi drinkers, with in all likelihood a third segment of those that drink both. This provides students with a nice example of a behavior based segmentation. In addition, the product variations: Cherry Coke, Vanilla Coke, Diet Coke, Diet Pepsi, Pepsi Max indicate segmentation.

Even if the product should be first to market, thus creating and establishing a market there is likely to soon be competition. So, it is good to point out to students that as markets evolve, they become more segmented. The energy drink market provides a good example as the market can be segmented by regular and diet and flavor as many companies now offer flavored energy drinks such as grape and the like.

2. Your next job is in the marketing branch for a major sports club. You have to think about how to segment both consumer fans and business fans. What variables are relevant? How do you test whether a particular variable is useful?

Because most sports clubs' attendance is based upon the region they are in, geographic segmentation is likely not very useful. Demographic variables are likely more helpful as age, family lifecycle, and income are likely important factors for consumers as older more affluent consumers are more likely to pay more for premium seat location, sky boxes and other additional amenities (parking, dedicated servers). Family lifecycle could be important as many sports teams have begun to offer family seating in order to minimize children's exposure to rowdy fans.

Behavior in the form of purchase frequency is also important in segmenting the consumer market in that clubs offer season tickets, packages, and individual game tickets.

The above can be combined with psychological factors such as price sensitivity, level of involvement and status seeking to segment.

On the business side demographics certainly can be used. Firm size is an obvious choice as only the largest firms will be able to afford and take full advantage of luxury sky boxes. Smaller firms will likely desire smaller boxes or premium seat locations. In addition, firms may seek amenities for more client entertaining requiring more plentiful food offerings and higher level of service.

3. Now you're more experienced and are the boss. You're overseeing a marketing research staff conducting a segmentation study. They come to you with their findings, and you're trying to evaluate their study before making recommendation to your boss. How do you know if the segmentation has splintered the market into too many segments that are too small? Conversely, how do you know if the segments are too big and perhaps should be broken into more segments that are smaller?

First, reiterate the text that it is not necessarily the size of the segment that is most important but rather whether the potential profitability of the segment. Profitability is a function of size, purchase frequency, competition and other factors. An additional key is to recognize that smaller segments while smaller and therefore likely to generate less revenue than either a larger segment or a combination of smaller segments will likely be more homogeneous and in all likelihood have a lower cost to serve. In order to make the determination you will have to have some managerial understanding of the marketplace and customers and have to be able to have access to the customers in order to determine if the segment is of sufficient profitability, homogeneity, and fit with your firm's goals.

4. Go online to 5 corporate homepages. Choose companies that are all in the same industry. Find their mission statement, and try to discern a description of the

segments they believe they are serving. How do their statements about their target segments make you see these five companies' overall positioning in this industry?

SUGGESTED ANSWERS TO MARKETING PLAN QUESTIONS

These questions continue to build toward a marketing plan. Save them and add them to the document or spreadsheet that you began to build in Chapter 1.

This example uses the concept of an energy drink for women. Basic energy drink marketplace information is readily available through most college or university databases.

Segmentation:

Base segments on data, gathering marketing research to conduct cluster analyses. Describe marketplace in terms of demographics, psychographics, buyer behaviors.

- | | |
|-----------------------------|---|
| 1. Describe current users | <i>mostly male
age 18-34
use at least weekly</i> |
| 2. describe Non-users | <i>Males/Females 35 & older</i> |
| 3. Describe ideal customers | <i>young adults
active, educated
use at least weekly
seek convenience</i> |

SUGGESTED ANSWERS TO MINI-CASE: SHADES (SEGMENTS) OF GREEN

- For getting off the grid(ers), one might sell (“back up”) generators, but for the “connectedness” people, who think more about a “village” you’d need multiple generators, for example. For measurable impact(ors), they might not be satisfied merely with carrying reusable bags to the grocery store, instead of consuming “paper or plastic.” Instead, they are likely to want to see large scale efforts by townships or companies, well beyond the products that are produced.
- Perhaps; given the axes of distinction, if a product is high on “simplicity”, then it might appeal to both the “measurable impact” and “off the grid” segments, for example.

Students can be creative about kinds of products (cars, cleaning products, perfumes, computers), but the point is that just because all these people are “green,” they are not all alike. So, someone who is into “connectedness” might appreciate an ad appeal that says that “For every \$100 you spend on an XYZ computer, we’re sending \$1 to help educate

children in third world countries,” and the “off the grid” person couldn’t care less. Similarly, “off the grid” people might want a laptop that has a solar unit power storage receiver, but that wouldn’t grab the attention of the “connectors.”

VIDEO OVERVIEW & DISCUSSION QUESTIONS

AC Nielson Media Research (8:50)

People’s needs vary. Marketers utilize segmentation to break the larger market down into more homogeneous groups. AC Nielson’s is a media research firm that uses its Homescan panel of consumers to identify behavioral nodes that drive the purchase of consumer goods. The panel tracks what is purchased, where it is purchased, how it is paid for and why it was purchased. The information is utilized to go beyond traditional demographic segmentation to break the market down into segments based on behavioral stages and lifestyle. For example, segments include Young Transitionals and Start-up Families. Consumer goods manufacturers and retailers purchase this information in order to find desirable segments and to better understand their customers; thus, impacting how they market to these customers.

Discussion Questions

1. Discuss how households have changed over the past 20 years and the implications of these changes on the purchase of consumer goods.
2. How would Procter & Gamble market shampoo to Young Transitionals differently than Start-up families?
3. How might Young Transitionals differ from Start-up Families in terms of products purchased?