Market Segmentation and Targeting

Key Terms: undifferentiated marketing, market segmentation, market positioning, micromarketing, market niche strategies, concentrated marketing, family life cycle, psychographics, AIOs, combiner approach, geodemographic segmentation, benefit segmentation, resonance marketing, microniche, ethnic marketing, personality.

Undifferentiated marketing is using one marketing strategy to go after an entire market, i.e., mass marketing. This does not usually work too well since it is unlikely that every individual will have the same needs. The shampoo that I desire (I am bald) is probably quite different than the shampoo a young woman with a full head of hair wishes to purchase. Do we all want to drive the same kind of car? Some of us prefer a sports car and others an SUV.

Steps in market segmentation:

Step 1: **Market segmentation** – divide the market into relatively homogeneous segments of customers; each of these groups, to be fully satisfied, needs its own marketing mix or product.

Step 2: **Market targeting** – In this step, a firm evaluates each of the segments in order to determine which one(s) to enter.

Step 3: **Market positioning** – A firm has to decide how it wants its brand perceived relative to other brands in the marketplace. This involves creating a distinct image for the brand relative to other brands. For instance, suppose you introduce a new kind of granola bar. You can position it as a good-tasting candy bar, a relatively healthy bar or, possibly, a low-fat ("lite") bar. Similarly, a new brand of cookie could be positioned using health, diet, or good taste. When a college refers to itself as the "poor man's Harvard" it is also positioning itself.

Some reasons for segmentation:

a. Market segments are generally relatively large, but there is going to be more competition than with a subsegment, i.e., a niche. A relatively small firm should use market segmentation to find a **niche** in the marketplace. By concentrating its resources on one small segment that is not thoroughly satisfied with the available products, a firm might be able to succeed. It is obviously very difficult for a small firm to fight against a large firm. Imagine the difficulties in developing a new brand of cola and competing against Coke and Pepsi. This would be suicide. The way to succeed is to find a small niche in the marketplace, i.e., **niche marketing**. This is what Snapple did. Also, Tom's of Maine toothpaste.

The major nutritional shakes for seniors are Ensure and Boost. Many older people who have difficulty swallowing and chewing need nutritional drinks to get the calories and vitamins needed to stay healthy. The problem with these brands is that the main ingredients are corn maltodextrin and sugar. The manufacturer of Honest Tea is trying to create a niche brand named Choose Health that has less sugar and more fiber, omega-3s, and probiotics, and is much healthier than Ensure and Boost. It is not easy to compete with the latter brands because older consumers first find out about these brands in hospitals and they are recommended by doctors. They are also relatively inexpensive compared to the healthier nutrition drinks. Time will tell whether

b. A large firm that desires to reach several different target markets and thereby dominate a market has to make sure that the different brands compete with competitors' brands rather than each other (cannibalization). For instance, Procter and Gamble markets the following soaps: Ivory, Camay, Safeguard, Coast, Zest, and Oil of Olay. Each of these brands has a different target market.

Micromarketing includes individual marketing and local marketing.

Individual marketing, also known as **one-to-one marketing,** is an example of micromarketing. Today, it is possible for firms to customize products to order. Using computers and the Web, it is possible for firms to manufacture custom-made products. For instance, a company might allow customers to design the bookcase they desire on the Web, *i.e*., select a color, style, size, etc.

Ways to segment consumer markets:

(1) Geographic segmentation-- by country, by region within the country, by state, by neighborhood, or rural/suburban/urban.

(a) For instance, a firm might market different beers for different regions in the United States -- e.g., South, Northeast, and West.
(b) Or, a firm selling bicycles might sell one bicycle for rural areas (mountain bike) and another kind of bike for urban areas.
(c) Most firms recognize that they have to use segmentation when marketing their products to foreign countries. Marketing strategies that work in the United States may have to be modified for other countries. This will be discussed further in the lecture dealing with international marketing.

(2) Demographic segmentation - demographics refers to physical characteristics of people such as sex, age, ethnicity, income, family size, occupation, education, marital status, social class, and stage of the family life cycle.

Sex: shampoos, hairsprays, deodorants, vitamins, and cigarettes for men and women.

Age: cereals, vitamins, and games (e.g., Scrabble) for young people and older people.

Ethnicity: cosmetics and hairsprays for African-Americans, Asians, and Caucasians; television shows for Caucasians, African-Americans.

Income: luxury cars for high-income individuals; restaurants that cater to high-income and low-income people.

Family Size: condominiums for small families. Indeed, there are a large number of households consisting of one or two people in the United States because of divorce and the large number of singles who choose not to get married.

Occupation: calculators for engineers, accountants, and stockbrokers.

Education: newspapers for different levels of education.

Marital Status: resorts that cater to single people, married couples (Poconos), and families.

Social Class: wine for upper social classes and for lower social classes. Do electricians drink the same wine as lawyers?

Family Life Cycle: 9 stages
Bachelor stage (Single men and women living on their own-- spend on fashion, vacations, and recreation),
Newly married couples (spend on vacations, cars, and clothing)
Full Nest I (youngest child under 6 -- spend on baby food, toys; buy home and furniture)
Full Nest II (youngest child is older than 6 -- spending money on children)
Full Nest III (older children, -- major expense is college; may travel and replace furniture)
Empty Nest I (children have left home; family income at peak -- travel, cruises, vacation)
Empty Nest II (head of household has retired -- may move to warmer climate and purchase a condominium)
Solitary Survivor in Labor Force (travel, vacations, medical expenses)
The Retired Solitary Survivor (medical expenses)

Builders might use family life cycle to segment the market for condominiums. It should be noted that family life cycle is somewhat dated and many people do not fit into any of the categories, e.g., unmarried people living together and gay couples.

Geodemographic segmentation, sometimes called clustering, combines demographics (age, education, ethnicity, family life cycle, housing type, income, occupation, etc.), lifestyles, and geography. You probably noticed that the people in your neighborhood are somewhat similar to you. There is an adage: "birds of a feather flock together" and that seems to be true of people living in the same geographic areas. Firms such as Claritas (they call this PRIZM) create market segments or clusters consisting of similar individuals. Claritas has segmented the US into 68 clusters. These include:

01 = Upper Crust – Wealthy mature without kids.

A marketer can determine the types of people that live in various zip codes, neighborhoods, and even blocks. Suppose you want to market a product to senior citizens, you can use the Claritas PRIZM service and find out which zip codes consist of older people. Look up your own zipcode at: https://claritas360.claritas.com/mybestsegments/#zipLookup

(3) Lifestyle segmentation, which is sometimes called **psychographics**. This is measured by studying the activities, interests, and opinions (**AIOs**) of customers. It considers how people spend their leisure-- what do we do with our time? What kind of hobbies do you have? Are you more likely to spend your free time watching television, reading a book, at a party, or knitting? Are you more likely to be engaged in gardening or hunting? What is important to you (interests)? How do you see the world (opinions)? Some examples of lifestyle traits include: homebody, arts enthusiast, community-minded, and fashion-conscious. Lifestyle is thus a person's way of living. Knowing the psychographics of one's customers enables a firm to create the correct advertising message. Suppose you determine that the typical drinker of your brand of beer loves the outdoors, likes to hunt and fish, enjoys bowling with the boys, likes porn, and is not interested in religion. How successful would an ad be if it showed a group of nuns enjoying your beer after teaching Sunday school? Please note that extrovert (outgoing), introvert, compulsive, etc. are examples of personality traits; they are not psychographic traits. Psychographics deals with lifestyle and personality deals with the qualities/traits that are peculiar to a particular individual. Commercials showing close-knit, happy families enjoying themselves at Pizza Hut after a fun day at the beach are using lifestyle segmentation. As noted above, lifestyle deals with how people spend their leisure time.

The SRI Company has developed a questionnaire that is used for psychographic segmentation called VALS (Values and Lifestyles). Take a few minutes, fill out their survey. Go to the SRI website at http://www.sric-bi.com/ Click on VALS Survey. Here are a sample of some of the questions in the VALS survey -- first 5 questions; the last 4 are demographic questions (Sex, Age, Education, and household income).

1. I am often interested in theories.

○ **Mostly disagree** ○ **Somewhat disagree** ○ **Somewhat agree** ○ **Mostly agree**

2. I like outrageous people and things.

○ **Mostly disagree** ○ **Somewhat disagree** ○ **Somewhat agree** ○ **Mostly agree**

3. I like a lot of variety in my life.

○ **Mostly disagree** ○ **Somewhat disagree** ○ **Somewhat agree** ○ **Mostly agree**

4. I love to make things I can use everyday.

○ **Mostly disagree** ○ **Somewhat disagree** ○ **Somewhat agree** ○ **Mostly agree**

5. I follow the latest trends and fashions.

○ **Mostly disagree** ○ **Somewhat disagree** ○ **Somewhat agree** ○ **Mostly agree**

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(4) Behavioral segmentation - Usage rate, occasions, user status, loyalty rate, and benefit segmentation.
Usage rate: heavy, medium, light, and nonusers of a product. For instance, some people drink one cup of coffee per day (light user) while others drink 6 or more cups per day (heavy users). Some copying machines are targeted to the light users of copying machines--small offices. In fact, a very successful product is the multifunction machine that copies, faxes, scans, and prints. It is perfect for the small office that does a little of each. Many beers are targeted to men who are between 18 and 30-years since they are the heavy users and drink the most beer. Women drink very little beer and generally are non-users or light users of beer.

Occasion segmentation: Some products or services are seen as being appropriate for a particular situation or occasion. Take orange juice as an example. Most of us think of it as a product that is mainly a breakfast drink. This limits the market for this product. Indeed, orange growers are trying to convince the public that orange juice is a beverage for any occasion. How about a pizza and orange juice for lunch? Or, hamburger and orange juice for dinner? If the orange growers are successful in this campaign, they can greatly expand the market for orange juice. Interestingly, Pepsi at one time was trying to market a cola product for breakfast (I think the name of the beverage they were testing was Pepsi AM). This makes sense since many people eat breakfast at a fast food restaurant such as McDonald's or Burger King. However, most people do not think cola beverages make sense for breakfast and the product did not succeed.

The major method employed to segment markets is **benefit segmentation**. To use this method, you have to determine the benefits sought by customers when buying the generic product. For instance, some benefits desired when purchasing shampoo include, dandruff prevention, making hair smell nice, making hair soft and manageable, inexpensive, preventing baldness, being mild and gentle, restoring luster, etc. The reason that benefit segmentation is so popular is because it is the method that is the most consistent with the marketing concept. If you see a commercial that tells you how a particular brand of toothpaste will eliminate cavities, reduce plaque, and strengthen your gums, the advertiser is probably using a segmentation strategy based on benefits sought.

How would you segment the market for vitamins? Some possibilities:
By sex: vitamins for men and for women. Women need more iron and calcium than men.
By age: older people have different needs than children. You might need several different products: for babies, growing children, teens, adults, and senior citizens.

How would you segment the market for films? Some possibilities:

By sex: films aimed at women. Some studios making films are trying to attract women—a major target. Action films are made that are women-friendly. This means less violence and strong female stars in major roles (remember Sigourney Weaver in the Alien films).
By age: movies for children and movies for adults.

How would you segment the market for cruises? Some possibilities:
By stage in the family life cycle: You might market cruises for empty nesters (middle-aged couples whose children have moved out), for newlyweds, and for bachelors (cruises aimed at singles). Club Med has vacations for couples, families, and singles.

A builder of condominiums might segment the market for homes by stage in the family life cycle:
Very small apartments with tiny kitchens for singles. You might have a swimming pool and some tennis courts. In fact, these are the kind of apartments being built in areas filled with unmarried people. Larger apartments with three or four bedroom for full nesters. Small apartments with ramps for older empty-nesters. Instead of tennis courts, shuffle board and bingo rooms.

Personality traits as a way to segment markets:

During the 1970s, there was a great deal of research on correlating personality traits with purchase behavior, media choice, and innovativeness. Most of the studies showed very weak correlations which indicate that personality does not play a significant role in product choice. It is interesting that many companies believe in administering personality tests to prospective employees. A popular personality test is the Myers-Briggs Type Indicator (MBTI). Some examples of personality traits include extraversion/introversion, emotionally stable/neurotic, agreeableness, and dominance.

You may have heard the term “Type A Personality.” People with this kind of personality are competitive, aggressive, achievement-oriented, impatient, stressed, fast-paced, and work-obsessed. Does that sound like you? If yes, you might want to read this: https://www.verywellmind.com/type-a-personality-traits-3145240

Combiner Approach. This approach is different from a segmentation one. Segmenters look at the various submarkets and focuses on the differences, i.e., they have different needs and our organization will create a different marketing mix for each segment. A combiner looks at the different submarkets and focuses on the similarities. By combining the different submarkets, the organization’s product can appeal to several segments, not just one. This of course increases the size of the target market. Of course, the goal is to use one marketing mix for the combined submarkets.

Try to imagine a restaurant that wants to appeal to three different submarkets: those that prefer Chinese food, those that prefer Italian food, and those that prefer Mexican food. What are the dangers of a combiner approach where a restaurant offers Chinese, Italian, and Mexican foods on the menu? It is easy to end up not satisfying anyone. It is a lot easier to specialize and attempt to satisfy one target market.

Films with Christian Values

IN 2006, Fox started a new division, FoxFaith, to distribute religious-oriented films to the vast Christian market. Many of these films were not going to be released in theaters but would go straight to DVD. They believed that there was a demand for Christian-oriented films that tap into Christian values. Walt Disney went after the Christian market with "The Chronicles of Narnia: The Lion, The Witch, and The Wardrobe" and took in $774 million worldwide. Fox was acquired by Disney in 2019.

There are also many books targeting Christians.

Ethnic Marketing: Some examples.

The major marketer of kosher products is Manischewitz (owned by R.A.B. Holdings). According to Elliott, Americans spend more than $50 Billion per year on kosher food; only 20% of kosher food buyers are the traditional Jewish consumer who is concerned about dietary laws. The others purchase it because of the belief that kosher products are purer and of better quality than nonkosher products. Manischewitz is trying to move the product from the ethnic aisle to mainstream aisle. This is not easy since Manischewitz does not want to lose its traditional customer.

Hebrew National uses this belief regarding kosher products in their ads. One ad for Hebrew National hot dogs targeted to mothers positions the franks as being more nutritious-- "We answer to a higher authority." Another ad for Morton Coarse Kosher Salt uses the line-- "It's the secret ingredient chefs have always used to make their dishes gourmet. Morton Coarse Kosher Salt. Now you know."

General Electric sells ovens that have a feature that is important for Orthodox Jews that do not turn ovens on or off on the Sabbath. They call it the Sabbath mode feature. The ovens have special programming that can be set before the Sabbath begins. GE also makes ranges with a "fifth burner" that looks like a long griddle and can be used by Hispanics to make quesadillas (it is also good for pancakes).

Resonance Marketing and Hyperdifferentiation:

Today, it is possible to make products that are absolutely perfect for a consumer. This is possible because consumers can use the Internet to acquire a great deal of information about available brands. Consumers are willing to pay a premium for products that are exactly what they want rather than settle for a product that is ok. Resonance marketing is about giving your customer ***exactly*** what s/he wants rather than making products that are basically ok. When you get a product that is just right, it will resonate. To create such products, you need to hyperdifferentiate.

Today, there are microbreweries that make craft beers that resonate with consumers. A craft beer made by a microbrewery might only have 75,000 customers but these consumers will be very, very excited about the beer. A beer such as Budweiser is made to appeal to millions of consumers but how many of them are excited about it. A hyperdifferentiated beer that is consumed by 75,000 extremely loyal customers will cost more. Advertising will be too expensive so you will not see any ads for it. ***Word of mouse*** (buzz marketing on the web) is the way people find out about it. The goal is to create several brands, each targeted to a small segment, and each with no competition. Hyperdifferentiated products are so unique and special that they have virtually no competition. On the other hand, a large number of people may hate the product.

Eric Clemons in his paper entitled "The Challenges of Resonance Marketing: Managing Complexity While Creating Profits Through Differentiation and Delight" makes the following key points: (1) hyperdifferentiation requires a whole new way of thinking. What you read in the textbooks is not appropriate when using extreme differentiation. (2) Companies using resonance marketing should be concerned about getting a smaller number of customers to ***love*** its product rather than getting a large number of customers to ***like*** the product. As noted above, if you want to charge more for a product, it should not be seen as a commodity (i.e., all are the same). You want your customers to love the product so much that they will pay more for it. In fact, they will not only pay more for it but tell everyone about it. (3) Don't worry if a large number of people hate your product. This is normal when you use hyperdifferentiation. The people that hate your product are of no concern. (4) People look for the lowest possible prices for products that do not matter very much to them. On the other hand, if something is really important and gets them excited (i.e., makes them resonate), they will pay a premium.

Did you ever hear of East India Pale Ale (IPA)? It is made by Brooklyn Brewery.

One of the great hyperdifferentiated craft beers is *Sierra Nevada Hoptimum.* I think that beer sounds better than Blind Pig English Style Ale. These websites take the place of advertising.

Question to think about: What would you rather make: (a) a product that is acceptable (they like it but do not love it) to 1,000,000 consumers but has 10 competitors. or (b) a product that is loved and resonates with 100,000 consumers and has 0 competitors.
To answer this question, please remember that (a) needs a great deal of advertising to convince consumers that your brand is better than the competition; (b) should not need

any advertising. Also, you can charge considerably more for (b) than (a) since it "resonates" with consumers.

Those interested in entrepreneurship have to understand the principles of resonance marketing. Creating products for micro-niches is the easiest way for a startup to go into business. What is needed is a target market, a supplier, a website, and a product that is loved.

After you finish this chapter, sit down and have a bottle of HopDevil beer!

Purpose of Higher Education. When we talk about market segmentation we recognize that not everyone wants the same benefit from a product or service. Let's focus on higher education, something you are all familiar with. Do all students all want the same benefit from a college degree? The following are some purposes of higher education.

Here are some possible purposes of higher education:

1. To procure skills for a career and/or to earn more from a job. According to one study, the top three reasons for going to college were: "To improve employment opportunities" (91%), "to make more money" (90%), and "to get a good job" (89%)
2. To acquire a philosophy of life and intellectual/cognitive stimulation.
3. To pick up values, morals, and ethics; to learn empathy. Basically, to become a better person.
4. To foster a love of learning. This necessitates integrating lifelong learning skills into the curriculum.
5. To develop critical thinking skills that include inquisitiveness, curiosity, open-mindedness, flexibility in considering alternatives, understanding others' opinions, fair-mindedness, prudence in making or altering judgments, and a willingness to revise beliefs.
6. To become creative. Creative thinking is not the same as critical thinking. In a knowledge economy, creativity requires that people possess the ability to collaborate.
7. To learn intellectual humility and tolerance. This means that we have to accept our own intellectual limitations and acknowledge that we are not always right. Our knowledge is often based on incorrect, flawed, or deficient information. The only way to acquire greater knowledge and truth is by listening to what others have to say. If you want to examine an intellectual humility scale, go to: https://dukespace.lib.duke.edu/dspace/handle/10161/23967

Some items from the intellectual humility scale:

- I question my own opinions, positions, and viewpoints because they could be wrong.
- I reconsider my opinions when presented with new evidence.
- I recognize the value in opinions that are different from my own.
- I accept that my beliefs and attitudes may be wrong.
- In the face of conflicting evidence, I am open to changing my opinions.
- I like finding out new information that differs from what I already think is true.

Want to learn more about intellectual humility, go to:
https://greatergood.berkeley.edu/article/item/what_does_intellectual_humility_look_like

What do you want from a college degree?