competitors in the eyes of customers. Examples of tangihle differences might be product features, performance, endurance, location, or support services, to name but a few. Chrysler once differentiated their product by offering a 7-yearI70,OOO-mile warranty on new models. Pepsi has convinced mallY consumers to try their product because they assert that it really does taste better than Coke. Offering products at a lower price or at several different prices can be ar: importanl distinguishing characteristic, as demonstrated by Timex watches.

Some products are in fact the same, and attempts to differentiate through tangible features would be either futile or easiy copied. In such cases, an *image* of uifference is created tlu'ough intangible means that may have little to do with the product directly. Soft drink companies show yOJ how much fun you can have by drinking their product. Beer companies suggest status, enjoyment, and masculinity. Snapple may not taste the best or have the fewest calories, but may have the funniest, most memorable commercials. There tends to be a heavy emphasis on the use of mass appeal means of promotion, such as advertising, when differentiated through intangibles. Note the long-term use of Bill Cosby by Jell-O to create an image of fun. Microsoft has successfully differentiated itself through an image of innovation and exceptional customer service.

There are certain risks in using product differentiation. First, a marketer who uses product differentiation must be careful not to eliminate mention of core appeals or features that the consumer expects from the product. For example, differentiating a brand of bread through its unique vitamin and mineral content is valid as long as you retain the core freshness feature in your ad. Second, highlighting features that are too different from the norm may prove ineffective. Finally, a product may be differentiated on a basis that is unimportant to the customer or difficult to understand. The automobile industry has learned to avoid technical copy in ads since most consumers don't understand it or don't care.

However, there is a flip-side to product differentiation, an approach toward the markct called *market segmentation*.[4]

The Segmented Market

While product differentiation is an effective strategy to distinguish your brand from competitors', it also clifferentiates your own products from one another. For example, a company such as Franco-American Spaghetti has differentiated its basic product by offering various sizes, flav0rs, and shapes. The objective is to sell more product, to more people, more often. Kraft has done the same with their salad dressings; Xerox with its multitude of office products. The problem is not competition; the problem is the acknowledgement that people within markets are different and that successful marketers must respond tc these differences.

This premise of *segmenting* the market ther01zes that people and/or organizations can be most effectively approached by recognizing their oiffeiences and adjusting accordingly. By emphasizing a segmentation approach, the exchange process should be enhanced, since a company can more precisely match the needs and wants of the customer. Even the soft drink manufacturers have moved away from the undifferentiated approach and have introduced diet, caffeine-free, and diet-caffeine-free versions of their basic preduct.[S]

While it is relatively easy to identify segments of consumers, most finns do not have the capabilities or the need to effectively market their product to all of the segments that can be identified. Rather, one or more target markets (segments) must be selected. In reality, market segmentation is both a disaggregation and aggregation process. While the market is initially reduced to its smallest homogeneous components (perhaps a single individual).

business in practice requires the marketer to find common dimensions that will allow him to view these individuals as larger, profitable segments. Thus, market segmentation is a two-fold process that includes: (1) identifying and classifying people into homogeneous groupings, called *segments*, and (2) determining which of these segments are viable target markets. In essence, the marketing objectives of segmentation analysis are:

1. To reduce risk in deciding where, when, how, and to whom a product, service, or brand will be marketed
2. To increase marketing efficiency by directing effort specifically toward the designated segment in a manner consistent with that segment's characteristics

Segmentation Strategies

There are two major segmentation strategies followed by marketing organizations: a concentration strategy and a multisegment strategy.

An organization that adopts a *concentration strategy* chooses to focus its marketing efforts on only one market segment. Only one marketing mix is developed. For example, the manufacturer of Rolex watches has chosen to concentrate on the luxury segment of the watch market. An organization that adopts a concentration strategy gains an advantage by being able to analyze the needs and wants of only one segment a,ld then focusing all its efforts on that segment. This can provide a differential advantage over other organizations that market to this segment but do not concentrate all their efforts on it. The primary disadvantage of concentration is related to the demand of the segment. As long as demand is strong, the organization's financial position will be strong. But if demand declines, the organization's financial position will also decline.

The other segmentation strategy is a *multisegment strategy*. When an organization adopts this strategy, it focuses its marketing efforts on two or more distinct market segments. The organization does so by developing a distinct marketing mix for each segment. They then develop marketing programs tailored to each of these segments. Organizations that follow a multisegment strategy usually realize an increase in total sales as more marketing programs are focused at more customers. However, the organization will most likely experience higher costs because of the need for more than one marketing program.[6]

Bases of Segmentation

There are many different ways by which a company can segment its market, and the chosen process varies from one product to another. Further, the segmentation process should be an ongoing activity. Since markets are very dynamic, and products change over time, the bases for segmentation must likewise change. (See Figure 2.2.)

MARKETING CAPSULE

1. Defining the market
   a. The market is people
   b. The market is a place
   c. The market is an economic entity
2. Types of markets
   a. Consumer markets
   b. Industrial markets
   c. Institutional markets
   d. Reseller markets
3. Approaching the market
   a. The undifferentiated market (market aggregation)
   b. Product differentiation
   c. The segmented market
      1. Strategies: concentration, multisegment

Bases for Segmentation

Primary Dimension	Consumer Market	Industrial MarKet
Characteristics of person or organization	Geography, age, sex, race, income, life cycle, personality, lifestyle	Industry (SIC), location, size, technology, profitability, legal, buying situation
Purchase situation	Purpose, benefits, purchase approach, choice criteria, brand loyalty, importance	Volume, frequency, application, choice criteria, purchasing procedure, importance

FIGURE 2.2 Bases for Segmenting Markets: Consumer and Industrial Markets

In line with these basic differences we will first discuss the bases for segmenting ultimate consumers followed by a discussion of the factors used to segment industrial users.

Segmenting Ultimate Consumers

Geographic Segments Geography probably represents the oldest basis for segmentation. Regional differences in consumer tastes for products as a whole are well-known. Markets according to location are easily identified and large amounts of data are usually available. Many companies simply do not have the resources to expand beyond local or regional levels; thus, they must focus on one geographic segment only. Domestic and foreign segments are the broadest type of geographical segment.

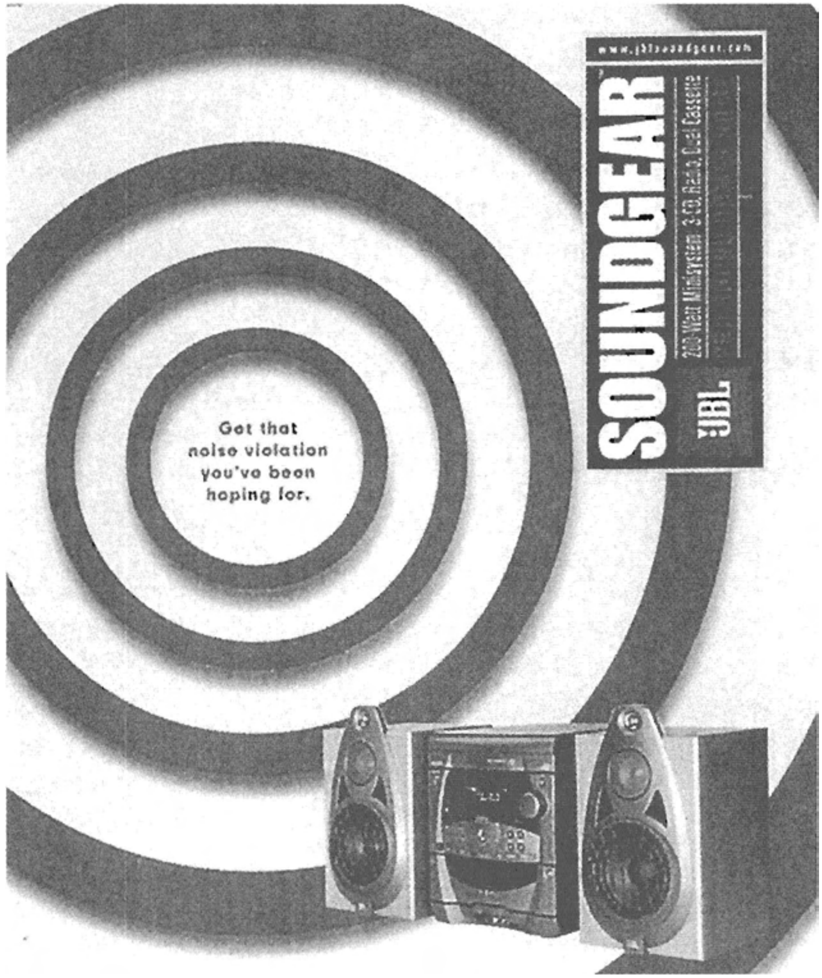
Closely associated with geographic location are inherent characteristics of that location: weather, topography, and physical factors such as rivers, mountains, or ocean proximity. Conditions of high humidity, excessive rain or draught, snow or cold all influence the purchase of a wide spectrum of products. While marketers no longer segment markets as being east or west of the Mississippi River, people living near the Mississippi may constitute a viable segment for several products, such as flood insurance, fishing equipment, and dredging machinery.

Population density can also place people in unique market segments. High-density states such as California and New York and cities such as New York City, Hong Kong, and London create the need for products such as security systems. fast-food restaurants, and public transportation.

Geographic segmentation offers some important advantages. There is very little waste in the marketing effort, in that the product and supporting activities such as advertising, physical distribution, and repair can all be directed at the customer. Further, geography provides a convenient organizational framework. Products, salespeople, and distribution networks can all be organized around a central, specific location.

The drawbacks in using a geographic basis of segmentation are also notable. There is always the obvious possibility that consumer preferences may (unexpectedly) bear no relationship to location. Other factors, such as ethnic origin or income, may overshadow location. The stereotypical Texan, for example, is hard to find in Houston, where one-third of the population has immigrated from other states. Another problem is that most geographic areas are very large, regional locations. It is evident that the Eastern seaboard market contains many subsegments. Members of a geographic segment often tend to be too heterogeneous to qualify as a meaningful target for marketing action.

Demographic Segments Several demographic characteristics have proven to be particularly relevant when marketing to ultimate consumers. Segmenting the consumer market by age groups has been quite useful for several products. For example, the youth market (approximately 5 to 13) not only influences how their parents spend money, but also make



AD 2.3 The focus is on the pre-teen to young adult segment, assuming they will test product features at the store.

purchases of their own. Manufacturers of products such as toys, records, snack foods, and video games have designed promotional efforts directed at this group. More recently, the elderly market (age 65 and over) has grown in importance for producers of products such as low-cost housing, cruises, hobbies, and health care.

Gender has also historically been a good basis for market segmentation. While there are some obvious products designed for men or women, many of these traditional boundaries are changing, and marketing must apprise themselves of these changes. The emergence of the working women, for instance, has made determination of who performs certain activities in the family (e.g., shopping, car servicing), and how the family income is spent more difficult. New magazines such as *Men's Guide to Fashion, Modem Black Man, Sportswear International, NV,* and *Vibe* indicate how media is attempting to subsegment the male segment. Thus, the simple classification of male versus female may be useful only if several other demographic and behavioral characteristics are considered as well.

Another demographic trait closely associated with age and sex is *thefamity life cycle.* There is evidence iliat, based on family structure (i.e., number of adults and children), families go through very predictable behavioral patterns. For example, a young couple who have one young child will have far different purchasing needs than a couple in their late fifties whose children have moved out. In a similar way, the types of products purchased by a newly married couple will differ from those of a couple with older children.[7]

Income is perhaps the most common demographic oasis for segmenting a market. This may be partly because income often dictates who can or cannot afford a particular product. It is quite reasonable, for example, to assume that individuals earning minimum wage could not easily purchase a $25,000 sports car. Income tends to be a better basis for segmenting markets as the price tag for a product increases. Income may not be quite as valuable for products such as bread, cigarettes, and motor oil. Income may also be helpful in examining certain types of buying behavior. For example, individuals in the lower-middle income group are prone to use coupons. *Playboy* recently announced the introduction of a special edition aimed at the subscribers with annual incomes over $45,000.

Several other demographic characteristics can influence various types of consumer activities. *Education,* for example, affects product preferences as well as characteristics demanded for certain products. *Occupation* can also be important. Individuals who work in hard physical labor occupations (e.g., coal mining) may demand an entirely different set of products than a person employed as a teacher or bank teller, even though their incomes are the same. *Geographic mobility* is somewhat related to occupation, in that certain occupations (e.g., military, corporate executives) require a high level of mobility. High geographic mobility necessitates that a person (or family) acquire new shopping habits, seek new sources of products and services, and possibly develop new brand preferences. Finally, *race and national origin* have been associated with product preferences and media preferences. Black Americans have exhibited preferences in respect to food, transportation, and entenainment, to name a few. Hispanics tend to prefer radio and television over newspapers and magazines as a means for learning about products. The following Integrated Marketing box discusses how race may be an overlooked segment.[8,9]

Even *religion* is used as a basis for segmentation. Several interesting findings have arisen from the limited research in this area. Aside from the obvious higher demands for Christian-oriented magazines, books, music, entertainment, jewelry, educational institutions, and counseling services, differences in demand for secular products and services have been identified as well. For example, the Christian consumer attends movies less frequently than consumers in general and spends more time in volunteer, even non-chu:ch-related, activities.

Notwithstanding its apparent advantages (i.e., low cost and ease of implementation), considerable uncertainty exists about demographic segmentation. The method is often misused. A typical misuse of the approach has been to construct "profiles" of product users. For example, it might be said that the typical consumer of Mexican food is under 35 years of age, has a college education, earns more than $10,000 a year, lives in a SUburban fringe of a moderate-size urban community, and resides in the West. True, these characteristics do describe a typical consumer of Mexican food, but they also describe a lot of other consumers as well, and may paint an inaccurate portrait of many other consumers.

Usage Segments In 1964, Twedt made one of the earliest departures from demographic segmentation when he suggested that the heavy user, or frequent consumer, was an important basis for segmentation. He proposed that consumption should be measured directly, and that promotion should be aimed directly at the heavy user. This approach has become very popular, particularly in the beverage industry (e.g., beer, soft drinks, and spirits). Considerable research has been conducted with this particular group and the results suggest that finding other characteristics that correlate with usage rate often greatly enhances marketing efforts.[lo]

Four other bases for market segmentation have evolved from the usage-level criteria. The first is *purchase occasion.* Determining the reason for an airline passenger's trip, for

INTEGRATED MARKETING

SEEKING THE AFRICAN-AMERICAN WEB COMMUNITY

Silas Myers is a new millennium African-American. He's 31, holds an MBA from Harvard University, works as an investment analyst for money manager Hotchkeo & Wiley, and pulls in a salary close to six figures. And he spends about lO hours a week online, buying everything from a JVC portable radio to Arm & Hammer deodorant. "Maybe I'm nuts," he says, "but shopping online is so much easier to me."

Millions of African-Americans are online. They're younger, more affluent, and better educated than their offline kin. And they're not tiptoeing onto the Net. They're right at home. Five million blacks now cruise through cyberspace, nearly equaling the combined number of Hispanic, Asian, and Native American surfers, according to researcher Cyber Dialogue.

True, Net use among African-Americans continues to lag behind the online white population: 28% of blacks as opposed to 37% for whites. But it's time to take a closer look at the digital divide. While those who don't have Net access tend to be poor and undereducated, there's a large group of African-Americans who are spending aggressively on the Web. "We're looking at a tidal wave coming of African-American-focused content and online consumers," says Omar J. Wasow, executive director of BlackPlanet.com, a black-oriented online community. "You ignore it at your peril."

With good reason, African-Americans have become smitten with the ability to compare prices and find bargains online. Melvin Crenshaw, manager of *Kidpreneurs* magazine, recently used the Travelocity Web site to save $300 on a ski trip to Denver. "I really liked the value," he says.

It's a shame, then, that so few sites market to such an attractive group. Almost every bookstore on the street has a section in African-American or ethnic literature. So it's shocking that e-commerce giants like Amazon.com don't have ethnic book sections. The solution is easy. Web merchants can create what the National Urban League's B. Keith Fulton calls "micro bundles"-Web categories within a site's merchandise that resemble the inner-city black bookstore or clothier. "You want blacks to click on a button and feel like they're in virtual Africa or virtual Harlem," says Fulton, the Urban League's director of Technology programs and policy. To attract blacks, he recommends decorating that comer of the site in *kinte* cloth patterns.

Sources: Roger O. Crockett, "Attention Must Be Paid," *Business Week e-biz*, February 7, 2000, p. 16; Kate Fitzgerald, "Connection Confirmation," *Advertising Age*, November 29, 1999, p. S-3; "African-Americans Online," *Advertising Age*, November 29, 1999, p. $-14.

instance, may be the most relevant cliteria for segmenting airline consumers. The same may be true for products such as long-distance calling or the purchase of snack foods. The second basis is *user status.* It seems apparent that communication strategies must differ if they are directed at different use patterns, such as nonusers versus ex-users, or one-time users versus regular users. New car producers have become very sensitive to the need to provide new car buyers with a great deal of supportive information after the sale in order to minimize unhappiness after the purchase. However, determining how long this information is necessary or effective is still anybody's guess. The third basis is *loyalty.* This approach places consumers into loyalty categories based on their purchase patterns of particular brands. A key category is the brand-loyal consumer. Companies have assumed that if they can identify individuals who are brand loyal to their brand, and then delineate other characteristics these people have in common, they will locate the ideal target market. There is still a great deal of uncertainty as to how to correctly measure brand loyalty. The final characteristic is *stage of readiness.* It is proposed that potential customers can be segmented as follows: unaware, aware, informed, interested, desirous, and intend to buy. Thus if a marketing manager is aware of where the specific segment of potential customers is, he/she can design the appropriate market strategy to move them tnrough the various stages of readiness. Again, these stages of readiness are rather vague and difficult to accurately measure.

Psychological Segments Research results show that the concept of segmentation should recognize psychological as well as demographic influences. For example, Phillip

Morris has segmented the market for cigarette brands by appealing psychologically to consumers in the following way:

- Marlboro: the broad appeal of the American cowboy
- Benson & Hedges: sophisticated, upscale appeal
- Parliament: a recessed filter for those who want to avoid direct contact with tobacco
- Merit: low tar and nicotine
- Virginia Slims: appeal based on "You've come a long way, baby" theme

Evidence suggests that attitudes of prospective buyers towards certain products influence their subsequent purchase or non-purchase of them. If persons with similar attitudes can be isolated, they represent an important psychological segment. *Attitudes* can be defined as predispositions to behave in certain ways in response to given stimulus.[11]

Personality is defined as the long-lasting characteristics and behaviors of a person that allow them to cope and respond to their environment. Very early on, marketers were examining personality traits as a means for segmenti:lg consumers. None of these early studies suggest that measurable personality traits offer much prospect of market segmentation. However, an almost inescapable logic seems to dictate that consumption of particular products or brands must be meaningfully related to consumer personality. It is frequently noted that the elderly dJive big cars, that the new rich spend disproportionately more on housing and other visible symbols of success, and that extroverts dress conspicuously.[12]

Motives are closely related to attitudes. A motive is a reason for behavior. A buying motive triggers purchasing activity. The latter is general, the former more specific. In theory this is what market segmentation is all about. Measurements of demographic, personality, and attitudinal variables are really convenient measurements of less conspicuous motivational factors. People with similar physical and psychological characteristics are presumed to be similarly motivated. Motives can be positive (convenience), or negative (fear of pain). The question logically arises: why not observe motivation directly and classify market segments accordingly?

Lifestyle refers to the orientation that an individual or a group has toward consumption, work, and play and can be defined as a pattern of attitudes, interests, and opinions held by a person. Lifestyle segmentation has become very popular with marketers, because of the availability of measurement devices and instruments, and the intuitive categories that result from this process.[13] As a result, producers are targeting versions of their products and their promotions to various lifestyle segments. Thus, companies like All State Insurance are designing special programs for the good driver, who has been extensively characterized through a lifestyle segoentation approach.[14,15]

Lifestyle analysis begins by asking questions about the consumer's activities, interests, and opinions. If a man earns $40,000-$50,000 per year as an executive, with a wife and four children, what does he think of his role as provider versus father? How does he spend his spare time? To what clubs and groups does he belong? Does he hunt? What are his attitudes toward advertising? What does he read?

AIO (activities, interests, opinions) inventories, as they are called, reveal vast amounts of information concerning attitudes toward product categories, brands within product categories, and user and non-user characteristics. Lifestyle studies tend to focus upon how people spend their money; their patterns of work and leisure; their major interests; and their opinions of social and political issues, institutions, and themselves. The popularity of lifestyles as a basis for market segmentation has prompted several research firms to specialize in this area. However, few have achieved the success of VALS and VALS 2 developed by SRI International.

Introduced in 1978, the original VALS (Values, Attitudes, and Lifestyle) divided the American population into nine segments, organized along a hierarchy of needs. After several years of use, it was detenmned that the nine segments refjected a popuiation dominated by people in their twenties and thirties, as the U.S. was ten years ago. Moreover, businesses found it difficult to use the segments to predict buying behavior or target consumers. For these reasons, SRl developed an all-new system, VALS 2. It dropped values and lifestyles as its primary basis for its psychographic segmentation scheme. Instead, the forty-three questions ask about unchanging psychological stances rather than shifting values and lifestyles.

The psychographic groups in VALS 2 are alTanged i'1 a rectangle (see Figure 2.3). They are stacked vertically by their resources (minimal to abundant) an horizontally by their self-orientation (principle, status, or action-oriented).

An annual subscription to VALS 2 provides businesses with a range of products and services. Businesses doing market research can include the VALS questions in their questionnaire. SRl will analyze the data and VALS-type the respondents.

Segmenting Organizational Markets

It is also important for the marketing manager to understand how business or organization customers can be segmented. Many firms sell not to ultimate consumers but to other businesses. Although there are many similarities between how consumers and businesses behave, there are also several differences, as mentioned earlier. Recall that business buyers differ as follows: (i) most business buyers view their function as a rational (problem-solving) approach; (2) the development of formal procedures, or routines, typifies most business buying; (3) there tend to be multiple purchase influences; (4) in il1dustrial buying it is necessary to maintain the correct assortment of goods in inventory; and (5) it is often the responsibility of the purchasing executive to dispose of waste and scrap.

A number of basic approaches to segmenting organizational markets exist. An industrial marketing firm must be able to distinguish between the industries it sells to and the different market segments that exist in each of those industries. There are several basic approaches to segmenting organizational markets: (1) types of customers; (2) the Standard Industrial Classification; (3) end use; (4) common buying factors; and (5) buyer size and geography.[2, 16]

Type of Customer Industrial customers, both present and potential, can be classified into one of three groups,

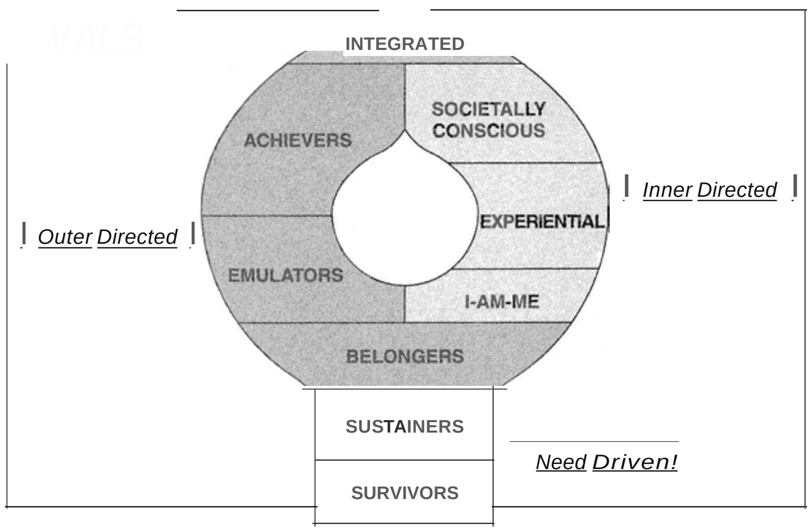
1. Original Equipment Manufacturers (OEMs), such as Caterpillar in the road equipment industry,
2. End users, such as farmers who use farm machinery produced by *john* Deere and OEMs.
3. Aftermarket customers, such as those who purchase spare parts for a piece of machinery.

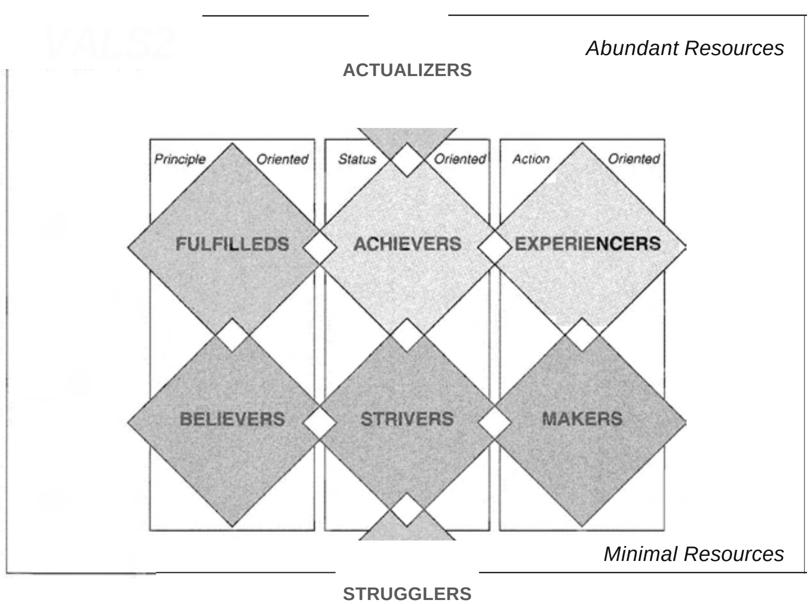
Similarly, industrial products can be classified into one of three categories, each of which is typically sold to only certain types of customers:

1. Machinery and equipment (e.g., computers, trucks, bulldozers): these are end products sold only to OEM and end user segments.
2. Components or subassemblies (e.g., switches, pistons, machine tool parts): these are sold to build and repair machinery and equipment and are sold in all three customer segments.
J. Materials (e.g., chemicals, metals, herbicides): these are consumed in the end-user products and are sold only to OEMs and end users.

Old & **New**

The nine original VALS psychographic segments have been replaced by eight new psychographic groups. In the new system, the groups are arranged vertically by their resources and horizontally by their self-orientation.





Source: SRI International, Menlo Park, CA

FIGURE 2.3 VALS and VALS2 are two segmentation techniques.

The Standard Industrial Classification (SIC) A second industrial segmentation approach employs the Standard Industrial Classificaticn (SIC) codes published by the U.S. Government. The SIC classifies business firms by the main product or service provided. Firms are classified into one of ten basic STC industries. Within each classification, the major groups of industries can be identified by the first two numbers of the SIC code. For example, SIC number 22 are textile mills, SIC number 34 are manufacturers of fabricated metals, and so on. An industrial producer would attempt to identify the manufacturing groups that represent potential users of the products it produces and sells. Figure 2.4 takes the two-digit classification and converts it to three-, four-, five-, and seven-digit codes. As you can see in Figure 2.4, use of the SIC code allows the industrial manufacturer to identify the organizations whose principal request is, in this case, pliers.

Based upon this list of construction machinery and equipment products, it is possible to determine what products are produced by what manufacturers by consulting one of the following sources:

1. Dun's Market Identifiers-computer-based records of three million United States and Canad;an business establishments by four-digit SIC.
2. Metalworking Directory-a comprehensive list of metalworking plants with 20 or more employees, as well as metal distributors, by four-digit SIC.
3. Thomas Register of American Manufacturers—a directory of manufacturers, classified by products, enabling the researcher to identify most or all of the manufacturers of any given product.
4. Survey of Industrial Purchasing Power-an annual survey of manufacturing activity in the United States by geographic areas and four-digit SIC industry groups; reports the number of plants with 20 or more and 100 or more employees, as well as total shipment value.

End uses Sometimes industrial marketers segment markets by looking at how a product is used in different situations. When employing end-use segmentation, the industrial marketer typically conducts a costlbenefii analysis for each end-use application. The manufacturer must ask: What benefits does the customer want from this product? For example, an electric motor manufacturer learned that customers operated motors at different speeds. After making field visits to gain insight into the situation, he divided the market into slow-speed and high-speed segments. In the slow-speed segment, the manufacturer emphasized a competitively priced product with a maintenance advantage, while in the high-speed market product, superiority was st·essed.

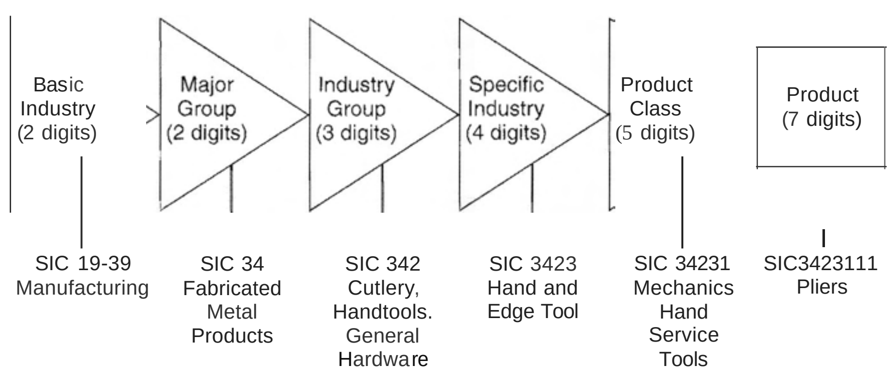


FIGURE 2.4 SIC two-digit to seven-digit classification

Common Buying Factors Some industrial rrarketers segment markets by identifying groups of customers who consider the same buy;ng factors impOltant. Five buying factors are important in most industrial buying situations: (1) product performance, (2) product quality, (3) service, (4) delivery, and (5) price.[2] Identifying a group of customers who value the same buying factors as important is difficult, as industrial organizations' and resellers' priorities often change.

Buyer Size and Geography If organizations' markets cannot be easily segmented by one of the previous approaches, market advantages may still be realized by segmenting based on account size or geographic boundaries Sales managers have done this for years, but only recently have organizations learned to develop several pricing strategies for customers that are both close and far away geographically. Similarly, different strategies can be developed for large, medium, and small customers.

Single-Base and Multi-Base Segmentation

So far, we have talked about the use of individual bases for market segmentation. The use of a *single-base segmentation strategy* is a simple way to segment markets, and is often very effective. Clearly, the use of bases such as sex (cosmetics), or age (health care products, music), or income (automobiles), provides valuable insights into who uses what products. But the use of a single base may not be precise enough in identifying a segment for which a marketing program can be designed. Therefore, many organizations employ *multi-base segmentation strategies,* using several bases to segment a total market. For example, the housing market might be segmented by family size. income, and age.

American Log Home, for example, offers a wide variety of packages and options to its customers based on their needs, incomes, skills, family size, and usage. Packages range from one-room shelters designed primarily for hunters to a 4,000 square-foot unit complete with hot tub, chandeliers, and three decks. Customers can select to finish part of the interior, part of the exterior, or to have the entire structure finished by American Log Home.

The resulting huge array of products is a disadvantage of multi-base segmentation as a strategy. Using several bases that vary in importance, considering all to be equal, could produce misdirected efforts.

Qualifying Customers in Market Segments

Clearly, it is important to employ appropriate factors to identify market segments. Equally important is qualifying the customers who make up those segments. Qualifications involves judgment. Marketers must be able to differentiate between real prospects and individuals or firms who have some similar characteristics but cannot be converted to purchasers.

It should be clear that not all market segments present desirable marketing opportunities. Traditionally, five criteria have been employed to gauge the relative worth of a market segment: [16]

1. *Clarity o/ identification:* The degree to which we can identify who is in and who is outside the segment. Part of this process also involves the delineation of demographic and social characteristics that make it easier to measure and track the identified segment. Unfortunately, obtaining segment data is not always easy, especially when the segment is defined in terms of behavioral or benefit characteristics. Sex is a clear basis for segmenting a product such as brassieres.
2. *Actual or potential need:* Needs that reflect overt demands for existing goods and services, or needs that can be transformed into perceived wants through educa-

tion or persuasion, constitute a segment. It is further assumed that this need exists in a large enough quantity to justify a separate segmentation strategy. This criterion requires the ability to measure both the intensity of the need and the strength of the purchasing power supporting it. A 40-story building has a clear need for elevators.

3. *Effective demand:* It is not enough for an actual or potential need to exist; purchasing power must also exist. Needs plus purchasing power create effective demand. The ability to buy stems from income, savings, and credit. Purchasing power derived from one or more of these three sources must belong to the members of a market segment in order for it to represent a meaningful marketing opportunity. The possession of a valid Visa or other credit card meets this criteria for most products.
4. *Economic accessibility:* The individuals in a market segment must be reachable and profitable. For example, segments could be concentrated geographically, shop at the same stores, or read the same magazines. Regrettably, many important segments-those based on motivational characteristics, for instance- cannot be reached economically. The elderly rich represent such a segment.
5. *Positive response:* A segment must react uniquely to marketing efforts. There must be a reason for using different marketing approaches in the various segments. Different segments, unless they respond in unique ways to particular marketing inputs, hardly justify the use of separate marketing programs.

The Strategy of Market Segmentation

During the last two decades, a more complete and concise understanding of market segmentation has emerged. This is not to say that there are not still unsettled issues, measurement problems, and other issues to consider. The most severe problem remains the difficulty of defining precisely the basis for segmentation. A great deal of knowledge about the market and considerable experience with it are highly desirable. Research into consumer motivation is essential. This does not mean that historical, descriptive data about consumers are no longer important. Nevertheless, the ultimate purpose of going through the process of delineating market segments is to select a target market or markets: otherwise, the segmentation process is worthless.

The segmental approach will be described throughout the text in greater detail. At this point, it is sufficient to know that the segmentation strategy is the primary marketing approach used by a majority of producers. Combined with product differentiation, it is the essence of a contemporary marketing strategy. The activity of selecting a target market involves five steps:

1. Identify relevant person/organization and purchase situation variables beyond the core product variable. (For Minolta's Maxxum SLR Camera, the core product variable would be fool-proof photographs, and other relevant variables might be age, income, family composition, occasion for use, and photographic experience.)
2. Collect and analyze other related data about potential segments (e.g., characteristics of neophyte camera users, price perceptions of these potential users, size of group, trends, minimum product features).
3. Apply criteria of a good segment.

4. Select one or more segments as target markets (e.g., neophyte photographers, frustrated with neccessary adjustments for a 35mm camera, income of $35,000 or more, family, between 25-45 years of age, male).
5. Develop appropliate action programs to reach target segment(s) (e.g., price at $350; distribute through discount stores, camera stores, and department stores; promote through TV and magazine ads). This type of effective action program is demonstrated in the Newsline that follows.

NEWSLINE: YOUTH SEGMEIV7S

It takes more than just traditional advertising to appeal to the ever-elUSive teenage market. One company that has discovered the right formula to reach this group is High Frequency Marketing (HFMJ, a youth marketing firm founded by Ron Vos. Since its inception in 1995, HFM has grown significantly in terms of cross-industry reach, marketing network, and revenue (which has tripled in the past two years). Vas attributes the company's success to its unconventional pfOmotional campaigns.

As a youth marketing start-up, Vas's energies were initially focused on the music industry. He appealed to his target market of 12- to 26-year-aids by using grassroots marketing efforts and specializing in "takin' it to the streets." Back in 1995, street marketing had not become the cliche that it is now. Yet. Vas's key to success is the adaptability of his firm to youth culture and technology. As he likes to say, "As soon as a marketing concept becomes m2instream, it's history,"

When asked to pinpoint a breakthrough campaign for his company, Vos immediately mentions *The Wedding Singer.* Hired by New Line Cinema in 1998 to promote the film, HFM developed the concept of a "karaoke jam contest" in the malls of 24 cities The campaign was immensely successful, opening doors for HFM to the whole entertainment industry.

Another successful campaign took place in 2000, when Food.com approached HFM with the concept of partnering with Second Harvest (a national food bank) to sponsor a national food drive on college campuses, using the incentive of awarding the campus that collected the most food at a big concert. HFM had to go back to the company and say that "you can put a carrot on the end of a stick, but the stick can't be too lang." In other words, Food.com needed a more tangible campaign, something with instant feedback to "show (the students) that it's real, that it's there." Vos and his creative marketing team came up with a compilation CD entitled "Music 4 Food," whiCh was distributed free of charge to students who donated food (they also received a ticket to a nearby concert).

Sources: Debra Goldman. "S&Sr Markets the Tried and True to Teen Boys: Misogyny," *Adweek,* May 15, 2000, p. 24; Jinnefer Gilbert, "New Teen Obsession," *Advertising Age,* February 14, 2000, p. 38; Chrtstina Merrill, "The Ripple Effect Reaches Gen Y." *American Demographics,* November 1999, pp. 15-16; Lauren Goldstein, "The Alpha Teenager," *Fortune,* December 20, 1999, pp. 201-203.

The Concept of Positioning

Both product diffefentiation and market segmentation result in a perceived position for the company or organization. From the intelligent marketing organization, there should be an attempt to create the desired position, rather than wait for it to be created by customers, the public, or even competitors. *Positioning* is defined as the act of designing the company's offering and image to occupy a distinctive place in the target market's mind. The end result of positioning is the successful creation of a market-focused value proposition, a cogent reason why the target market should buy the product.

Since positioning is a strategy that starts with the product, we expand our discussion of positioning in the Product Chapter.

The Future of the Marketplace

As the spread of the global marketplace continues, aided by satellites, the World Wide Web, and univeral problems, it will also become increasingly difficult to effectively assess the market. In fact, there is solid evidence that the market will often consist of a single person or company. Customized product design, relationship marketing, and one-on-one marketing suggests that mark.eting has gone full circle. Like the first half of the twentieth century, when the comer grocer knew all of his customers personally, marketing in the rest of the twenty-first century may look very similar.

MARKETING CAPSULE

Bases of segmentation

a. Ultimate Consumers
   1. Geographic
   2. Demographics
   3. Usage
   4. Psychological

b. Organizations
   1. Type of customer
   2. End uses
   3. Common buying factors
   4. Size and geography

c. Single-base versus multi-base

d. Qualify people into segments
   1. Clarity of identification
   2. Actual or potential need
   3. Effective demand
   4. Economic accessibility
   5. Positive response

e. Segmentation process

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IN PRACTICE

What is the market? It depends on your product but, generally, all markets possess similar, basic characteristics. The market is people, either individuals or groups, businesses or institutions. The market is also a place, as in marketplace, where transactions take place. Finally, the market is an economic entity, influenced by financial pressures and government regulations.

In order to sell a product, marketers must know their market and know it well. Four primary markets exist, but they are not mutually exclusive. Consumer, industrial, institutional, and reseller markets all have characteristics specific to their consumers, but they also overlap in many instances. As a resull, most successful companies segment their markets. By segmenting markets, a company can match the needs and wants of consumers to its product.

Print magazines and their online counterparts are excellent examples of market segmenting. The Interactive Journal targets the business community, while Outside Magazine (www.outsidemag.com). clearly targets outdoor enthusiasts.

You are able to customize the Interactive Journal to your personal preferences. On the Front Section, click on **Personal Journal** on the main menu. From here you will be directed to the **Setup Center.** Here, you can create folders in three separate areas:

1. News
2. Favorites
3. Portfolio

In the **News** section, you can search for news items in the Interactive Journal using key words, company names, and industry type. Articles meeting the criteria you specify will be listed automatically on a daily basis. Set up your own News folder now.

In the **Favorites** section, you can track regularly running columns and features in the major sections such as Marketplace and Tech Center. Create your own **Favorites** folder now.

In the **Portfolio** section, you can track your purchases and sales of specific stocks.

DELIVERABLE

Identify three to Lve companies with segmented markets. Visit their websites for specific information about the companies and their products. Also search the !nteractive Journal for more in'ormation about the companies you have identified. For each company, identify the segmented market and list specific characteristics about that market.

DISCUSSION QUESTIONS

1. What are the advantages of identifying and selling to segmented markets versus broader, general markets?
2. How do companies identify the market most likely to buy their products?
3. Describe why market segmenting helps the companies yOll identified in your Deliverable sell their products.
4. How can you use the Tnteractive JO'lrnal to learn more about markets?

SUMMARY

The concept of a market was examined in this chapter. It was defined from three perspectives: people, place, and economic activity. In addition, the four types of markets were discussed. The bulk of this chapter dealt with the two general marketing approaches toward the market: undifferentiated (aggregated) and segmental. The former was defined as the assumption that the market is homogeneous and developing separate strategies is unnecessary. The latter was defined as the acknowledgement that markets contain submarkets known as segments, which must be evaluated as potential target markets. The remainder of the chapter highlighted various bases for segmenting markets and delineating the criteria employed in assessing the value of a segment.

MARKETER'S VOCABULARY

Market aggregation (undifferentiated marketing) Treating an entire market uniformly, making little or no attempt to differentiate marketing effort.

Product differentiation A marketing strategy that emphasizes distinctive product features without recognizing diversity of consumer needs.

Market segmentation Dividing a total market into several submarkets or segments, each of which is homogeneous in all significant aspects, for the purpose of selecting one or more target markets on which to concentrate marketing effort.

Concentration strategy Used by an organization that chooses to focus its marketing efforts on only one market segment.

Multisegment strategy Used by an organization that chooses to focus its marketing effort on two or more distinct segments.

Ultimate user An individual or organization that buys and/or uses products or services for their own personal consumption.

Industrial user An organization that buys products or services for use in their own businesses, or to make other products.

Demographic characteristics Statistical characteristics of a population often used to segment markets, such as age, sex, family lifecycle, income, or education.

Usage rate A segmentation base that identifies customers on the basis of the frequency of use of a product.

Purchase occasion A segmentation base that identifies when they use the product.

User status A segmentation base that identifies customers on the basis of patterns of use, such as one-time or regular use.

Loyalty A segmentation base that identifies customers on the basis of purchase patterns of particular brands.

Stage of readiness A segmentation base that identifies customers on the basis of how ready a customer is to buy.

Psychological segmentation The use of attitudes, personality, motives, and lifestyle to identify customers.

Attitude A predisposition to behave in a certain way to a given stimuli.

Personality All the traits of a person that make himlher unique.