



## Market Segmentation

- I. Introduction
  - a. Dealing with millions of people, can't target particular individuals (except maybe huge buyers – Ford Motor buying millions of dollars of ball bearings, for example)
  - b. Need to aggregate consumers in marketing campaigns
  - c. Helps to segment markets
- II. Markets
  - a. Generic Market
    - i. Group of potential buyers with *broadly* similar needs (may be pretty different)
    - ii. Ground Transportation – highly generic
    - iii. Automobiles (SUVs, sedans, ...) – more specific but still very generic
  - b. Product Market
    - i. Potential customers have similar needs, so will see similar products as solutions
    - ii. Broad “Snack Food” market (salty, sweet, apples, ...)
      - 1. Narrower Market: “Salty Snack Foods”
      - 2. Even Narrower: “Potato Chips”
    - iii. Motorcycle Market
      - 1. Product = Motorcycle
      - 2. Market: Civilians, racers, police, paramilitary / military
      - 3. Different users have different needs for the product. They're in different segments.
    - iv. Drone Engine Market
      - 1. Engines go in military drones
      - 2. Original Equipment Manufacturer (OEM) is the consumer
      - 3. Both big OEMs with connections, or small OEM
- III. Segments
  - a. Group of customers that have the same notion of the ideal product
  - b. Segments help explain why there are so many different products, even manufactured by the same manufacturer (also explained just as insulation against random consumer behavior)
  - c. Benefit of Segmentation to the Consumer: You get more choices!
  - d. Is it more profitable?
    - i. Price discrimination: Selling the exact same product for different prices to different groups .
    - ii. Thus you can theoretically get everyone's maximum price
    - iii. Depends on constraining arbitrage
    - iv. Depends on the seller maintaining control over prices
    - v. More importantly, depends on identifying / distinguishing the different groups of demanders
  - e. Benefit Segmentation
    - i. People purchase product / service to get benefits
    - ii. Develop a list of benefits customers might be seeking when they purchase your product.
    - iii. Survey random people; find out which benefits are important – weight them (people who *might* buy the product)
    - iv. Group customers by weights. Can then even determine how people are divided by numbers (40% in Segment A, 60% in B) and of course what they want from the product.
    - v. Profile responders – age, what magazines do you read, where do you live, et cetera. Then you can look for correlations with your segments (how do you market to them)
  - f. What's Useful?
    - i. Not all segments are worth pursuing
    - ii. Need homogeneity within, heterogeneity across, accessibility.

- g. Clustering
  - i. Calculate the Pythagorean distance between two people's preferences
  - ii. Find the two closest points and group them into a cluster
  - iii. Now find the next two closest points and group them
  - iv. Continue grouping points together until you encounter a distance that's "too far."
  - v. It's a subjective decision.
- h. Multiple Attributes
  - i. Easy to draw a plot when there are only two plots
  - ii. Everything is the same with multiple attributes – square root of sum of squares of differences (hey, that's just fun to write).
- i. There's almost always a "Low Price" segment.
- IV. Besides Benefits
  - a. Can segment on anything, not just benefits
  - b. "Benefits Sought" is useful because that determines what the customer will actually do
  - c. General Customer Characteristics
    - i. Demographics (gender, occupation, ...), geography, personality, lifestyles
    - ii. Usefulness depends on the product
    - iii. Gender is sometimes crucial (Women's Products, ...)
  - d. Situation-Specific Characteristics
    - i. Usage rate, purchase frequency, shopping situation
    - ii. A customer always maintains the same General characteristics, but may exhibit different situation-specific characteristics in different (wait for it...) situations
  - e. In Theory: Start with benefits, then look at other characteristics
  - f. In Reality: Usually start with general characteristics
    - i. Selling ski equipment, start with geographical segmentation
    - ii. Makes it easier to narrow the scope of your survey
  - g. PRIZM
    - i. Claritas has segmented U.S. into about 62 demographic clusters
    - ii. Called PRIZM codes
    - iii. Can get names and addresses from mailing list broker based on PRIZM codes
- V. Framework for Developing a Marketing Plan
  - a. Select segments somehow (cost analysis)
  - b. Organizational Analysis – What are you good at; who could you target?
  - c. Competitive Analysis – Who's a big competitor in each segment?
  - d. Grid of the top 4 customer "care abouts" (per segment)
  - e. Check off whichever cells represent compatibles
- VI. Value Proposition (per segment)
  - a. A *promise* to target customers
  - b. Not something you communicate to customers, just a guide for you to use internally
  - c. Identifies target market
  - d. Lists *most important* benefits (to customers)
  - e. What strength of the organization allows it to provide those benefits?
  - f. "For (segment), the (product) is (benefit) because of (strength)."
  - g. Again, will communicate to customers in a way that emanates from the value proposition.