

Segmentation and Targeting



- ❑ **Concepts: STP**
- ❑ **Methods**
- ❑ **Case Intros**

Definitions



- ❑ **Market segmentation**
 - **The process of dividing customers into groups whose valuations of products are similar within groups (similar needs) and who differ across those groups**

□ A market segment

- *Is a group of actual or potential customers who can be expected to respond in a similar way to a product or service offer.*
- they want the same types of benefits or solutions to problems from the product or service
- they respond in a similar way to a company's marketing communications.

- Members are different between segments but similar within.**

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Segmentation Marketing

- Differentiating your product and marketing efforts to meet the needs of different segments,
- Applying the marketing concept to market segmentation.

Opportunity:

Three fundamental factors provide the conditions that create an opportunity for a firm to successfully segment a market.

1. Heterogeneity of customer needs and wants
2. Customers do cluster into groups
3. Cost of serving customer within a cluster must be no more than what they are willing to pay.
This could be higher than the average customer

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A Two-Stage Approach in Business Markets

Macro-Segments:

□ First stage/rough cut

- Industry/application
- Firm size

Micro-Segments:

□ Second-stage/fine cut

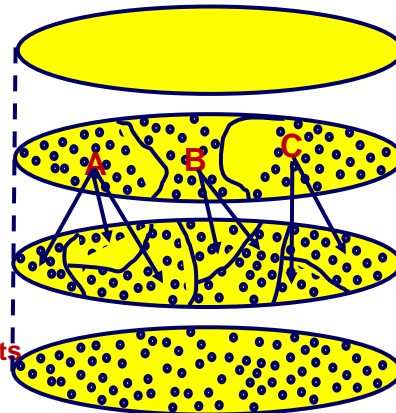
- Different customer needs, wants, values *within* macro-segment

Mass Market

Macro Segments

Micro Segments

Segments of One



Primary Characteristics of Segments



A segmentation model requires

- Segment Descriptor
- Segment Basis

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Primary Characteristics of Segments



A segmentation model requires

- Segment Descriptor
- Independent variables
- Characteristics that help us find and reach segments.

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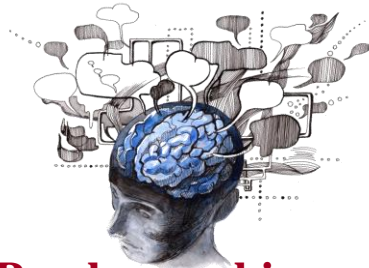
Bases for Segmenting Consumers



Geographic



Demographic



Psychographic

Behavioral

Demographic Segmentation

Age and Life-cycle Stage

Life Stage

Gender

Income

Generation

Race and Culture



Primary Characteristics of Segments

A segmentation model requires

- Segmentation Basis
- dependent variable
- characteristics that tell us **why** segments differ (e.g., needs, preferences, decision processes).

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Primary Characteristics of Segments

- Given a measure of managerial interest, such as purchase likelihood,
- We can use relevant segment variables (descriptors) to discriminate among segments of the population along the criterion (basis) of interest

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Convenience-group/priori segmentation



- ❑ Define segments by looking at **descriptive** characteristics: geographic, demographic, and psychographic.
- ❑ Then they examine whether these customer segments exhibit different needs or product responses.

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- ❑ Group customers based on their **needs** and then search for discriminating characteristics that enable us to identify groups that differ in their need.

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- Example:
 - Examine the differing attitudes of “professionals,” “blue collars,” and other groups toward “safety” as a product benefit.

Primary Characteristics of Segments



□ *Descriptors*

(Business markets) (Consumer markets)

Industry
Size
Location
Organizational
structure

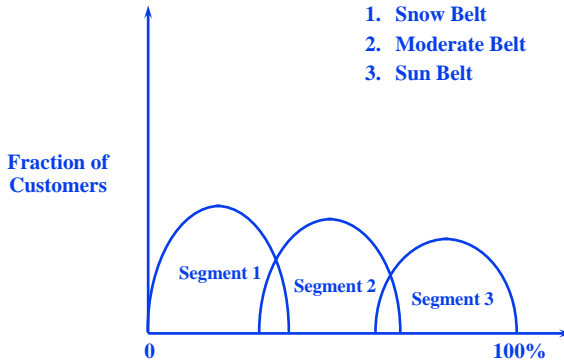
Age/Income
Education
Profession
Life styles
Media habits

Relevant Segmentation Descriptor



Variable A: Climatic Region

1. Snow Belt
2. Moderate Belt
3. Sun Belt



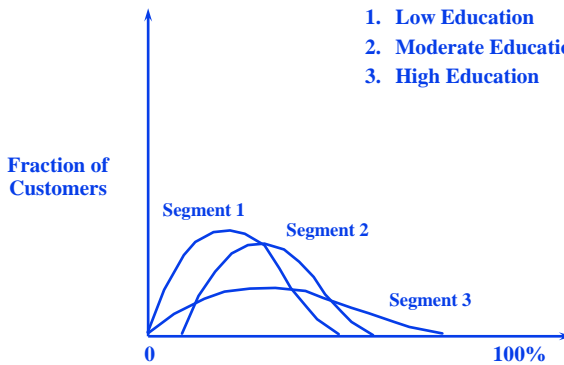
Likelihood of Purchasing Solar Water Heater
(a)

Irrelevant Segmentation Descriptor



Variable B: Education

1. Low Education
2. Moderate Education
3. High Education



Likelihood of Purchasing Solar Water Heater
(b)

Variables to Segment and Describe Markets

	Consumer	Industrial
<i>Segmentation Bases</i>	Needs, wants benefits, solutions to problems, usage situation, usage rate.	Needs, wants benefits, solutions to problems, usage situation, usage rate, size*, industrial*(*=macro-bases)
<i>Descriptors</i>		
Demographics	Age, income, marital status, family type & size, gender, social class, etc.	Industry, size, location, current supplier(s), technology utilization, etc.
Psychographics	Lifestyle, values, & personality characteristics.	Personality characteristics of decision makers.
Behavior	Use occasions, usage level, complementary & substitute products used, brand loyalty, etc.	Use occasions, usage level, complementary & substitute products used, brand loyalty, order size, applications, etc.
Decision Making	Individual or group (family) choice, low or high involvement purchase, attitudes and knowledge about product class, price sensitivity, etc.	Formalization of purchasing procedures, size & characteristics of decision making group, use of outside consultants, purchasing criteria, (de)centralizing buying, price sensitivity, switching costs, etc.
Media Patterns	Level of use, types of media used, times of use, etc.	Level of use, types of media used, time of use, patronage at trade shows, receptivity of sales people, etc.

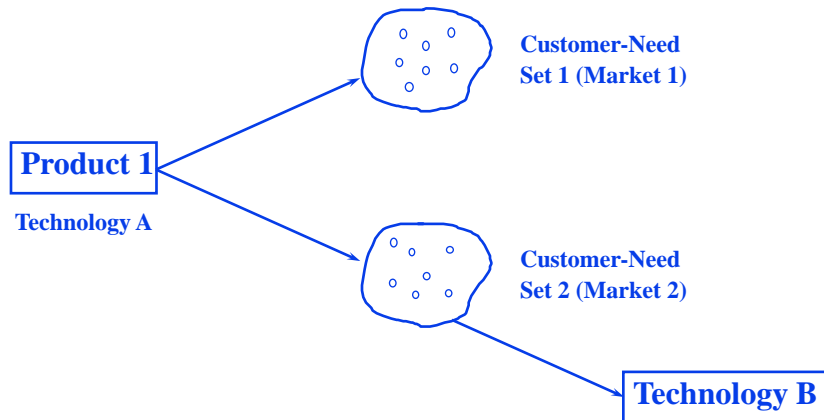
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Defining a Market:

A market consists of all the potential customers sharing a particular need or want who might be willing and able to engage in exchange to satisfy that need or want.

—Kotler, *Marketing Management*

Market Definition



→ Common customer needs define a market *not* a product.

Implications

1. Segmentation defines common customer needs.
 2. Those common needs may be satisfied by similar or dissimilar technologies or have different solutions.
- ❑ Ex: the same (physical) automobile may be sold to a consumer or to a taxi company (fleet sales); the needs and buying behaviors of the manager of fleet operations and the individual customer are quite different.
 - ❑ Both a PC and a mechanical typewriter, very dissimilar physical products, can provide “word processing solutions”

Electric Typewriter Market



	1980	1981	1982	1983	1984	1985
Shipments						
A (Us)	403,027	495,192	548,905	550,351	541,388	515,000
B	369,916	388,520	349,396	323,005	342,197	297,000
Other	367,057	324,010	343,885	370,374	202,495	129,070
Total	1,140,000	1,207,722	1,242,186	1,243,730	1,086,080	941,070
Market Shares (%)						
A (Us)	35.4	41.0	44.2	44.2	49.8	54.7
B	32.4	32.2	28.1	26.0	31.5	31.6
Other	32.2	26.8	27.7	29.8	18.6	13.7

Firm A sees its market share increase but both its sales and total market sales decline in this market.



- ❑ If we broaden the market definition to include electronic solutions we get a different picture:

Word Processor Market

	1980	1981	1982	1983	1984	1985
Shipments						
A (Us)	403,027	495,192	548,905	550,351	541,388	515,000
B	369,916	388,520	349,396	323,005	342,197	297,000
Other Electric	367,057	324,010	343,885	370,374	202,495	129,070
Electronic Word Processors	60,040	112,220	209,800	392,352	733,699	1,372,016
Total	1,200,040	1,319,942	1,451,986	1,636,082	1,819,778	2,313,086
Firm A's share of a growing market is declining along with its sales.						
Market Shares (%)						
A (Us)	33.6	37.5	37.8	33.6	29.8	22.3
B	30.8	29.4	24.1	19.7	18.8	12.8
Other Electric	30.6	24.5	23.7	22.6	11.1	5.6
Electronic Word Processors	5.0	8.5	14.4	24.0	40.3	59.3

Market Definition Approaches

Customer-Behavior:

- Demand cross elasticity
- Similarities in use behavior
- Brand/product switching

Perception/Judgment:

- Decision sequence analysis
- Engineering/technological substitution
- Customer judgments
- Perceptual mapping

Cross-elasticity of demand

- ❑ If the price of product *i* goes up and that causes demand for product *j* to go up, *i* and *j* are said to be in the same market.
- ❑ The standard criterion against which other criteria should be judged.

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Market Definition by Switching Behavior

- ❑ A matrix of brand-switching proportions breaks down into competitive markets, with high switching rates between brands in the same market, but with low switching rates across markets.
- ❑ The approach is applicable in relatively stable markets with high repeat-purchase rates, such as the soft drink market

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Market Definition by Switching Behavior



		Current Purchase Occasion						Total
		Coke	Diet Coke	Pepsi	Diet Pepsi	Sprite	Diet Sprite	
Last Purchase Occasion	Coke	53%	9%	27%	4%	5%	2%	100%
	Diet Coke	12%	61%	4%	15%	2%	5%	100%
	Pepsi	24%	3%	58%	9%	5%	1%	100%
	Diet Pepsi	4%	14%	11%	63%	2%	6%	100%
	Sprite	21%	2%	17%	3%	52%	6%	100%
	Diet Sprite	2%	15%	2%	12%	7%	61%	100%



- ▣ A brand-switching matrix suggesting
 - a cola/noncola segment
 - a diet/nondiet segment:
- ▣ i.e. highest switching levels are
 - Coke → Pepsi; Pepsi → Coke;
 - Diet Coke → Diet Pepsi and Coke;
 - Diet Pepsi → Diet Coke and Pepsi;
 - Sprite → Coke/Pepsi;
 - Diet Sprite → Diet Coke/Diet Pepsi.

Market Definition by Switching Behavior



		Current Purchase Occasion						
		Coke	Diet Coke	Pepsi	Diet Pepsi	Sprite	Diet Sprite	Total
Last Purchase Occasion	Coke	53%	9%	27%	4%	5%	2%	100%
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	Diet Sprite	2%	15%	2%	12%	7%	61%	100%

**Coke → Pepsi;
Pepsi → Coke;**

Market Definition by Switching Behavior



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		Coke	Diet Coke	Pepsi	Diet Pepsi	Sprite	Diet Sprite	Total
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Diet Coke → Diet Pepsi & Coke

Market Definition by Switching Behavior



		Current Purchase Occasion						
		Coke	Diet Coke	Pepsi	Diet Pepsi	Sprite	Diet Sprite	Total
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Diet Pepsi → Diet Coke & Pepsi

Market Definition by Switching Behavior



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	Diet Sprite	2%	15%	2%	12%	7%	61%	100%

Sprite → Coke/Pepsi

Market Definition by Switching Behavior



		Current Purchase Occasion						Total
		Coke	Diet Coke	Pepsi	Diet Pepsi	Sprite	Diet Sprite	
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	Diet Sprite	2%	15%	2%	12%	7%	61%	100%

Diet Sprite → Diet Coke/Diet Pepsi.

Markets are Dynamic



- **Segments may be unstable over time**
 - Buyer behavior changes
 - Competitors change
 - The business environment changes

- **This means that it is important to view segmentation as . . .**
 - *A process to support business decisions*
 - **Not a static classification of the market**

Why is Market Definition Important?



- **Strategy**
(What to focus on)
- **Resource allocation**
(How much/where/when?)
- **Feedback/performance measurement**
(How well are we doing? How can we learn from our actions?)

The Many Uses of Segmentation



Short-term :

- Sales force allocation/call planning
 - Pricing
- Focus on today's competitors and my current relative advantage to the customer

Longer term:

- Emerging needs (Opportunity-focused segmentation)
- New and evolving segments to serve
- Planning for segment development/growth & anticipating competitive threats

STP as Business Strategy

Segmentation

- ❑ Identify segmentation bases and segment the market.
- ❑ Develop profiles of resulting segments.

Targeting

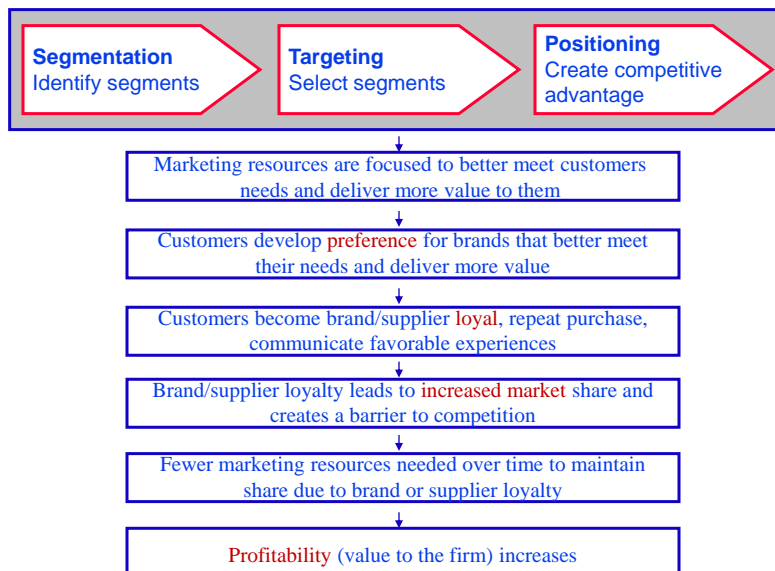
- ❑ Evaluate attractiveness of each segment.
- ❑ Select target segments.

Positioning

- ❑ Identify possible positioning concepts for each target segment.
- ❑ Select, develop, and communicate the chosen concept.

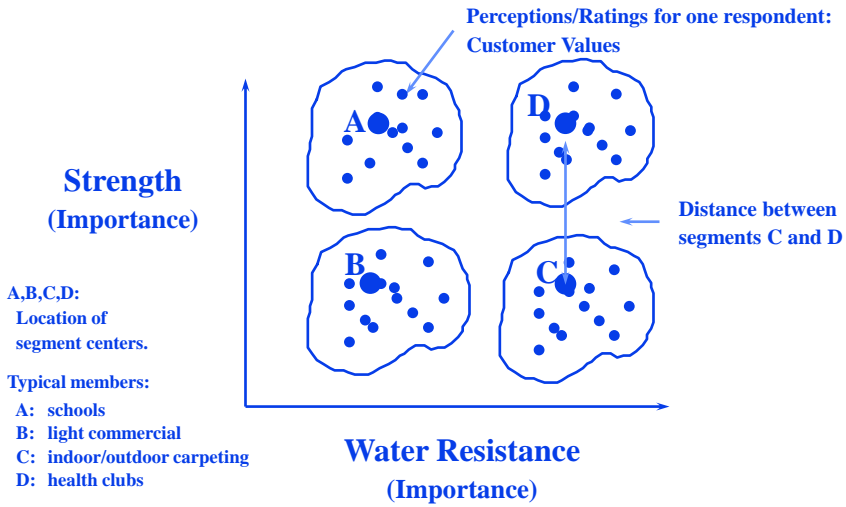
... to create and claim value

How STP Creates Value

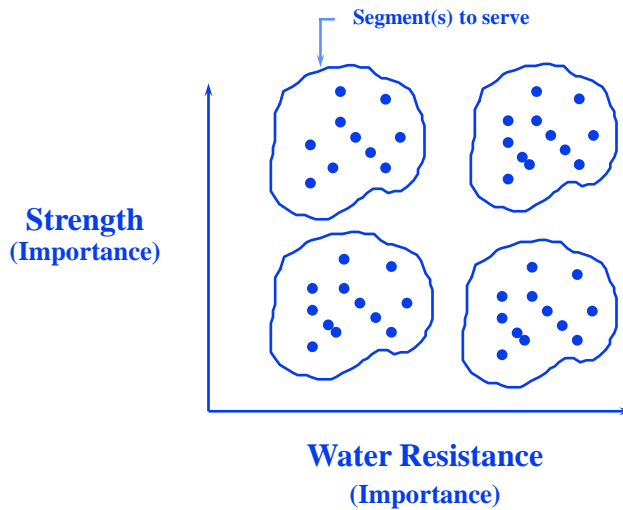


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Segmentation (for Carpet Fibers)



Targeting



Segmentation: Methods Overview

- ❑ Classify segmentation methods according to whether they are:
 - A priori methods
 - ❑ The segments are determined by the researcher in advance
 - Post-hoc methods
 - ❑ Data analysis determines the number and type of segments

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Segmentation: Methods Overview

- ❑ Factor analysis (to reduce data before cluster analysis).
- ❑ Cluster analysis to form segments.
- ❑ Discriminant analysis to describe segments.

Factor Analysis

- Use several methods to reduce a large set of data to a smaller set.
- Analyze the interrelationships among a large number of variables (attitudes, questionnaire responses) and then represent them in terms of common, underlying dimensions (factors).

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Cluster Analysis

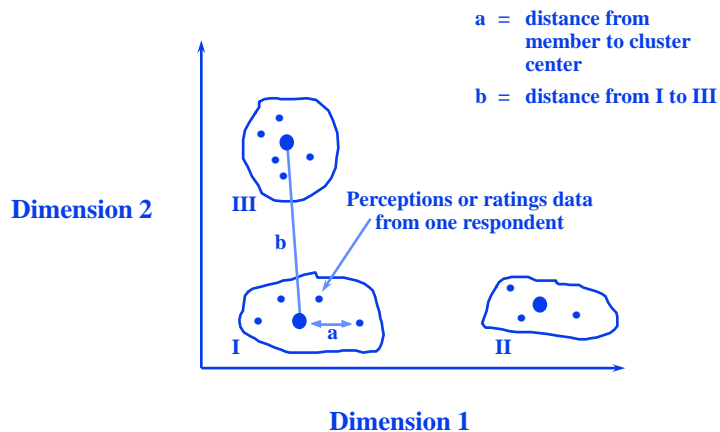
- Select variables
- Construct a measure of association between all pairs of items.
 - Define a measure of
 - Similarity
 - Dissimilarity—distance between all pairs of elements (individuals, families, Decision Making Units, etc.)
- Develop a method for assigning elements to clusters or groups

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Cluster Analysis for Segmenting Markets

- ❑ Define a measure to assess the similarity of customers on the basis of their needs.
- ❑ Group customers with similar needs.
- ❑ Select the number of segments using numeric and strategic criteria, and your judgment.
- ❑ Profile the needs of the selected segments (e.g., using cluster means).

Doing Cluster Analysis



Cluster Analysis: Measures of Association

❑ Choosing Variables

- Variables with similar values
- Variables with different values

❑ Defining Measures of similarity between individuals

- Scaled data → distance type measures
- Nominal data → matching-type measures
- Mixed data → Automatic Interaction Detection (AID)

Example: Matching Coefficients

- ❑ We ask respondents from four organizations that will purchase a copier to state which of its eight features (F) are essential, (F1=sorting, F2=color, etc.) with the following result:

Matching Coefficients



Essential Features? (Yes or No)

	F1	F2	F3	F4	F5	F6	F7	F8
Org. A	Y	Y	N	N	Y	Y	Y	Y
Org. B	N	Y	N	N	N	Y	Y	Y
Org. C	Y	N	Y	Y	Y	N	N	N
Org. D	Y	N	N	N	Y	Y	Y	Y

$$\text{Similarity Coefficient} = \frac{\text{Number of Matches}}{\text{Total Possible Matches}}$$

	A	B	C	D
A	1			
B	6/8	1		
C	2/8	0/8	1	
D	7/8	5/8	3/8	1

Distance Measures

□ Measures of Dissimilarity

- Euclidean distance = $\sqrt{(x_{1i} - x_{1j})^2 + \dots + (x_{ni} - x_{nj})^2}$

- Absolute distance = $|x_{1i} - x_{1j}| + \dots + |x_{ni} - x_{nj}|$

□ Measures of Similarity

- Correlation coefficient r_{xy}

Clustering Methods

□ Hierarchical Methods

- Build-up (Agglomerative)

- Joining clusters using:

- Single Linkage

- Complete

- Average

- Ward's

- Split-down (Divisive)

- Automatic Interaction Detection (AID)

□ Partitioning Methods

- K-means clustering

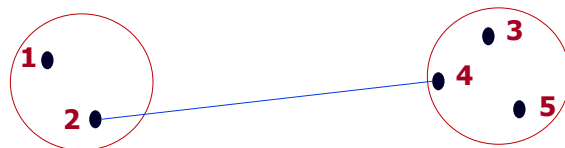
Agglomerative methods

1. At the beginning you consider each item to be its own cluster.
2. You join the two items that are closest on some chosen measure of distance.
3. You then join the next two closest objects (individual items or clusters), either joining two items to form a group or attaching an item to the existing cluster
4. Return to step 3 until all items are clustered.

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Agglomerative methods differ in how they join clusters to one another:

- **Single linkage clustering**
 - the nearest neighbor method
 - Consider the distance between clusters to be the distance between the two closest items in those clusters.



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- ❑ **Average linkage clustering,**
 - **Consider the distance between two clusters A and B to be the average distance between all pairs of items in the clusters, where one of the items in the pair is from cluster A and the other is from cluster B.**

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- ❑ **Ward's method,**
 - **Form clusters based on the change in the error sum of squares associated with joining any pair of clusters**

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Interpreting Cluster Analysis Results

- ❑ **Select the appropriate number of clusters:**
 - Are the bases variables highly correlated? (Should we reduce the data through factor analysis before clustering?)
 - Are the clusters separated well from each other?
 - Should we combine or separate the clusters?
 - Can you come up with descriptive names for each cluster (eg, professionals, techno-savvy, etc.)?

- ❑ **Segment the market independently of your ability to reach the segments (ie, separately evaluate segmentation and discriminant analysis results).**

Profiling Clusters

- ❑ **Give a description of the clusters based on:**
 - Variables used for clustering (*basis*)
 - Variables withheld from clustering, but will be used to identify and target segments (*the descriptors*)
- Report the average value of both

Discriminant Analysis for Describing Market Segments

- ❑ Identify a set of “observable” variables that helps you to understand how to reach and serve the needs of selected clusters.
- ❑ Use discriminant analysis to identify underlying dimensions (axes) that maximally differentiate between the selected clusters.

Segmentation: Methods Overview

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Cluster Analysis for Segmenting Markets

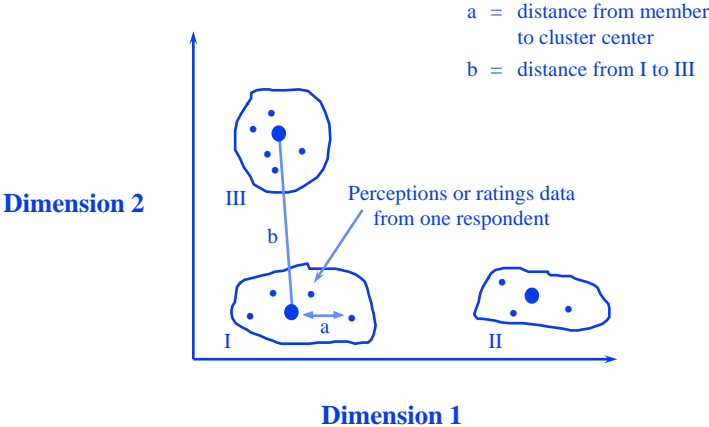
- ❑ Define a measure to assess the similarity of customers on the basis of their needs.
- ❑ Group customers with similar needs. The software uses the “Ward’s minimum variance criterion” and, as an option, the K-Means algorithm for doing this.
- ❑ Select the number of segments using numeric and strategic criteria, and your judgment.
- ❑ Profile the needs of the selected segments (e.g., using cluster means). ME Segmentation and Targeting 2006 - 65

Cluster Analysis Issues

- ❑ Defining a measure of similarity (or distance) between segments.
- ❑ Identifying “outliers.”
- ❑ Selecting a clustering procedure
 - Hierarchical clustering (e.g., Single linkage, average linkage, and minimum variance methods)
 - Partitioning methods (e.g., K-Means)
- ❑ Cluster profiling
 - Univariate analysis
 - Multiple discriminant analysis

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Doing Cluster Analysis



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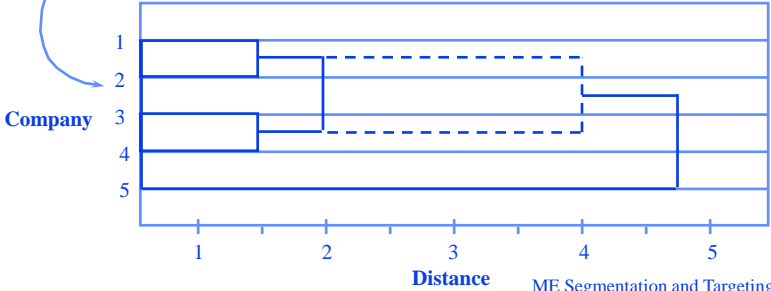
Single Linkage Cluster Example



Distance Matrix

	Co#1	Co#2	Co#3	Co#4	Co#5
Company #1	0.00				
Company #2	1.49	0.00			
Company #3	3.42	2.29	0.00		
Company #4	1.81	1.99	1.48	0.00	
Company #5	5.05	4.82	4.94	4.83	0.00

Resulting Dendrogram



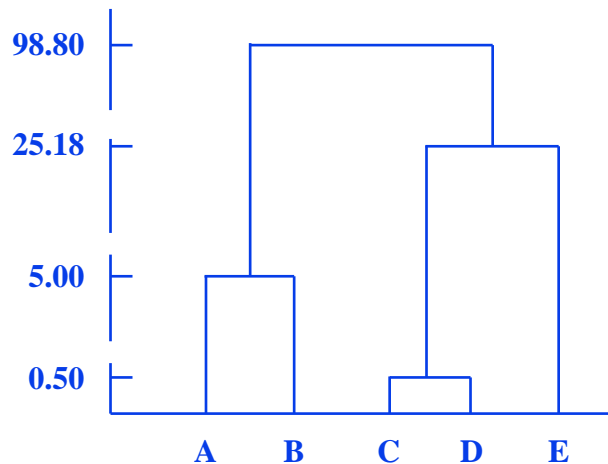
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Ward's Minimum Variance Agglomerative Clustering Procedure

First Stage:	A = 2	B = 5	C = 9	D = 10	E = 15	
Second Stage:	AB = 4.5		BD = 12.5			
	AC = 24.5		BE = 50.0			
	AD = 32.0		CD = 0.5			
	AE = 84.5		CE = 18.0			
	BC = 8.0		DE = 12.5			
Third Stage:	CDA = 38.0		CDB = 14.0		CDE = 20.66	
	AE = 85.0		BE = 50.5		AB = 5.0	
Fourth Stage:	ABCD = 41.0		ABE = 93.17		CDE = 25.18	
Fifth Stage:	ABCDE = 98.8					

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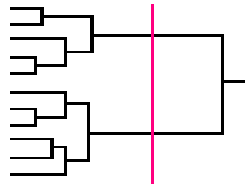
Ward's Minimum Variance Agglomerative Clustering Procedure



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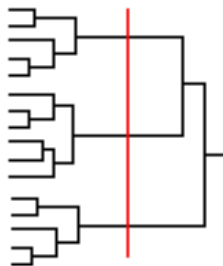
Interpreting a Dendrogram

- ❑ A dendrogram that clearly differentiates groups of objects will have small distances in the far branches of the tree and large differences in the near branches.
- ❑ The following example dendrogram ideally illustrates two clear groups.



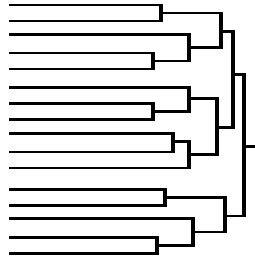
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- ❑ The following dendrogram ideally illustrates a clear grouping of three groups.



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-
- ❑ When the distances on the far branches are large relative to the near branches, then the grouping is not very effective. The following illustrates a dendrogram that would be interpreted with great caution



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Interpreting segmentation study results

- ❑ After forming your segments by following one of the foregoing methods, you need to interpret the results and link them to managerial actions.
- ❑ You can base targeting and positioning decisions on the results of a segmentation analysis.

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Interpreting segmentation study results

- Technically, you need to address such issues as:
- How many clusters you should retain?
- How good your clusters are?
 - The possibility that there are really no clusters
- How you should profile the clusters?

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How many clusters should you retain?

- There is no unambiguous statistical answer to this question.
- You should determine the number of clusters by viewing the results of
- your cluster analysis in light of the managerial purpose of the analysis.

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How good are your clusters?

- ❑ How well would the clusters obtained from this particular sample of individuals generalize to the sampling frame?
- ❑ No one statistical or numerical scheme helps you to judge the validity of clusters.
- ❑ You need knowledge of the context to make sense of the results.
- ❑ You should also ask: Do the means of basis variables in each cluster make intuitive sense (have face validity)? Can I think of an intuitively appealing name, for example, techno-savvy or mobile bloomers, for each of the resulting clusters?

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Are there really no clusters?

- ❑ Do not overlook this possibility.
- ❑ If only a few basis variables show meaningful differences between individuals, it is possible that no really distinct segments exist in the market.

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Cluster Profiling

- ❑ You can describe clusters
- ❑ informally by profiling them
- ❑ formally by using a method such as discriminant analysis.

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- ❑ In cluster profiling, you prepare a picture of the clusters you found based on the variables of interest—both those variables you used for the clustering (the bases) and those variables withheld from the clustering but that you will use to identify and target the segments (the descriptors).
- ❑ Typically you report the average value of both the basis and the descriptor variables in each cluster in the profile.

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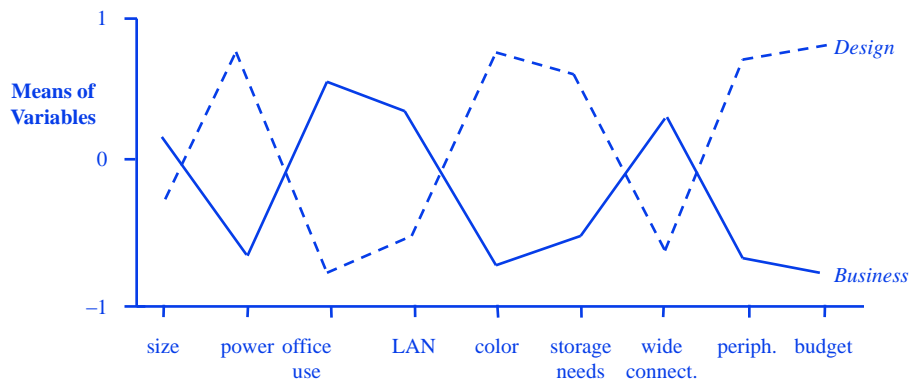
Interpreting Cluster Analysis Results

- ❑ **Select the appropriate number of clusters:**
 - Are the bases variables highly correlated? (Should we reduce the data through factor analysis before clustering?)
 - Are the clusters separated well from each other?
 - Should we combine or separate the clusters?
 - Can you come up with descriptive names for each cluster (eg, professionals, techno-savvy, etc.)?
- ❑ **Segment the market independently of your ability to reach the segments (i.e., separately evaluate segmentation and discriminant analysis results).**

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Profiling Clusters

Two Cluster Solution for PC Data: Need-Based Variables



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Discriminant Analysis for Describing Market Segments

- ❑ Identify a set of “observable” variables that helps you to understand how to reach and serve the needs of selected clusters.
- ❑ Use discriminant analysis to identify underlying dimensions (axes) that maximally differentiate between the selected clusters.

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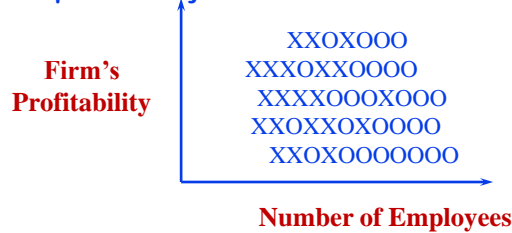
-
- ❑ The results of a segmentation study on the need for wireless internet access, where:
 - ❑ Segment (X) is the high-need segment
 - ❑ Segment (O) is the low-need segment

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Example

□ In the exhibit two segments or clusters determined from cluster analysis are plotted on two descriptor variable axes:

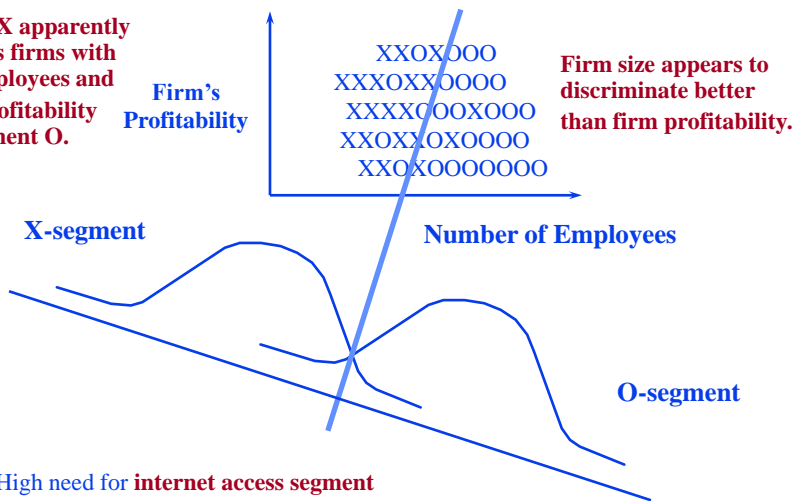
- Number of employees
- Firm profitability.



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Two-Group Discriminant Analysis

Segment X apparently comprises firms with fewer employees and higher profitability than segment O.



x = High need for internet access segment
 o = Low need for internet access segment

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-
- ❑ **The approach we described in the previous section assumes that there is a set of variables (bases) that we want to use to develop market segments**

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BEHAVIOR-BASED SEGMENTATION:

- ❑ **If the goal of the segmentation study is simply to identify individuals or groups with a high propensity to buy, researchers often use other methods:**
 - **CROSS-CLASSIFICATION**
 - **REGRESSION**
 - **CHOICE MODELS**

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BEHAVIOR-BASED SEGMENTATION: CROSS-CLASSIFICATION,

- ❑ Cross-classification, or contingency table analysis, classifies data into two or more categories
- ❑ if segmentation bases are continuous, the breakpoints you select for cross-classification may obscure some important relationships

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Example

- ❑ A cross-classification of product usage against a preference scale, split at the 50 percent point, shows little predictive ability

	High 51-100	Low 0-50
Buyer	380 37.8%	640 33.2%
Nonbuyer	625 63.2%	1290 66.8%
Total	1005 100%	1930 100%

Number of Responses	%
---------------------	---

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- ❑ **Splitting the same sample at both the 50 percent and the 90 percent points, however, reveals an important relationship**

Preference Score

	Very High 90-100	High 51-89	Low 0-50	
Buyer	80 79.2%	300 33.2%	640 33.2%	
Nonbuyer	21 20.8%	604 66.8%	1290 66.8%	
Total	101 100%	904 100%	1930 100%	Number of Responses %

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Preference Score

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Regression analysis

- ❑ In a typical multiple-regression study, the dependent variable is usually some measure of consumption, and the independent variables are socioeconomic and demographic variables postulated to vary with consumption.

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Choice-based segmentation

- ❑ Analysis at the level of an individual
- ❑ Relating that individual's likelihood of purchase (or response to a proposed marketing program) to variables that the firm has in its database, such as geodemographics, past purchase behavior for similar products, and attitudes or psychographics.

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-
- ❑ **Probability of purchase=**
f(geodemographics, past purchase,
Psychographics)

$$\text{Probability of purchase} = \frac{1}{1 + \exp(b_0 + \sum b_i x_i)}$$

- ❑ **b_i = importance of the i^{th} *basis variable,***
geodemographics, past purchase, etc.;
- ❑ **x_i = value of the i^{th} variable**

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Expected (Gross) customer profitability =
Probability of purchase

- X Likely purchase volume if a purchase is made**
- X Profit margin (for this customer)**

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Choice modeling provided the data in column A—purchase probability.

Which customers should the firm target?

Use several approaches to answer this question.

2. Largest 3 customers (2, 4, & 9)

$$1.72+2.73+1.03=5.48$$

Customer	<i>A</i> Purchase Probability	<i>B</i> Average Purchase Volume	<i>C</i> Margin	<i>D</i> Customer Profitability = $A \times B \times C$
1	30%	\$ 31.00	0.70	\$6.51
2	2%	\$143.00	0.60	\$1.72
3	10%	\$ 54.00	0.67	\$3.62
4	5%	\$ 88.00	0.62	\$2.73
5	60%	\$ 20.00	0.58	\$6.96
6	22%	\$ 60.00	0.47	\$6.20
7	11%	\$ 77.00	0.38	\$3.22
8	13%	\$ 39.00	0.66	\$3.35
9	1%	\$184.00	0.56	\$1.03
10	4%	\$ 72.00	0.65	\$1.87

6 - 99

Choice modeling provided the data in column A—purchase probability.

Which customers should the firm target?

Use several approaches to answer this question.

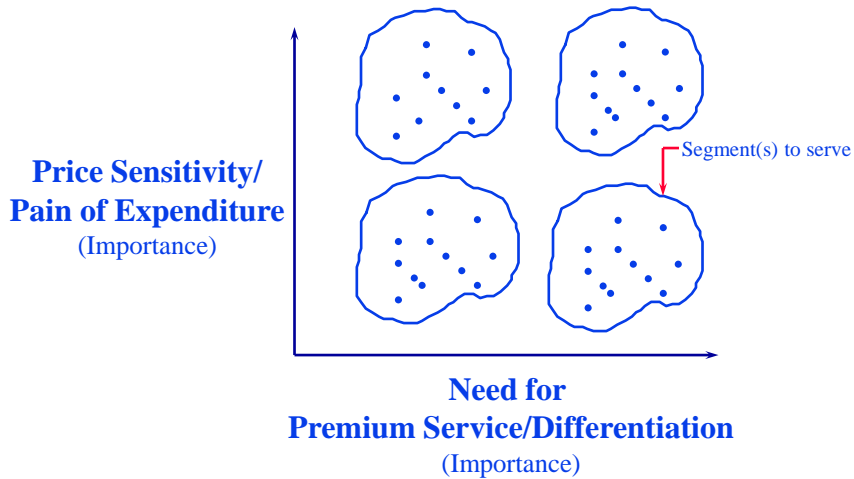
3. Target 1, 3, 5, & 6

$$\$6.51 + \$3.62 + \$6.96 + \$6.20 - (4 \times \$3.50) = \$9.29.$$

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- 100

Targeting



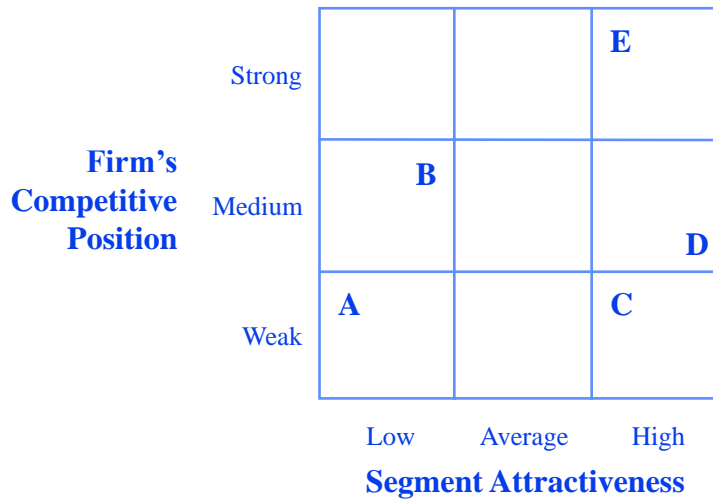
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Which Segments to Serve? —Segment Attractiveness Criteria

Criterion	Examples of Considerations
I. Size and Growth	
1. Size	• Market potential, current market penetration
2. Growth	• Past growth forecasts of technology change
II. Structural Characteristics	
3. Competition	• Barriers to entry, barriers to exit, position of competitors, ability to retaliate
4. Segment saturation	• Gaps in the market
5. Protectability	• Patentability of products, barriers to entry
6. Environmental risk	• Economic, political, and technological change
III. Product-Market Fit	
7. Fit	• Coherence with company's strengths and image
8. Relationships with segments	• Synergy, cost interactions, image transfers, cannibalization
9. Profitability	• Entry costs, margin levels, return on investment

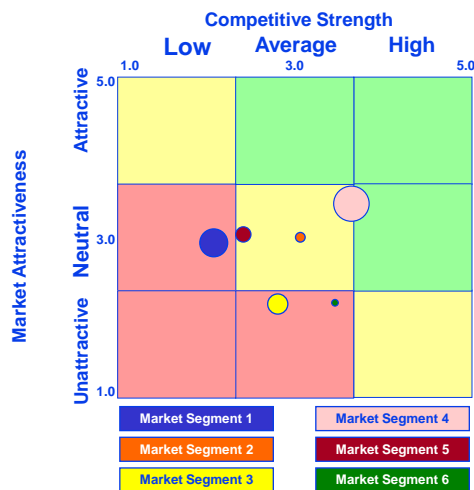
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Selecting Segments to Serve



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Selecting Segments Using GE/McKinsey Portfolio Matrix



Segment Strategies Based on GE/McKinsey Portfolio Analysis



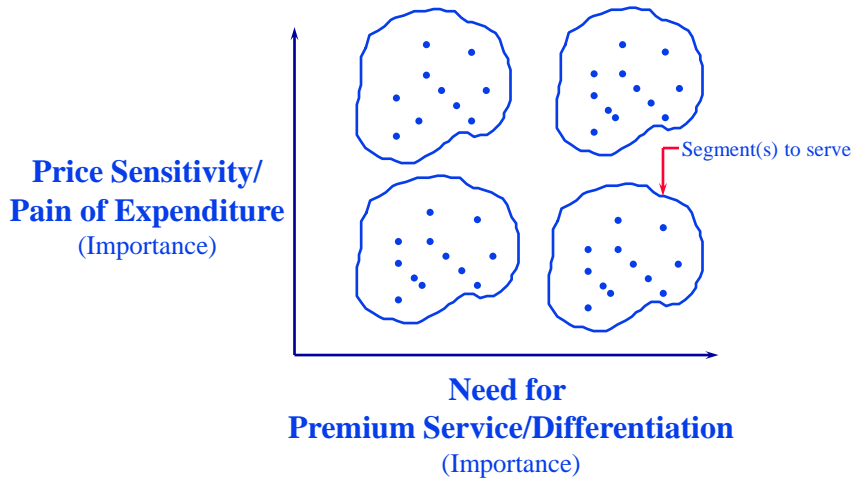
Segmentation Summary

In summary,

- ❑ Use needs variables to segment markets.
- ❑ Select segments taking into account both the attractiveness of segments and the strengths of the firm.
- ❑ Use descriptor variables to develop a marketing plan to reach and serve chosen segments.
- ❑ Develop mechanisms to implement the segmentation strategy on a routine basis (one way is through information technology)

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Targeting



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9. Profitability	• Entry costs, margin levels, return on investment

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Selecting Segments to Serve



Firm's Competitive Position	Strong			E
	Medium	B		D
	Weak	A		C
		Low	Average	High

Segment Attractiveness

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