



Part Four
Target Markets and
Customer Behavior

8

Target Markets:
Segmentation and Evaluation

Objectives

1. To learn what a market is
2. To understand the differences among general targeting strategies
3. To become familiar with the major segmentation variables
4. To know what segment profiles are and how they are used
5. To understand how to evaluate market segments

Objectives (cont'd)

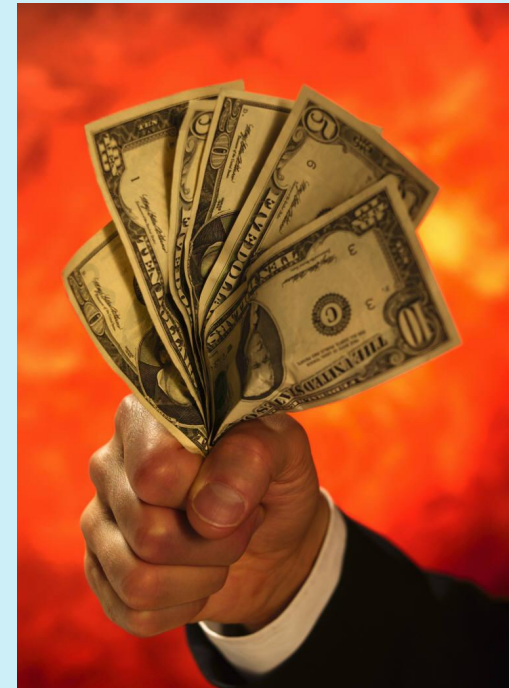
6. To identify the factors that influence the selection of specific market segments for use as target markets
7. To become familiar with sales forecasting methods

Chapter Outline

- What Are Markets?
- Target Market Selection Process
- Step 1: Identify the Appropriate Targeting Strategy
- Step 2: Determine Which Segmentation Variables to Use
- Step 3: Develop Market Segment Profiles
- Step 4: Evaluate Relevant Market Segments
- Step 5: Select Specific Target Markets
- Developing Sales Forecasts

What Are Markets?

- Requirements of a Market
 - Must need or desire a particular product
 - Must have the ability to purchase the product
 - Must be willing to use their buying power
 - Must have the authority to buy specific products



What Are Markets? (cont'd)

- Types of Markets
 - Consumer markets
 - Purchasers and individuals in households
 - Purchases are for personal consumption, not profit
 - Business markets
 - Individuals and groups that purchase products for resale, direct use to produce other products, or use in daily business operations
 - Purchasers classed as producers, resellers, government, and institutional markets

Target Market Selection Process



FIGURE 8.1

Targeting Strategies

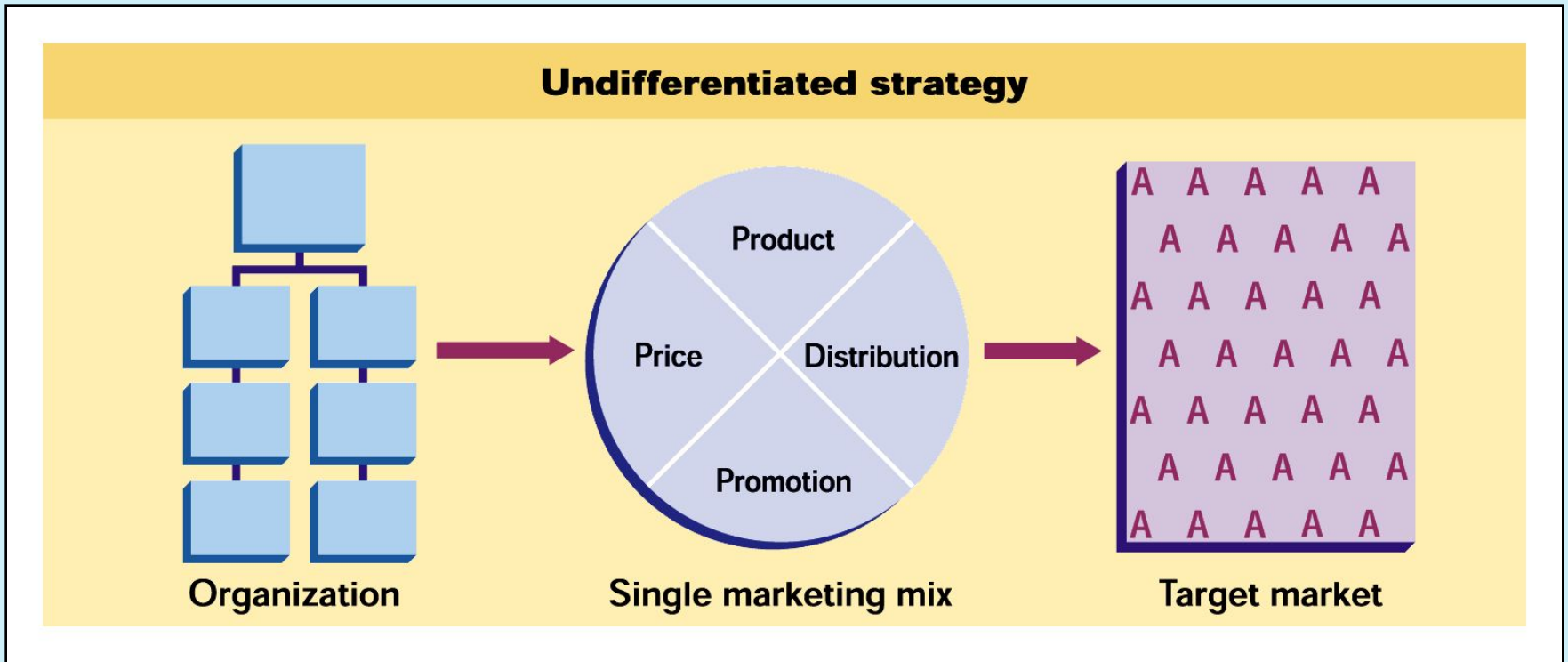


FIGURE 8.2

Targeting Strategies

Concentrated strategy



FIGURE 8.2

Targeting Strategies

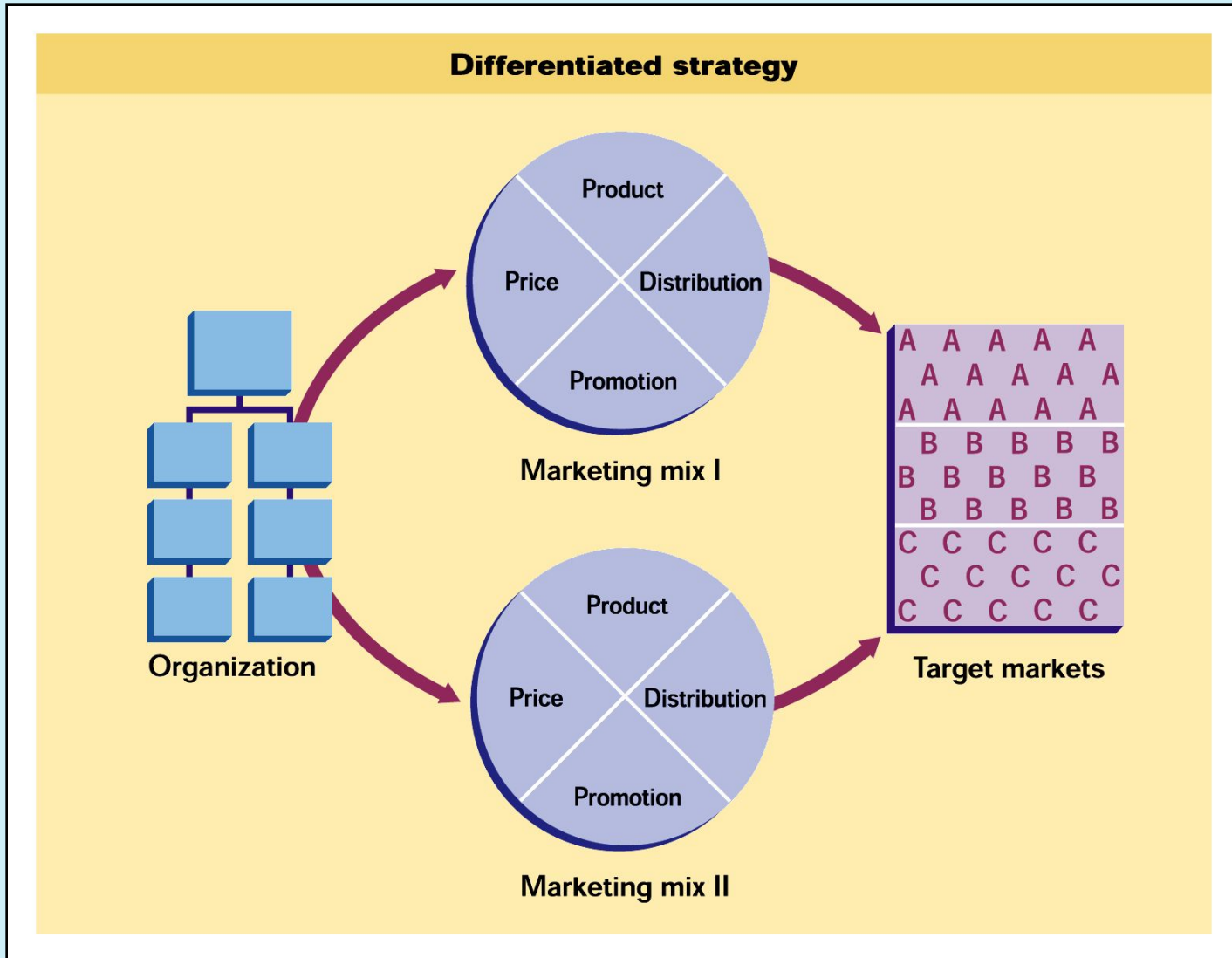


FIGURE 8.2

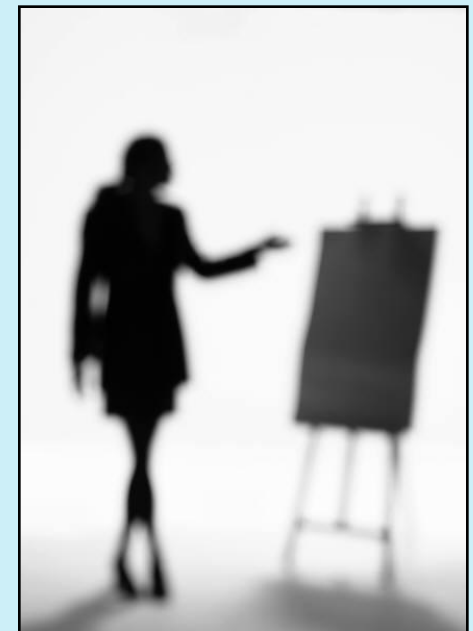
Step 1: Identify the Appropriate Targeting Strategy

- Undifferentiated Strategy
 - Defining an entire market for a particular product as the target market (homogeneous market)
 - Designing a single marketing mix for and directing it at the total market



Step 1: Identify the Appropriate Targeting Strategy (cont'd)

- Concentrated Strategy Through Market Segmentation
 - Segmenting (dividing) the total market into groups with similar product needs (heterogeneous markets) to design marketing mixes that match those needs
 - Concentrated targeting strategy focuses on a single market segment using one marketing mix



Step 1: Identify the Appropriate Targeting Strategy (cont'd)

- Differentiated Strategy Through Market Segmentation
 - Targeting two or more segments by developing a marketing mix for each
 - Competitive advantage is that a firm may gain a larger total market share by aiming multiple marketing mixes at multiple segments

What Type of Targeting Strategy Does Nabisco Use for Its Cookie Product Line?



Looks like a Newton. Tastes like dessert.

Introducing new Caramel Apple Newtons.[®] The delicious zing of apple, the rich taste of caramel. Everything you could want in a dessert. In a Newton.

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Step 2: Determine Which Segmentation Variables to Use

- Segmentation Variables
 - Characteristics of individuals, groups, or organizations used to divide a market into segments



Segmentation Variables for Consumer Markets

Demographic variables

- ▶ Age
- ▶ Gender
- ▶ Race
- ▶ Ethnicity
- ▶ Income
- ▶ Education
- ▶ Occupation
- ▶ Family size
- ▶ Family life cycle
- ▶ Religion
- ▶ Social class

Geographic variables

- ▶ Region
- ▶ Urban, suburban, rural
- ▶ City size
- ▶ County size
- ▶ State size
- ▶ Market density
- ▶ Climate
- ▶ Terrain

Psychographic variables

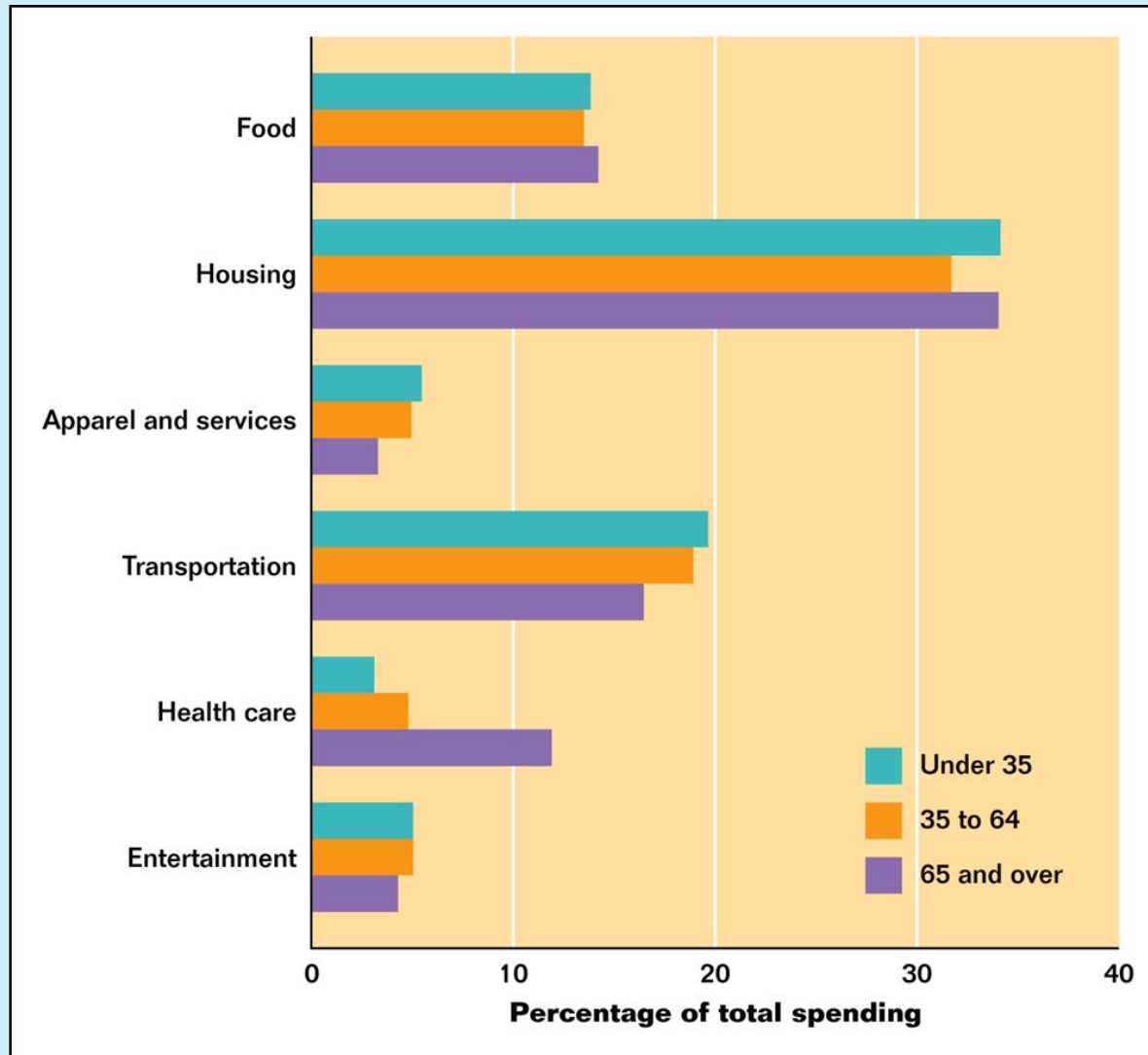
- ▶ Personality attributes
- ▶ Motives
- ▶ Lifestyles

Behavioristic variables

- ▶ Volume usage
- ▶ End use
- ▶ Benefit expectations
- ▶ Brand loyalty
- ▶ Price sensitivity

FIGURE 8.3

Spending Levels of Three Age Groups for Selected Product Categories



Source: U.S. Department of Labor, Bureau of Labor Statistics. August 2000.

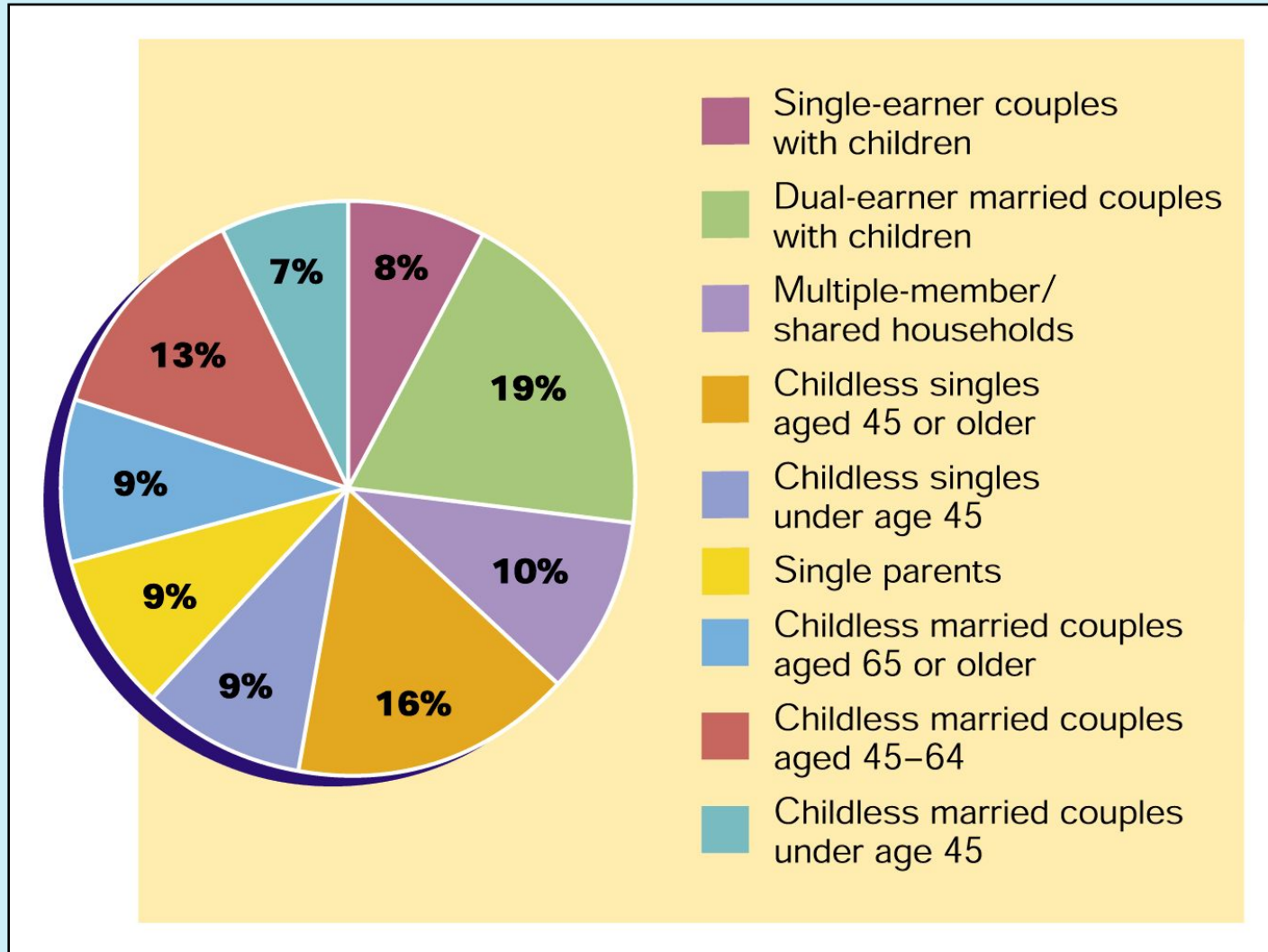
FIGURE 8.4

Table 8.1
Life Cycle Stages Influence Beverage Purchases
Percent of All Dollars Spent Annually in Each Beverage Category, by Life Stage

	Carbonated Beverages	Coffee	Juices, Refrigerated	Soft Drinks, Non-carb.	Bottled Water	All Remaining Carb. Bev/Diet	All Remaining Carb. Bev/Reg	Coffee, Liquid
Young singles (age 18–34)	2%	1%	2%	2%	2%	2%	1%	3%
Childless younger couples (two adults, 18–34)	4%	3%	4%	4%	6%	4%	4%	8%
New families (2 adults, 1 or more children <6)	5%	3%	5%	8%	6%	4%	5%	4%
Maturing families (2 adults, 1 or more children, not all <6 or +12)	26%	19%	22%	36%	22%	21%	30%	19%
Established families (1 or more children, all +12)	12%	9%	10%	10%	10%	9%	14%	12%
Middle-aged singles (35–54)	7%	5%	7%	4%	9%	9%	7%	7%
Middle-aged childless couples (2 adults, 35–54)	18%	17%	16%	14%	18%	19%	16%	18%
Empty-nesters (2 adults, +55, no children at home)	20%	32%	24%	17%	20%	24%	17%	21%
Older singles (55+)	7%	11%	10%	6%	7%	8%	6%	8%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Source: *American Demographics*, "Drink Me" by Matthew Grimm. February 2000, pp. 62–63. Copyright © 2000. Reprinted with permission from *American Demographics*.

Family Life Cycle Stages as a Percentage of All Households



Source: Bureau of the Census, *Current Population Survey*.

FIGURE 8.5

Step 2: Determine Which Segmentation Variables to Use (cont'd)

- Demographic Variables
 - Population characteristics such as age, gender, race, ethnicity, income, education
- Geographic Variables
 - Customer product needs are influenced by climate, terrain, city size, population density, and urban/rural areas
- Market Density
 - The number of potential customers within a unit of land area



Who Are Not the Big Spenders?

Age Group	Average Total Annual Expenditures
Under 25	\$24,299
25-34	40,318
35-44	48,330
45-54	48,748
55-64	44,330
65-74	32,243
All consumer units	40,677

Source: Consumer Expenditure Survey as reported in *American Demographics*, February 2004, p.38.

Projected National Growth in the Traditional College Age Population



	2000	2015	Absolute increase	Percent increase	Share of growth (%)
Hispanic	3,678,779	5,755,446	2,076,667	56.4%	48.8%
Asian/ Pacific Islander	1,079,975	1,769,529	689,554	63.8%	16.2%
Black	3,751,076	4,430,572	679,496	18.1%	16.0%
Native American	238,643	273,876	35,233	14.8%	0.8%
White	17,510,127	18,286,288	776,161	4.4%	18.2%
Total	26,258,600	30,515,711	4,257,111	16.2%	

Source: Paul R. Campbell, Population Projections for States by Age, Sex, Race, and Hispanic Origin: 1995 to 2025, PPL-47 (Washington, D.C.: U.S. Government Printing Office, 1996), as reported in *American Demographics*, February 2004, p.43.



Teen Cell Phone Usage

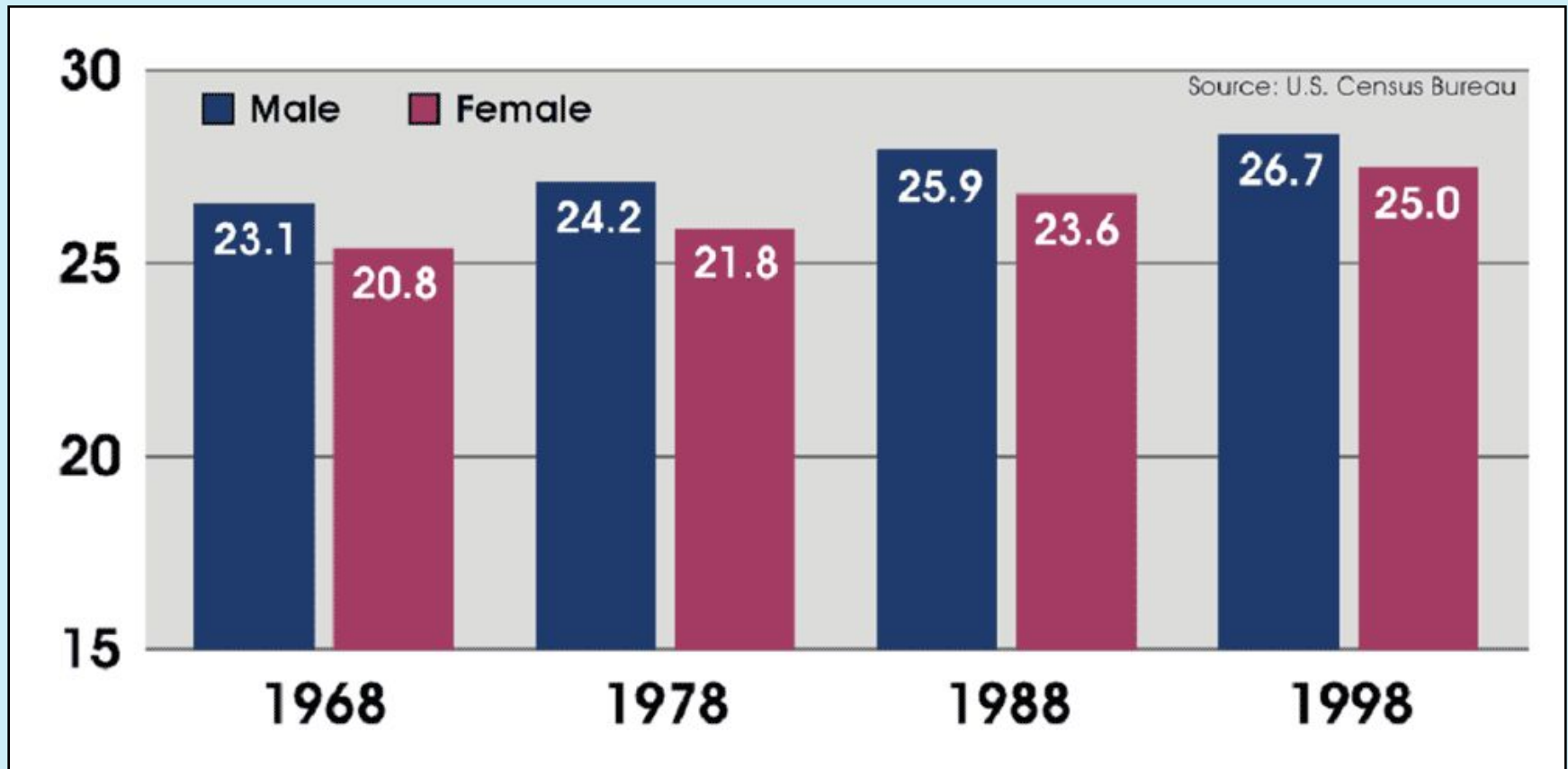
Carrier	Teen Subscribers as Percent of Total Subscribers
AT&T Wireless	12.5%
Cingular Wireless	13.0%
Nextel Communications	5.6%
Sprint PCS	16.7%
T-Mobile	14.4%
Verizon Wireless	8.9%

Source: Adventis as reported in *American Demographics*, May 2004, p.10.

Changes in Median Age of First Marriages for Men and Women



How does the aging of first-time brides and grooms affect marketers of wedding-related products?



Source: "Holding Out," *American Demographics*, June 2001, p. 55.



Households and Spending by Age

Age of Head of Household	Percentage of Households	Percentage of Consumer Expenditures
Under 25	8%	3%
25-34	17%	17%
35-44	22%	27%
45-54	20%	27%
55-64	14%	15%
65-74	10%	7%

Source: Consumer Expenditure Survey as reported in *American Demographics*, May 2004, p.36.

Step 2: Determine Which Segmentation Variables to Use (cont'd)

- Geodemographic Segmentation
 - Marketing segmentation that clusters people in zip code areas and smaller neighborhood units based on lifestyle and demographic information
- Micromarketing
 - An approach to market segmentation in which organizations focus precise marketing efforts on very small geographic markets

Step 2: Determine Which Segmentation Variables to Use (cont'd)

- Psychographic Variables
 - Personality characteristics
 - Marketers appeal to positive/favorable personal characteristics to influence the purchase decision.
 - Motives
 - Marketers use individuals' differing purchase motives to segment a product market.
 - Lifestyles
 - Marketers segment markets according to how individuals choose to spend their time in various activities, their income, their interest and opinions, and their education.

Step 2: Determine Which Segmentation Variables to Use (cont'd)

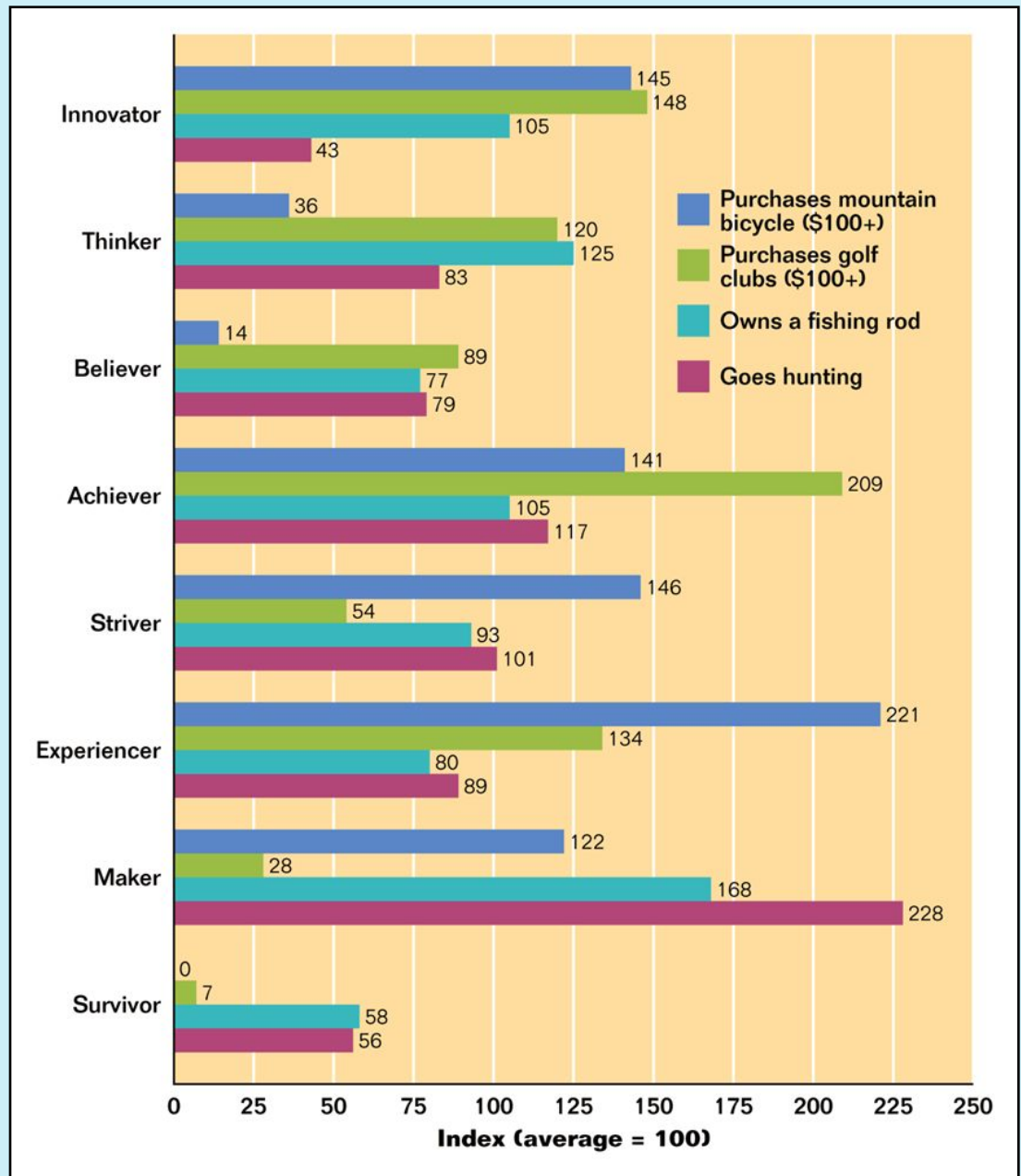
- Behavioristic Variables
 - Benefit segmentation
 - The division of a market according to benefits that customers want from the product
 - Individuals purchase and use products that provide them with benefits that meet their needs.
 - Effective segmentation requires:
 - Benefits of the product be identifiable
 - Benefits actually divide market into segments
 - One or more segments be accessible to the marketing effort



Debate Issue

- Makers of athletic shoes use benefit segmentation. For the average shoe buyer, are the performance benefits real?

VALS™ Types and Sports Preferences



Source: VALS™ Program. SRI Consulting Business Intelligence. Reprinted with permission.

FIGURE 8.6

Step 2: Determine Which Segmentation Variables to Use (cont'd)

- Variables for Segmenting Business Markets
 - Geographic location
 - Location affects the level of product demand.
 - Type of organization
 - Variations in firms' characteristics leads to segmentation by type.
 - Customer size
 - Larger customers strongly influence how they are treated in the marketplace.
 - Product use
 - Firms use basic inputs in ways different from one another.



Class Exercise

You have just received a sizable inheritance and after giving part of it to charity, you now have \$500,000 to begin a new retail operation in your local area. What kind of operation will you open?

1. What market or segment of a market exists in your area with unfulfilled needs or wants?
2. Briefly describe the nature of the operation you would open to meet the needs of a specific market segment(s).
 - a. Product or service?
 - b. Price range?
 - c. Location?



Class Exercise (cont'd)

3. Will you use a concentrated or a differentiated targeting strategy? Why?
4. What segmentation variables will be useful in describing your target market(s)? Why?



Class Exercise

Identify one or several characteristics or variables that could be used to segment the markets for each of the following products.

1. Recreational vehicles (RVs)
2. Baby food
3. Rolls Royce automobiles
4. Snow tires
5. Hotel rooms
6. Magazines
7. Soft drinks



Class Exercise (cont'd)

8. Movies
9. Shoes
10. Bicycles
11. Air passenger service
12. Cameras
13. Swimsuits
14. Restaurants
15. Snowboards

Step 3: Develop Market Segment Profiles

- Market Segment Profile
 - Describes the similarities among potential customers within a segment
 - Covers demographic characteristics, geographic factors, benefits sought, lifestyles, brand preferences, and usage rates



Step 4: Evaluate Relevant Market Segments

- Sales Estimates
 - Market potential
 - Company sales potential
- Measuring Sales Potential
 - Breakdown approach: top-down analysis
 - Build-up approach: bottom-up analysis
- Competitive Assessment
 - Who, how many, how large, and how strong?
- Cost Estimates
 - The expense of developing a marketing mix
 - Costs of reaching segment relative to competitors' costs



Step 5: Select Specific Target Markets

- Issues in Selecting a Target Market
 - Do customers' needs differ enough to warrant the use of market segmentation?
 - In which market segment(s) should the firm participate?
 - Does the firm have the resources and skills to compete effectively in the target market?





Net Sights

- Being well informed about current developments in the marketplace is crucial when deciding which market segments to target. Bizjournals.com (<http://bizjournals.bcentral.com/>) is a website where marketers can get current and archived top news stories from dozens of regional business journals, as well as information on industry-specific trends and demographics.

Developing Sales Forecasts

- Sales Forecast
 - The amount of a product a company expects to sell during a specific period at a specified level of marketing activities
- Common Forecasting Techniques
 - Executive judgment
 - Based on the intuition of the firm's managers
 - Surveys
 - Sales force forecasting survey
 - Customer forecasting
 - Expert forecasting survey
 - Delphi technique (panel of experts)

Developing Sales Forecasts (cont'd)

- Common Forecasting Techniques (cont'd)
 - Time-series analysis
 - Patterns in historical data yield information for use in trend analysis
 - Trend analysis
 - Cycle analysis
 - Seasonal analysis
 - Random factor analysis



Step 5: Select Specific Target Markets (cont'd)

- Regression Analysis
 - Predicting sales based on the relationship between past sales and one or more variables.
- Market Tests
 - Making a product available in the marketplace and measuring purchases and consumer responses
- Using Multiple Forecasting Methods
 - A combination of forecasting methods may result in greater accuracy

After reviewing this chapter you should:

- Have learned what a market is.
- Understand the differences among general targeting strategies.
- Be familiar with the major segmentation variables.
- Know what segment profiles are and how they are used.
- Understand how to evaluate market segments.
- Be able to identify the factors that influence the selection of specific market segments for use as target markets.
- Be familiar with sales forecasting methods.



Chapter Quiz

1. Which of the following is *not* a requirement or characteristic of a market?
 - a. The ability to purchase a product
 - b. A large number of people or organizations
 - c. The authority to buy a product
 - d. The willingness to use buying power
 - e. The need for a specific product in a specific product category



Chapter Quiz (cont'd)

2. A disadvantage of the concentrated targeting strategy is that
 - a. the firm's financial condition is tied to a single and specialized marketing mix.
 - b. large sales volumes cannot be generated.
 - c. production costs may be higher than with other strategies.
 - d. marketing personnel may become dissatisfied with the limited opportunities provided by this approach.
 - e. marketing costs are often higher than for other strategies.



Chapter Quiz (cont'd)

3. The psychographic variable that includes numerous characteristics related to people's activities, interests, and opinions is
- a. motive.
 - b. social class.
 - c. personality.
 - d. stage in family life cycle.
 - e. lifestyle.



Chapter Quiz (cont'd)

4. In an effort to forecast his firm's sales for the coming year, Henry Thompson takes sales for the last three years and calculates a growth trend. Henry is employing which forecasting method?
- a. Time series analysis
 - b. Executive judgment
 - c. Surveys
 - d. Regression analysis
 - e. Market tests