

# Market Segmentation

## Analyzing Markets

**Market segmentation** is a way of analyzing a market by specific characteristics in order to create a target market. Once that target market is clearly identified, a business can customize its product offerings and marketing strategies to that specific group of potential customers. To accomplish that goal, businesses may segment a market by demographics, psychographics, geographics, and product benefits. With the vast technological resources now available to marketers, all four methods might be used to identify a very specific group of people—a target market. Let's look at each one separately for now.

### ■ Demographics

**Demographics** refers to statistics that describe a population in terms of personal characteristics. These include age, gender, income, ethnic background, education, and occupation. Once marketers know the demographics of a particular market, they can categorize and develop their products to appeal to its members.

**AGE** Marketers can easily use age to segment the market in product categories such as toys, clothing, and food products. For example, toy manufacturers often identify on the packaging the recommended age group for each toy or game. Jeans manufacturers create jeans for toddlers, children, teens, and adults. Cap'n Crunch cereal is targeted to kids, while Kellogg's All Bran cereal is marketed to adults.

When marketers study age, they classify everyone according to certain generations. The reason for this practice is that each generation tends to have common bonds because of their collectively shared experiences. This makes them good market segments to target. The last three generations were the Baby Boom Generation, Generation X, and Generation Y.

The 76 million babies born in the United States between 1946 and 1964 are called the **Baby Boom Generation**. Tracking this group's life pays off for marketers because of its large size. Also, as baby boomers get older, their income and spending power increases. In fact, they control \$2.6 trillion and have about 51 percent of the wealth in the country. Thus, they are prime targets for all types of luxuries and recreational items. Marketers are watching the baby boomers' age—the oldest baby boomers will turn 65 in 2011 and the number of Americans over 65 will nearly double by 2030. The graying baby boomers will certainly remain a strong market for all kinds of products related to an aging population.

# Case Study

## Got Milk?

To get the message to teens to drink milk, MilkPEP and Dairy Management Inc. are using popular athletes as their models in “got milk?” ads. Teenagers’ zeal for collecting milk mustache ads of their favorite sports stars is what marketers are counting on to get across a serious message.

Milk consumption drops in the teenage years, just when teens may need it most. It appears that seven out of ten teen boys and nine out of ten teen girls do not get their daily calcium requirements.

To target teens, the message for the promotion must be viewed as “cool” and the media must reach teens. Using popular athletes in the “got milk?” print and TV ads helps to get the message across. Print ads in *TV Guide*, which is read by 5.4 million teens, was one effective vehicle used to communicate the message.

## Case Study Review

1. Why were “got milk?” ads popular with teens?
2. How can “got milk?” ads target different market segments by age, gender, generation, and ethnic background?

## A MATTER OF ETHICS

3. Is it ethical to use popular athletes to persuade teens to take a specific action? Would it change your opinion if the action were other than “drink milk”?



The more than 40 million Americans born between 1965 and 1976 are called **Generation X**. Many members of Generation X are products of dual-career households or divorced parents. They have been bombarded with media from an early age, therefore the members of Generation X tend to be savvy and skeptical consumers. Generation Xers are better educated than any previous generation, and they are more financially cautious and conservative. They are prime consumers of cosmetics, fashionable clothing, movies, and electronic items. To reach this group, marketers must use sharp images, music, a sense of humor, and a little irreverence.

The 77 million Americans born between 1977 and 1997 are referred to as **Generation Y**. This generation is growing up during a computer revolution. They are accustomed to interactivity and used to doing more than one thing at a time. They strive to be different from their parents, and they are very comfortable using computers and “surfing the net.” This group has \$130 billion in spending power and influences \$250 billion in purchases. It is easy to see why marketers are interested in Generation Y. They want to build brand loyalty by attracting consumers when they are teens. Marketers have learned that teens buy many of their own personal

care products, including deodorant, shampoo, and toothpaste. According to Sony, 60 percent of 12- to 17-year-olds have their own CD players. Teens also do the family shopping and influence big-ticket family purchases, like autos and computers. Therefore, smart marketers target teens. MCI Communications Corp has targeted teens with a collect phone call service 1-800-COLLECT.

**GENDER** Gender helps to create market segments as well. Jockey, a men's underwear company doubled its sales when it entered the women's market with Jockey underwear for women.

Sensor razors for men and new Sensor razors for women, as well as Mennen Speed Stick and Lady Speed Stick demonstrate how companies that traditionally marketed men's products can extend their product lines to enter the women's market. Gender-neutral products may use different advertising media and messages when trying to reach men and women. For example, ads for the Palm Pilot have featured famous professional women when trying to attract the female segment and famous professional men when trying to reach the male market.



■ **Orange Juice—A Gender Neutral Product** Gender neutral products can still segment the market by appealing to males and females with a different ad message. *How did Tropicana Orange Juice, a gender neutral product, target men and women in these two ads?*



**INCOME** Marketers want to know how much money is available for spending on different products. For this reason, they look at two types of income measurement: disposable income and discretionary income.

**Disposable income** is the money left after taking out taxes. Marketers who produce and distribute products that are necessities are interested in changes in consumers' disposable income.

**Discretionary income** is the money left after paying for basic living necessities such as food, shelter, and clothing. Marketers who sell luxury products are interested in changes in consumers' discretionary income.

Marketers also study the different income levels in the United States. In many cases, income levels help to distinguish different socioeconomic groups from one another. The affluent are a small percentage of the population. In 2000, approximately eight million households reported household income of \$100,000 or more. Even though these affluent households are small in number, they account for upwards of half of all discretionary spending in the United States.

**ETHNIC BACKGROUND** The U.S. population is becoming more multicultural and ethnically diverse, mainly as a result of increased immigration. The Caucasian population is declining, while other ethnic populations increase. Combined African-American, Hispanic, and Asian-American populations make up 28 percent of the U.S. population. By 2025 these ethnic groups will represent 37.2 percent of all Americans (see Figure 2-3 on page 28). Let's take a look at these growing markets.

African-Americans number approximately 35 million, represent 12.2 percent of the total population, and spend roughly \$400 billion annually.

To reach the African-American market, businesses may use ethnically targeted magazines, such as

**WORLD MARKETING**

**¡Yo Quiero Taco Bell!**

Advertising helped it to become a Mexican fast-food restaurant. In addition to its \$5 billion. In addition to its campaign featuring a talking manny integrated many other things. They include offering talking manny store premiums and entering into agreements with major retailers to sell backpacks, T-shirts, and more Chihuahua. Taco Bell's advertising campaign has proven to be successful.

**Locally**  
Taco Bell's advertising targeting the ethnic group? Why

*Essence* and *Black Enterprise*. Businesses have learned that to effectively reach this market they must back up promotional activities with community support. An example is Maybelline, who formulated the Shades of You line of cosmetics for African-American women. The company also runs Black History Month promotions and has worked with The Coalition of 100 Black Women, a national organization dedicated to improving the lives of women.

Understanding the culture and religion of an ethnic group is important. For example, J.C. Penney utilized the African-American tradition of wearing white to church on the fifth Sunday of a month to promote white suits in African-American women's magazines. That promotion helped to sell out white suits in the chain's urban locations.

Hispanics number approximately 32 million, representing over 11 percent of the U.S. population. Hispanics will surpass African-Americans as the largest U.S. ethnic group by 2010.

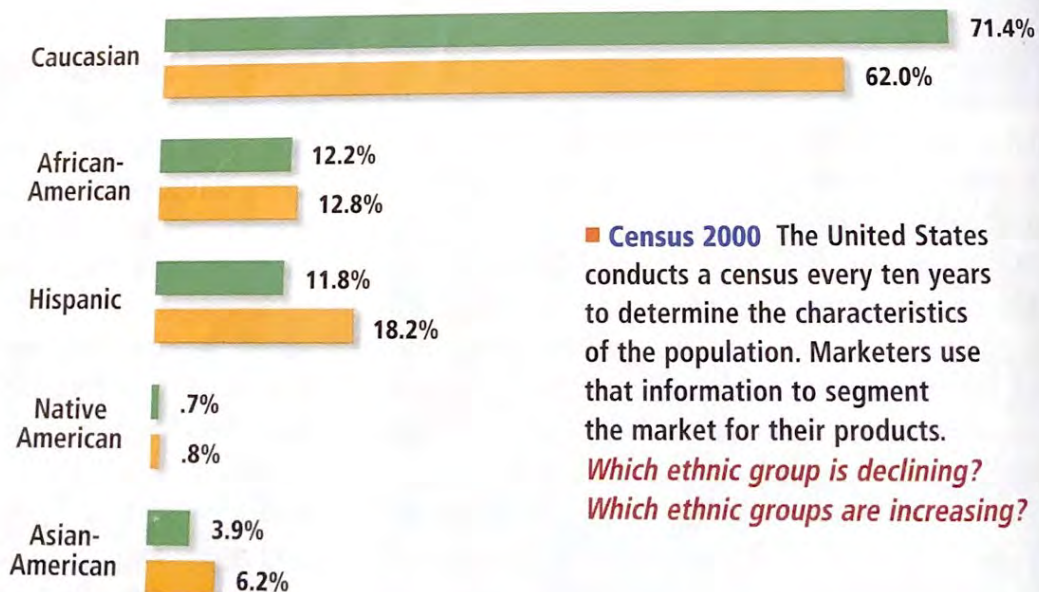
Marketers would be wise to understand that the Hispanic culture is diverse and comprises 21 nationalities, including Mexican, Spanish, Puerto Rican, Cuban, Dominican, Caribbean, and others of Central and South American ancestry. Approximately 70 percent of Hispanics are Roman Catholics. Hispanic

**FIGURE 2-3**

**Population Projection**

■ Year 2000 ■ Year 2025

SOURCE: U.S. CENSUS



■ **Census 2000** The United States conducts a census every ten years to determine the characteristics of the population. Marketers use that information to segment the market for their products.

*Which ethnic group is declining?*  
*Which ethnic groups are increasing?*



■ **Who's Watching TV?** Marketers of products for the Hispanic population look for Spanish-speaking media to get their message out. Univision has become America's number one growth network by catering to a Spanish-speaking audience. *Why is television a good medium to use when targeting the U.S. Hispanic population?*

culture centers around the family, and these families tend to be larger than the U.S. average (3.4 people vs. 2.6 for all U.S. families). Food marketers know that when they sell products in Hispanic neighborhoods, the package sizes must be big.

To reach Hispanics, marketers should consider using Spanish-language television. Statistics show Hispanics watch television approximately four hours on weekdays, and most of that time is spent watching Spanish-language programming. Two magazines that can be used to target Hispanics are *People en Espanol* and *Latina*. Radio advertising is also a good medium to reach Hispanics because music is a major part of the Latino culture.

The Asian-American population numbers a little more than 11 million, representing almost 4 percent of the total U.S. population. Americans of Asian descent are the fastest-growing and most affluent population group. Like Hispanics, Asian-Americans are a diverse ethnic group. This group includes

16 different nationalities, including Chinese, Filipino, Japanese, Asian-Indian, Korean, and Vietnamese.

To reach the Asian-American market, it is important to understand its culture and priorities. More Asian-Americans are college graduates than any other ethnic group, and a higher percentage hold professional jobs. Marketers of financial services, computers, telecommunications, and new vehicles may target this segment because Asian-Americans are big consumers of such commodities.

Because there is no national broadcast media for Asian-Americans, marketers can use less costly local media to reach them. Asian-Americans prefer to communicate in their native languages, so it is very important for marketers to understand their languages. When advertising a banking institution, the major theme, such as financial security, can be the same for Chinese and Koreans, but the copy and models must be different to reflect the two groups.

## ■ Psychographics

**Psychographics** involves studies of consumers based on social and psychological characteristics. People's attitudes and what they value are of importance to marketers, as are their lifestyles. Consumer lifestyles, which include how people spend their time and money, are closely related to people's attitudes and values. If you made a list of all of your present activities, you would come to realize just how many market segments can be identified by psychographics. It is amazing how similar the attitudes are of people who share common interests. You simply need to begin by looking at people involved in certain sports, such as tennis, golf, skiing, and boating, to see similarities in the participants. Magazine publishers recognize psychographic similarities and publish magazines geared to specific consumer interests. *Golf Digest*, *Photography*, *Ski*, and *Sports Illustrated* are just a few examples.

**TRENDS** In addition to segmenting people by their leisure time interests and membership in a given generation, marketers observe changes in households, the economy, politics, and the workplace. These factors contribute to changes in personal attitudes about health, time, fun, and living in general.

Health, eating properly, and exercising are trend-setting issues for marketers in the twenty-first century. A promotional campaign for Kellogg's Special K cereal tells women to "Reshape Your Attitude" by eating sensibly and encourages them to establish a healthier lifestyle. A walk through the supermarket will also tell the story, as more and more foods come with claims that they are organically grown, low-fat, fat-free, low-sodium, vitamin-enriched, calcium-fortified, and even cholesterol-lowering.

Work, fun, and indulgence are also key lifestyle issues. A current workplace trend is dressing down. Businesses call it business casual attire. Wisk with Wrinkle Reducer is a product that addresses that trend, as casual clothing generally requires more ironing.

Many Americans are being encouraged to take a break and indulge themselves. Ben & Jerry's tells consumers to "Stop and taste the ice cream." The ice cream company is suggesting "work stoppages,"

## Life In The Diverse Marketplace

### What Does Yes Really Mean?

In many Asian societies, it is impolite to say "no," so "yes" has multiple meanings. "Yes" can mean that listeners recognize that they are being spoken to, although they don't understand what is being said, or the speaker's words are understood, but not agreed to. It can also mean that something is understood, but other people must be told of it before any final decision is made. "Yes" can also mean that an offer is accepted, but if the situation were to change, their "yes" would also be subject to change.

### Thinking Critically

Why is having a keen cultural ear important in cross-cultural marketing?

so workers can take an indulgence break during the workday. Häagen Dazs ice cream ran a similar promotion called "Passport to Indulge."

Time has become a commodity to market. With the stresses of work, time has become a luxury and vacations have become the number one luxury enjoyed by Americans. Enjoying one's leisure time has become paramount. Proof of this trend can be seen in the increase in spending on entertainment, including concerts, museums, theater, theme parks, sports, toys, and electronics.

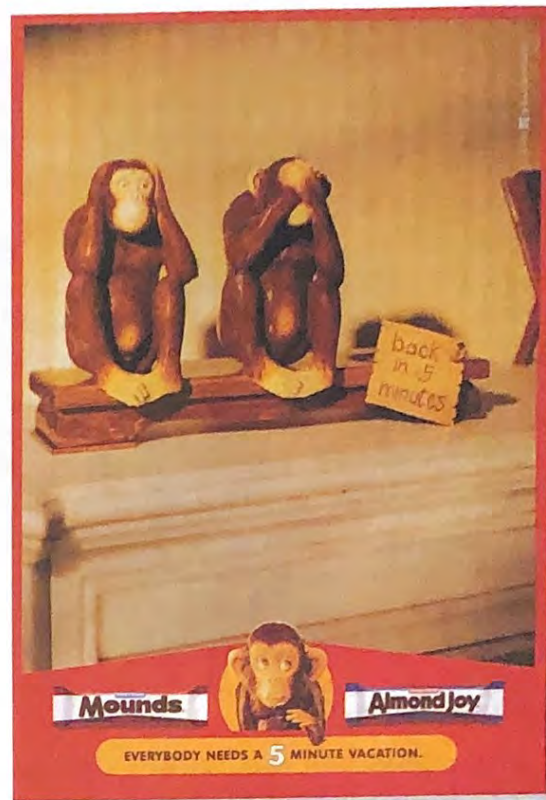
Upscaling is another trend that has become apparent due to the strong economy. It seems more and more people (upper and middle classes alike) desire the better things in life. In 1975 only 30 percent of Americans said a lot of money was part of a good life; now 63 percent do. Name brand products and premium versions of everyday products are being sold in discount stores. Architect and designer Michael Graves has designed hundreds of everyday items that are sold at Target stores. The luxury market is definitely a consumer trend, and individuals define themselves through the products and brands they buy.

## ■ Geographics

The term **geographics** refers to segmentation of the market based on where people live. To segment a market geographically, you can refer to local, regional, national, or even global markets. Some businesses, by their very nature, segment their market locally. For example, a small independent restaurant generally caters to people who live in its vicinity. There are products that are marketed nationally and internationally, such as Coca Cola and Pepsi. Marketers study where their customers live in order to decide which media to use and where to market their products.

Marketers also study geographics in relation to ethnic concentrations. For example, when selecting advertising media to reach the Hispanic market, businesses look at the four states with the highest Hispanic population: New York, Texas, California, and Florida. When segmenting the market for the Hispanic population, the Ford Motor Company created a Spanish language vehicle catalog in 2000 for dealerships in those states.

Where people live is often studied in relation to age, ethnic background, and income. To assist in such study, the U.S. government created Metropolitan Statistical Areas (MSAs). These are specifically defined geographic areas used by the



■ **Need a Vacation?** Two current psychographic trends involve time and indulgence. With the stresses of work, enjoying one's limited free time has become an important commodity. *How did this candy company utilize that trend in this ad?*

## BRIGHT IDEAS

### Wear Your Office

Clothing designers are responding to customers' desire for style in the new digital age by creating clothing with functional pockets for the portable electronic gadgets we carry. Savvy consumers are now sporting cleverly designed clothing with extra pockets to keep their beepers, pagers, cell phones, and palmtops in handy reach. The gizmo-oriented pocket is even starting to be offered in clothing appropriate for the office. Brooks Brothers has responded to the new portability craze by adding cell phone pockets in all outerwear and an extra inner pocket to its suit jackets.

#### Thinking Creatively

**With the technology revolution all around us, what other products could be redesigned to capitalize on the psychographic trend of being connected wherever you go?**



government in the distribution of federal aid. Marketers use MSAs to target consumers and launch promotional campaigns. *Sales and Marketing Management* magazine reports on where people are moving and how much spending power residents have in the various MSAs.

The propensity to use and buy products in a given region is also an important issue to marketers, especially when introducing a new product. Marketers determine which geographic areas would be most receptive to a new product using sales data coupled with psychographic data. For example, a new energy drink, Torq, was first introduced in California and the Pacific Northwest, where research indicated consumers were more receptive to "energy" drinks with special ingredients, like ginseng. Psychographic data show that trendsetters tend to be located in these regions of the country.

### ■ Product Benefits

Segmenting a market by product benefits involves studying consumers' behaviors, needs, and wants. Companies market benefits, not simply the physical characteristics of a product. For example, sports shoe manufacturers identify separate market segments for people who jog, walk, play tennis, or do aerobics. Each activity requires a shoe with a particular design. Thus, manufacturers market

different shoes for each segment. A shampoo manufacturer may segment the market according to people with different types of hair (oily, dry, or normal), people who have dandruff, or people who wash their hair frequently.

**MASS MARKETING** When products have universal appeal and few features to differentiate them from competitors, mass marketing is used. Mass marketing involves using a single marketing plan to reach all customers. Since most products (even ones with universal appeal) can be segmented by demographics, psychographics, geographics, or product benefits, mass marketing is not as popular as it once was. Even products that use one slogan in their advertising, such as "Got Milk" ads, will use different models or themes to reach different segments of the market. The advantage of market segmentation is that products can be targeted more effectively. The disadvantage is that marketers must be more creative and spend more money getting the message across in different media to reach each segment. The advantage of mass marketing is that the costs involved in the original ad campaign are less since only one theme is used. The disadvantage is that the theme must be very general or it may not be understood by all potential customers.

## 2.2 ASSESSMENT

### Reviewing Key Terms and Concepts

1. What do demographics, psychographics, geographics, and product benefits have in common?
2. How can a market be segmented using demographics?
3. What does the study of psychographics involve?
4. Provide one example of how a marketer can segment a market based on product benefits.
5. Of what significance are the combined African-American, Hispanic, and Asian-American populations to marketers?

### Thinking Critically

6. How can Procter and Gamble market household products to a male market segment? What problems might P&G encounter in that endeavor?

### Integrating Academic Skills

7. **COMMUNICATION** Write an ad campaign theme for Sunsweet Prunes to target baby boomers who are looking for healthy foods. Develop a second campaign theme to target a younger generation with Sunsweet Prunes.