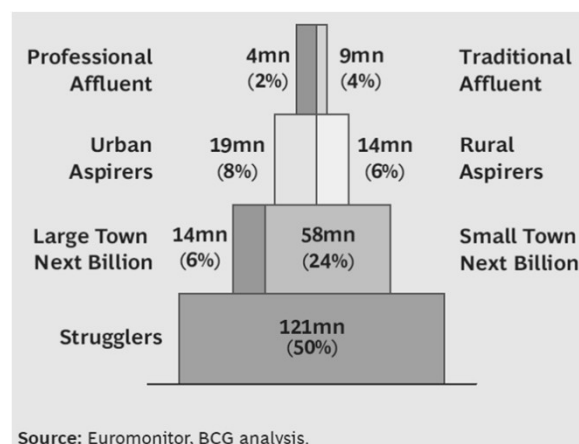




# Segmentation and Targeting



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## Segmenting Indian Consumers



		
	<b>Professional Affluent</b>	<b>Traditional Affluent</b>
	Satisfied and Occasionally Indulgent	Conservative and Future Oriented
Household	Husband, wife and son, ages 35 and 32 and 6	Husband, wife, daughter and husband's mother, ages 39, 37, 14 and 62
Occupation	Husband is a senior sales manager at a leading paint company; wife works in the administration department of a trading company	Husband is a trader of iron and steel rods; wife is a homemaker
Home	Own two-bedroom apartment in Mumbai	Own three-bedroom apartment in Mumbai
Annual Household Income	US\$ 40,000	US\$ 35,000 to US\$ 40,000
Spending as Share of Income	50 to 60 percent	45 to 50 percent
Household Budget		
◊ Food	20 percent	20 percent
◊ Education and leisure	20 to 25 percent	15 to 20 percent
◊ Clothing	10 to 15 percent	10 to 15 percent
◊ Trans. and comm. <sup>1</sup>	10 to 15 percent	10 to 15 percent
◊ Housing	20 percent	10 to 15 percent
◊ Health	5 percent	5 to 10 percent
◊ Other <sup>2</sup>	15 to 20 percent	10 to 15 percent
Favorite Brands	Body Shop and Adidas shower products, Surf Excel, Lizol, Olay cream, and Oreo, Good Day biscuits	Cinthol, Himalaya, and Pears soap, Rin, Amway cleaner, Olay face cream, and Pickwick and Britannia biscuits
Favorite Grocer	Big Bazaar, Sahakari Bhandaar, Reliance Fresh	DMart for monthly shopping and local shops for quick purchases

		
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Occupation	Husband is a senior sales manager at a leading paint company; wife works in the administration department of a trading company	Husband is a trader of iron and steel rods; wife is a homemaker
Profile Highlights	<ul style="list-style-type: none"> <li>• The husband is comfortable taking loans and the couple regularly uses credit cards</li> <li>• They have investments in mutual funds, stocks, land, gold, and insurance policies for their children</li> <li>• The couple likes to indulge and purchase luxury brands; They have a vacation home and take at least one overseas trip yearly</li> <li>• They own a wide range of branded durables, ranging from televisions to coffee makers and vacuum cleaners</li> </ul>	<ul style="list-style-type: none"> <li>• The family owns two houses, without availing a mortgage. The couple rarely use credit cards</li> <li>• They have investments in gold, which the husband considers to be safer than other alternatives</li> <li>• The husband does not like to spend money on expensive brands for clothes and personal care. His wife, likes to buy some expensive brands</li> <li>• Most of their vacations have been in India</li> <li>• The family owns numerous durables such as a television, microwave etc.</li> </ul>

Source: BCG interviews.  
<sup>1</sup>Transport and Communication  
<sup>2</sup>Including loan payments.

		
	<b>Urban Aspirer Class</b>	<b>Rural Aspirer Class</b>
	Smart Spending, Trading Up	High Aspirations, Cautious Spending
Household	Husband, wife and two sons, ages 39, 30, 11 and 9	Husband, wife and three sons, ages 40, 37, 14, 12 and 11
Occupation	Husband is a high-school teacher; wife is a homemaker	Husband is a wholesaler of staples in the village; wife is a high-school teacher
Favorite Grocer	Local shops	Local shops
Profile Highlights	<ul style="list-style-type: none"> <li>• The couple dreams to have their own house and car</li> <li>• The wife trades up and trades down within categories — buys branded clothing for her children but not for herself or her husband</li> <li>• The husband uses the internet to pay bills, renew life insurance policies, and conduct banking transactions</li> <li>• The family takes five trips a year with friends, within India</li> <li>• Their home is comfortably furnished with durables such as a television, refrigerator, air conditioner etc. from large brands</li> </ul>	<ul style="list-style-type: none"> <li>• The couple is cautious about spending to fund their future dreams</li> <li>• They have been saving money to renovate their house and buy durables, rather than taking a loan</li> <li>• The husband prefers to visit a bank branch for basic transactions rather than consider mobile banking</li> <li>• The family has insurance policies for their children, modest savings, an inherited piece of land, and gold and silver</li> <li>• They often travel within India to visit relatives or attend family functions</li> <li>• They own basic durables such as a television, refrigerator, and mobile phone</li> </ul>

Source: BCG interviews.  
<sup>1</sup>Transport and Communication  
<sup>2</sup>Including loan payments.

## Many Market Segmentation Projects Typically Provide....

*General Insights...*



*But No Action Plans ...how to serve them...targeting*

## Done Often, Often Done Wrong

- 81% of senior executives say it is critical tool for achieving market success
- 59% of companies run a major segmentation initiative at least once in 2 years
- 87% execute one at least once every 3 years
- Only 14% say they used it effectively and got value
- Companies which successfully execute on a segmentation strategy post annual profit growth of about 15% versus for companies that don't

## Theory of Segmentation

- There are 2 extreme views –
- (1) every person is essentially similar (in needs, perceptions and perhaps, means). So **using broad averages** to represent the entire population *works*.
- (2) Every person is different and must be approached **separately**.
- **Q:** So, what are our options at this point?
- Segmentation essentials:
  - Segmented *units*\* must be **similar within** a segment and **different across** segments on objective criteria

## How We Think About Segmentation

- Instinctively, firms think about target market segments that are:

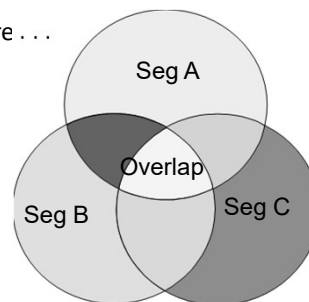
- Easily defined
- Clear-cut
- And reachable . . .



## Reality of Market Segments

- In practice, market segments are . . .

- Hard to define
- Fuzzy, and
- Overlapping



- And, customer needs evolve over time.

## Segmentation Criterion

- How do firms usually segment B2C or B2B consumers?
  - Demographics    Age, income, marital status, family type & size, gender, social class, etc.    Industry, size, location, current supplier(s), technology utilization, etc.
  - 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.
- Common Segmentation techniques
  - K-means clustering, Hierarchical clustering etc.

## For Example: Market Segments

- Table represents the market for industrial product

Organization size	Price sensitive	Durability sensitive	Service sensitive
Large	30	20	50
Medium	50	20	30
Small	20	60	20

- What can we conclude?

## Segmentation Consists of 2 Parts

- Step 1: Segment the market using basis variables (e.g., customer needs, wants, benefits sought, problem solutions desired, preferences, values, usage situations).
- Step 2: Describe the market segments identified using variables that help the firm understand how to serve those customers (e.g., shopping patterns, geographic location, clothing size, family size), how to talk to these customers (e.g., media preferences and use, attitudes, activities, interests, opinions), and buyer switching costs (costs associated with changing products or suppliers).

## Segmentation vs. Identification

### Distinguish Between Bases and Descriptors

- *Bases*—characteristics that tell us why segments differ (e.g., needs, preferences, decision processes).
- *Descriptors*—characteristics that help us find and reach segments.

#### (Business markets)

Industry  
Size  
Location  
Organizational  
Structure

#### (Consumer markets)

Age/Income  
Education  
Profession  
Life styles  
Media habits

- *Reachability* – media consumption, distribution channel

## Variables to Segment and Describe Markets

	Consumer Markets	B2B Markets
<b>Segmentation Bases</b>	Needs, wants, benefits, solutions to problems, usage situation, usage rate.	Needs, wants, benefits, solutions to problems, usage situation, usage rate, size*, industry*.
<b>Descriptors</b>		
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.

## Segmentation in Practice

- Segmentation by itself is not useful unless it can be acted upon. That is, unless we can identify and reach the segments (in other words, *target* them).
- Good discriminant variables are (i) easily observed markers on individuals (ii) predict segment membership well.
- Traditionally, demographics made for good discriminant variables. E.g., Age, Edu, Income, Ethnicity, Zip Code etc.



## Segmentation in NutShell

We need to define “segments” not as groups of people or firms (although that’s what they are) but as:  
Distinct customer needs that has the potential to be profitably served

## Targeting Consists of 3 Steps

- Step 3: **Evaluate the attractiveness of each segment** using variables that quantify the demand levels and opportunities associated with each segment (e.g., growth rate), the costs of serving each segment (e.g., distribution costs), the costs of producing the offerings the customers want (e.g., production and product differentiation costs), and the fit between the firm’s core competencies and the target market opportunity.
- Step 4: **Select one target segment** to serve on the basis of their profit potential and fit with the firm’s corporate strategy; determine the level of resources to allocate to those segments.
- Step 5: Find and reach targeted customers and prospects within targeted segments in a variety of ways, including direct mail contact, advertising in selected media vehicles, targeted sales force presentations, and the like.

## Example Criteria for Determining Which Segments to Serve

Criterion	Examples of Considerations
<i>I. Size and Growth</i>	
1. Size	• Market potential, current market penetration
2. Growth	• Past growth forecasts of technology change
<i>II. Structural Characteristics</i>	
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
<i>III. Product-Market Fit</i>	
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

## Segmentation Process Summary

1. Articulate a rationale for segmentation (i.e., why are we segmenting this market?).
2. Select a set of needs-based segmentation variables most useful for achieving the goals.
3. Select a cluster analysis procedure for aggregating (or disaggregating customers) into segments.
4. Group customers into a defined number of different segments and describe them with descriptor data.
5. Target the segments that will best serve the firm's objectives, given its capabilities and the likely reactions of competitors.