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Rediscovering Market Segmentation

Key ideas from the Harvard Business Review article By Daniel Yankelovich, David Meer

The Idea in Brief

Fifty-nine percent of recently surveyed companies executed a major market-segmentation initiative in the previous two years. Yet only 14% derived real value from the exercise. What's wrong with market segmentation?

Segmentation typically focuses on consumer "types" (High-Tech Harry, Joe Six-Pack). This categorization may help advertisers strengthen brand identity by developing messages that speak to different consumer groups. But it doesn't tell companies which products or services consumers might actually buy, so it can't help firms decide which new offerings to develop.

To get more from segmentation, Yankelovich and Meer suggest several tactics. For example, tailor your segmentation to a strategic decision. (Do you want to reduce customer defections? Extend a brand?) Define segments based on consumers' *actual* purchasing behavior (heaviness of use, brand switching) and their *likely* behavior. And redefine segments as market conditions change.

Apply such tactics, and you respond promptly to rapidly shifting market realities. You gain insight into how to compete. And you extract maximum value from scarce marketing resources.

The Idea in Practice

To segment markets effectively, apply these tactics:

- **Identify a strategic decision that would benefit from information about different customer segments.** For instance, a fast-food company is considering developing healthier menu alternatives. A personal-care company wants to extend a soap brand into deodorants.
- **Determine which customers drive profits.** Understand what makes your best customers so profitable, then identify segments that share at least some of those characteristics.

  A luggage company finds that many people who buy its highest-margin carry-on bags are international flyers. It thus identifies international travelers as a promising target segment.
- **Analyze actual and potential purchasing behavior.** Current behaviors (including heaviness of use, brand switching, and channel selection) can help you predict future behaviors using a statistical technique called conjoint analysis. Through such analysis, you present consumers with combinations of product features and ask them how willing they'd be to purchase the product in

question if particular attributes were added or removed, or if the price changed. You then segment based on your findings.

A pet food manufacturer used conjoint analysis to determine which features to include on food packaging (such as a resealable opening and a handle on 25-pound bags). It segmented consumers according to their degree of price sensitivity and desire for convenience. It then redesigned its packaging with added features that would maintain existing customers *and* attract new ones. And it jettisoned features whose cost would have required charging too high an overall price.

- **Segment in ways that make sense to senior management.** Resist any urge to flaunt your technical virtuosity by dissecting segments into ever finer slices containing improbable combinations of traits. Instead, define segments in ways that make intuitive sense to senior managers. They'll be more likely to accept your research and to fund resulting initiatives.
- **Revise your segmentation as market conditions change.** Unlike personality traits, which usually endure throughout life, consumers' attitudes, needs, and behavior can change quickly with new market conditions, so be willing to redraw your segments to reflect new realities.

  At the dawn of the Web, many companies segmented according to consumers' degree of online experience. "Early Adopters" felt comfortable exploring the Web on their own; "Newbies" sought extensive support. As newcomers became scarcer, companies segmented using other criteria, such as consumers' concerns about online security and interest in games or parental control devices.

Further Reading

Articles

New Criteria for Market Segmentation

Harvard Business Review

March 1964

by Daniel Yankelovich

It was in this classic article that Daniel Yankelovich first made the case for segmentation based on criteria other than demographic categories. The author selects ten examples of consumer and industrial products and examines how they are affected by seven types of nondemographic segmentation: 1) how buyers define value, 2) how susceptible they are to changing their minds, 3) how they define the product's purpose, 4) what kind of product styling their prefer, 5) how they view change and technological progress, 6) what individualized needs they want to fulfill, and 7) how confident they are in their ability to choose among different offerings.

The Customer Has Escaped

Harvard Business Review

November 2003

by Paul F. Nunes and Frank V. Cespedes

The authors affirm the importance of understanding actual purchasing behavior and updating consumer segments as buying patterns change. For example, the way consumers use distribution channels is changing. They're increasingly selecting high-touch channels (such as phoning a travel agent) to gather information and then using low-touch channels (online ticket buying) to make the actual purchase far more cheaply. This behavior leaves companies with "stranded assets," such as highly trained but underused salespeople. To avoid this costly scenario, companies should stop designing distribution channels to capture targeted demographic segments. Instead, they should design channels to reflect different segments--such as shoppers who purchase from the same places repeatedly; those who "channel surf" extensively before buying at the lowest possible price; and those who gather information in many channels and then buy in their favorite channel, regardless of price.

About the Authors

Daniel Yankelovich is chairman of Viewpoint Learning, a firm that promotes problem solving through dialogue, and DYG, a market research firm that tracks social trends. He is based in San Diego.

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