A segmentation strategy should be judged on three dimensions. First, can a competitive offering be developed and implemented that will appeal to the target segment? Second, can the appeal of the offering and the subsequent relationship with the target segment be maintained over time despite competitive responses? Third, is the resulting business from the target segment worthwhile, given the investment required to develop and market an offering tailored to it? A successful segmentation strategy creates a dominant position within a market that competitors will be unwilling or unable to attack successfully.

How Should Segments Be Defined?

The task of identifying segments is difficult because in any given context there are literally hundreds of ways to divide up the market. Typically, the analysis will consider five, ten, or more segmentation variables. To avoid missing a useful way of defining segments, it is important to consider a wide range of variables. These variables need to be evaluated on the basis of their ability to identify segments for which different strategies are (or should be) pursued.

The most useful segment-defining variables for an offering are rarely obvious. Among the variables frequently used are those shown in Figure 2.4.

The first set of variables describes segments in terms of general characteristics unrelated to the product involved. Thus, a bakery might be concerned with geographically defined segments related to communities or even neighborhoods. A consulting company may specialize in the hospitality industry. A fast food firm in the United States may target Hispanics because this segment is projected to triple in size by 2050.

CUSTOMER CHARACTERISTICS	
• Geographic	• Small Southern communities as markets for discount stores
• Type of organization	• Computer needs of restaurants versus manufacturing firms versus banks versus retailers
• Size of firm	• Large hospital versus medium versus small
• Lifestyle	• Jaguar buyers tend to be more adventurous, less conservative than buyers of Mercedes-Benz and BMW
• Sex	• Mothers of young children
• Age	• Cereals for children versus adults
• Occupation	• The paper copier needs of lawyers versus bankers versus dentists
PRODUCT-RELATED APPROACHES	
• User type	• Appliance buyer—home builder, remodeler, homeowner
• Usage	• Concert—season ticket holders, occasional patrons, nonusers
• Benefits sought	• Dessert eaters—those who are calorie-conscious versus those who are more concerned with convenience
• Price sensitivity	• Economy-sensitive Honda Civic buyer versus the luxury Mercedes-Benz buyer
• Competitor	• Users of competing products
• Application	• Professional users of chain saws versus homeowners
• Brand loyalty	• Those committed to Heinz ketchup versus price buyers

Figure 2.4 Examples of Approaches to Defining Segments

Demographics are particularly powerful for defining segments, in part because a person's life stage affects his or her activities, interests, and brand loyalties. Another reason is that demographic trends are predictable. Such trends are discussed in Chapter 5. Gold Violin, recognizing this trend, has established itself as a source of products designed for the active elderly. Specialized items such as a talking watch, a bed-vibrating alarm clock, a doorknob turner, and a lighted hands-free magnifier (all with tasteful, attractive designs) are just some of the Gold Violin products that appeal to this long-ignored demographic segment.

Another demographic play is represented by the Toyota Scion xB, which is a small car with a funky design (tall, angular, and boxy), and the Scion iB, the world's smallest four seat car, both aimed at Generation Y, the so-called echo boomers. The average age of a Toyota buyer is 48, the company's inexpensive entries are considered boring, and Scion is an effort to become relevant and interesting to a key target segment. To create a buzz around Scion xB when it was introduced, Toyota targeted the 15 percent of the echo-boomer target market seen as "leaders and influencers"—those who encourage their peers to gravitate to a new style, whether it be in music, sports, or cars.[1]

The second category of segment variables includes those that are related to the product. One of the most frequently employed is usage. A bakery may follow a very different strategy in serving restaurants that rely heavily on bakery products than in serving those that use fewer such products. A manufacturer of lawn equipment may design a special line for a large customer such as Walmart but sells through distributors using another brand name for other outlets. Four other useful segment variables are benefits, price sensitivity, loyalty, and applications.

Benefits

If there is a most useful segmentation variable, it would be benefits sought from a product, because the selection of benefits can determine a total business strategy. In gourmet frozen dinners and entrées, for example, the market can be divided into buyers who are calorie conscious, those who focus on nutrition and health, those interested in taste, and price-conscious buyers. Each segment implies a very different strategy.

The athletic shoe industry segments into serious athletes (small in number but influential), weekend warriors, and casual wearers using athletic shoes for street wear. Recognizing that the casual wearer segment is 80 percent of the market and does not really need performance, several shoe firms have employed a style-focused strategy as an alternative to the performance strategy adopted by such firms as Nike.

Price Sensitivity

The benefit dimension representing the trade-off between low price and high quality is both useful and pervasive; hence, it is appropriate to consider it separately. In many product classes, there is a well-defined breakdown between those customers concerned first about price and others who are willing to pay extra for higher quality and features. General merchandise stores, for example, form a well-defined hierarchy from discounters to prestige department stores. Automobiles span the spectrum from the Honda Civic to the Buick LaCrosse to the Lexus 460. Airline service is partitioned into first class, business class, and economy class. In each case, the segment dictates the strategy.