

INLS 210-96

Electronic Business for  
Information Professionals



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Market Segmentation



# Today's Readings

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# Today's Web Sites

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- Forrester Research



# Strategic Marketing Planning Process

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- Corporate mission/Objectives
- Identify marketing opportunities
- **Segment broad markets**
- Select target markets
- Position the product/service
- Set quantitative goals
- Develop the marketing mix



# Early Segmentation

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- Largely intuitive and pragmatic
- Based on direct experience
- Relied upon knowledge of:
  - Demographics
  - Usage habits
- Identify similarities and differences



# Modern Segmentation

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- Uses sophisticated statistical techniques
- Relies upon consumer survey research
- Identifies patterns of:
  - Demographics
  - Needs
  - Values
  - Attitudes
  - Lifestyles
  - Behaviors



# Conceptual Framework

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- Priori-based
  - Develops segments of customers based upon information known or believed **in advance** of any survey research
- Post hoc/Customer - based
  - Looks at survey research results for specific characteristics of **customers** that differentiate them in meaningful ways



# Optimal Segments

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- Mutually exclusive
- Exhaustive
- Measurable
- Reachable
- Substantive
- Actionable
- Reproducible



# Procedure for Segmentation

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- Decide on segmentation variables
- Decide on data analysis method
  - Hierarchical, partitioning, CHAID
- Apply method to identify several segments
- Profile segments using segmentation and other variables
- Select target segments



# Segmentation Variables

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- Decision on variables influenced by marketing strategy
  - Identify heavy category users
  - Greatest message impact
  - Likely targets for new technology, products, or services



# Segmentation Variables

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- Types of Segmentation Variables
  - Demographics
    - Age, sex, income, education, occupation, etc.
  - Geodemographics
    - PRIZM codes
  - Product-related behaviors & attitudes
  - Lifestyle/Psychographics
    - Activities, interests, opinions, personality, values



# Statistical Method

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- Cluster analysis: groups individuals or organizations together in such a way that the components in the clusters are more similar to one another than they are to the components of other clusters
  - Hierarchical partitioning
  - Nonhierarchical partitioning



# Statistical Method

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- Hierarchical Method
  - starts by measuring similarity between each respondent and all other respondents on the set of basis variables
  - calculates set of distances between respondents
    - 1000 respondents = 2000 to 8000 calculations



# Statistical Method

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- Hierarchical Method
  - finds a pair of similar respondents - most similar on all variables
  - adds other respondents based on similarity to first pair, and so on, and so on, and so on,
  - until all respondents are organized into clusters (linkages are set - cannot switch clusters)
  - user must set number of clusters prior to running program



# Statistical Method

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- Hierarchical Method
  - Method of linkage: Ward's
    - minimizes the within-cluster sums of squared distances among respondents
  - Evaluating clusters
    - inspect dendrogram
    - are the groups distinct on segmentation variables?
    - look at sizes of the groups



# Statistical Method

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- Nonhierarchical Method
  - start with a point in n-dimensional space (K-mean / n based on number of variables)
  - fits cases one by one - matching similarities to point
  - as new cases are added old cluster assignments may change - iterative process



# Statistical Method

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- Nonhierarchical Method
  - Interpretation of solution
    - inspect plot of clusters on segmentation variables - are groups distinct?
    - are scores for clusters on segmentation variables significantly different?
    - do clusters differ significantly on variables not included in cluster?



# Evaluating Segments

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- How attractive is the market segment?
  - Size and growth rate
- Competitors serving the segment
  - how many?
  - how large/strong?
- Segment Structure
  - Threat of substitutes
  - Bargaining power of buyers and suppliers



# Evaluating Segments

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- Fit with company objectives
  - Fit with company strengths
    - resources
    - capabilities
    - skills
    - areas of competitive advantages
- Rank segments on attractiveness



# Internet User Segmentation

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- Peter Clemente *State of the Net*
- IntelliQuest E-Market Segmentation
- Forrester Research



# Clemente *State of the Net*

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- Peter C. Clemente *State of the Net: The New Frontier*
  - Overview of Internet history
  - In-depth profile of Internet users
  - Examination of trends
  - Impact of Internet on traditional media
  - Internet marketing strategies
  - Segmentation analysis from the 1997 American Internet User Survey



# Clemente *State of the Net*

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- Segmentation variables
  - Payment arrangements
  - Primary reasons for using the Internet



# Clemente *State of the Net*

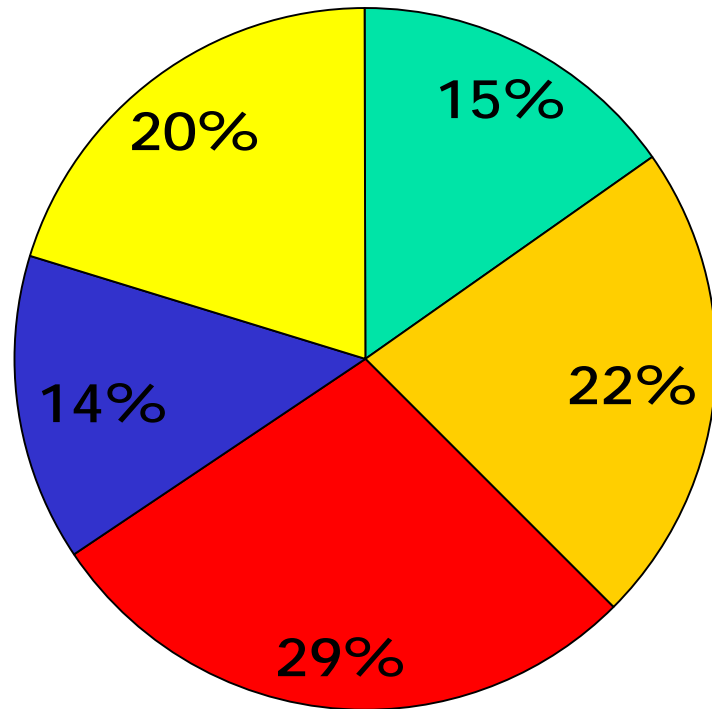
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- Four segments
  - Personal Interest Users
  - Academic Users
  - Corporate Users
  - Occupational Users



# IntelliQuest E-Market

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- Power Buyers
- E-Curmudgeons
- Cautious Shopper
- Generation Plastic
- The Freshmen



# IntelliQuest E-Market

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- Power Buyers
  - Heavy users
  - Use Internet in pre-purchase decisions
  - Males, Younger, Employed Full-time
  - Well educated, Investors



# IntelliQuest E-Market

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- Cautious Shoppers
  - Prefer to purchase online
  - New to Internet
  - Females, 30's to 50's
  - Well educated
  - Research before buying offline



# IntelliQuest E-Market

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- Generation Plastic
  - Will pay with plastic without fear
  - Generation X
  - Split gender segment
  - Young, employed full-time



# IntelliQuest E-Market

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- The Freshmen
  - Need to see merchandise before buying
  - Youngest segment
  - Lower education levels



# IntelliQuest E-Market

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- E-Curmudgeons
  - Suspicious minds
  - Limited Internet usage
  - Lower education, income
  - Highest age



# Forrester Research

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- What matters is the consumer's attitudes towards technology
- What matters is the consumer's motivation for going online



# Forrester Research

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- Attitudes about technology form in childhood
- Workplace access to computers influence attitudes
- Peers impact attitudes



# Forrester Research

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- Motivations

- Career – Use technology for advancement, recognition, and power over others
- Family – Use technology to keep in touch with others
- Entertainment – Use technology for fun, social status, and excitement



# Forrester Research

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- Ten Segments



# Tuesday's Reading

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- Christopher Locke - [The Cluetrain Manifesto](#)  
[95 Theses](#)
- Joseph Pine and James Gilmore - [The Experience Economy: Chapter 4 Get Your Act Together](#)
- Jeffery Rayport - [The Virus of Marketing](#)
- William Taylor - [Permission Marketing](#)
- David Wolfe - [Make Love, Not War in the Marketplace](#)