

Marketing Strategy

Strategic Segmentation

Session 5

Fall 2009

Segmentation Strategy

1. Problem
2. Target marketing, segmentation criteria
3. Segmentation variables
4. Price Discrimination
5. Conclusion

Segmentation Problem

Suppose that you are managing the product line of a cellular telephone company. You are considering revising your product offerings. You requested a market research study which uncovered the following two market segments:

Heavy-users: Use the cellular phone very intensely. For the first 100 minutes of usage they are willing to pay about \$100, and they can use up to 1000 minutes. This segment is about 10% of the market.

Emergency-users: Use the telephone only for crucial calls. For the first 40 minutes they are willing to pay about \$40, and they can use up to 500 minutes. This segment is about 90% of the market.

What would be your segmentation strategy?

Target Marketing Segmentation Strategy

Target marketing means Segmentation strategy

Basic principle:

1. A target market will have its own marketing program
2. Which enhances sales enough
3. To justify extra cost

If the number of segments is:

one: a part of the market: Concentrated marketing

multiple: Differentiated marketing

Segmentation Criteria

1. High response to the marketing program.

Does the segment identity stimulate ideas for marketing programs?

2. Cost of reaching the segment

Accessible with respect to advertising, distribution?

Segment substantial enough?

What types of people/organizations would like this product/service?

To reach that segment what is the best

- **Product (modification)**
- **Price**
- **Promotion**
- **Place (distribution)**

Segmentation Variables

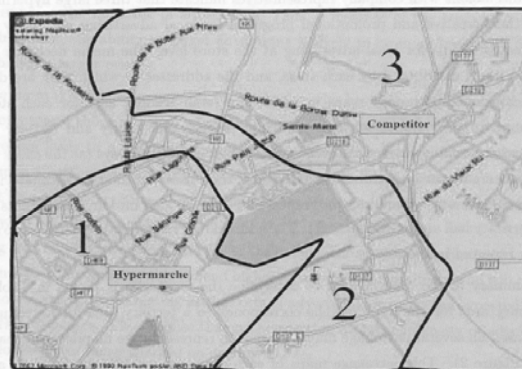
Only true one: preferences

correlated with:

1. Geographic
2. Demographic
3. Occasions
4. Usage
5. Benefits
6. Lifestyle

Geographic segmentation supermarkets

Figure 2: Patronage Map for a Hypermarché with 1 Major Competitor Nearby



Geographic segmentation

Local Advertising Summary
Hypermarkets in France

Theme Type	Example	Objective
Regular Weekly Specials	Food, household items, clothing	reward patronage, maintain image
Seasonal Events	Valentine, Father's/Mother's Day, X-mas, Easter	build traffic, reward patronage
Special Events	Gardening, The Fair of Wines, Summer Sports	build traffic, reward patronage
Shock Specials	School Supplies, Baby Products, Food	build traffic, generate trial

Theme Type	Primary	Secondary	Tertiary
Regular Weekly Specials	yes	no	no
Seasonal Events	yes	yes	no
Special Events	yes	yes	no
Shock Specials	yes	yes	yes
Total	100%	50%	>10%

Source: Interviews by the authors Jan-April 2002

- Advertising to primary consumers for 100% of the events and less for secondary consumers.
- Intensities of direct advertising from direct competitors negatively correlated.

More Examples

Geographic segmentation: Maxwell House sells nationally but flavors regionally (flavored stronger in the West than in the East)

Demographic segmentation: Gerber offering a "graduates" line for the one- to three year old; automobiles?

Occasions segmentation: air travel for business, vacation or family

Usage segmentation: Heavy-users (vs light-users) use much more of the product. Paper towels 75%, Cola (83%), Bourbon (95%).

Benefits: Toothpaste market (4 benefit segments): economy (low price, brand on sale), medicinal (decay-prevention, Crest), cosmetic (bright teeth, Ultra Brite), and taste (good tasting, Colgate)

Lifestyle: Outdoors: "health-conscious sociables", "get-away actives", "excitement-seeking competitiveness", "fitness-driven", "unstressed and unmotivated"; Psychographics

Price Discrimination

two units of the same product sold at different prices

Examples:

Objective: get more of the value consumers obtain from consuming the product/service

Problem: ARBITRAGE

- Examples:**
- gray markets
 - false student card to get student's discount

Types of Price Discrimination

- 1. Price Discrimination with Direct Signals**
- 2. Price Discrimination by Self-Selection –
Product line design for segmentation**

Price Discrimination with Direct Signals

Use of some exogenous signal: age, sex, occupation, location, first time vs. second time buyer, etc.

Examples:

Types of Price Discrimination

1. Price Discrimination with Direct Signals
2. Price Discrimination by Self-Selection –
Product line design for segmentation

Price Discrimination by Self-Selection

**Offer menu of bundles price-quantity or price-quality.
Consumer self-selects by choosing the bundle they prefer.**

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Product Line Design for Segmentation Results

- 1. Be aware of self-selection constraints.**
- 2. Segment that likes quantity more (heavy-users) gets surplus.**
- 3. Problem is with making sure that segment that likes quantity more (heavy-users) does not buy the bundle directed to other segment (light-users).**
- 4. Reduce quantity to segment that likes quantity less (light-users) in order to give less surplus to other segment (heavy-users).**
- 5. In some cases it may be better to target only one segment (heavy users).**
- 6. Quantity discounts (in some cases).**
- (7. In some cases offer same bundle to both segments.)**

Railroad Tariffs for Passengers, Dupuit (1849)

“It is not because of the few thousand francs which would have to be spent to put a roof over the third-class carriages or to upholster the third-class seats that some company or other has open carriages with wooden benches... What the company is trying to do is prevent the passengers who can pay the second-class fare from traveling third-class; it hits the poor, not because it wants to hurt them, but to frighten the rich.”

Examples

- **airlines**
- **time spent in shopping or price dispersion**
- **coupons**
- **season-tickets versus game tickets (tie-in)**
- **restaurant: menu or separate orders (tie-in)**
- **insurance policies**
- **credit markets**

Conclusion

- Targeting involves segmentation strategy
- Segmentation strategy to offer more value and extract more value
- Segmentation variables (preferences):
geographic, demographics, occasions, usage,
benefits, lifestyle (psychographics)
- Price discrimination: direct signals, self-selection
- Self-selection constraints (lower quality/quantity
of low quality products).