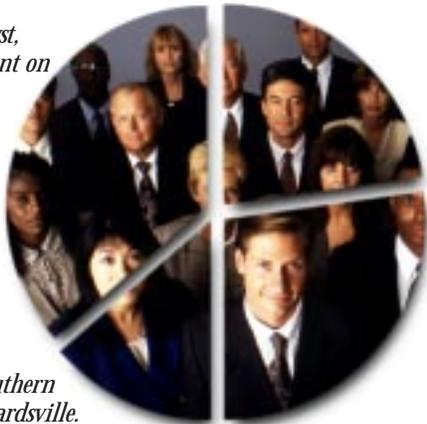




Understanding Customer Segmentation

*by Esther Philip, Matt Knain, & Daniel Lockhart Ph.D.,
Maritz Marketing Research - Marketing Science*

MMRI Research Analyst, Esther Philip, is a consultant on research design and data analysis for client projects. She has experience with pricing studies, new product introductions and customer satisfaction projects. Esther earned her B.S. in Business Administration from Marquette and a M.S. in Marketing Research at Southern Illinois University at Edwardsville.



MMRI Director of Packaged Goods Research, Matt Knain, has been a marketing research practitioner since 1978. He has held positions on both the client and supplier sides. Knain earned his M.B.A. from the University of Maryland, with doctoral studies at Stanford University.

Former MMRI Director of Marketing Sciences, Dan Lockhart, Ph.D., has worked as a senior marketing research scientist in strategic business development and as a senior behavioral scientist. He earned his Ph.D. in applied experimental psychology from Southern Illinois University at Carbondale. Presently, Lockhart is with Eli Lilly and Company as a Marketing Research Consultant.

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arket segmentation provides information that is vital to the strategic marketing planning process of a company. Segmentation gives management insight into market structure and customer identity. Such market intelligence can be used to mold strategies that improve product offerings, customize communication, vary distribution channels, and alter pricing schemes, to name a few.

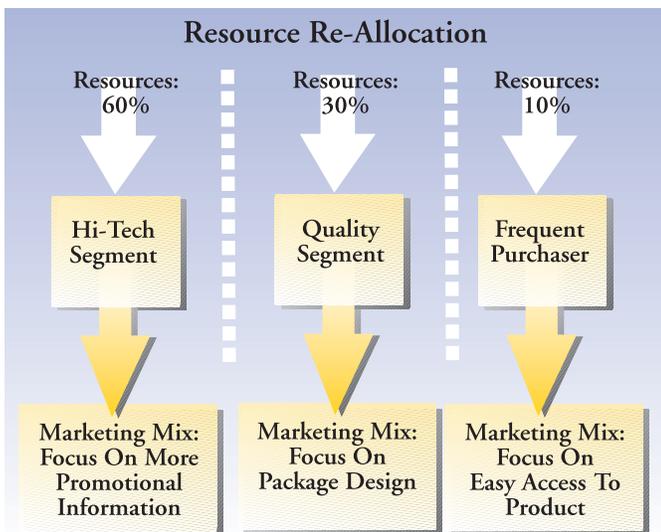
Segmentation

The goal of segmentation is to identify groups of customers within a product category who are similar to one another so that highly effective marketing efforts can be directed towards them. Similarities may be based on type of product needed, shopping habits, media usage, price sensitivity or other dimensions. By identifying groups of similar customers, an organization can develop marketing plans consistent with the needs of each group and, therefore, be in a better competitive position.

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When an organization decides to conduct segmentation research, it is implicitly indicating an intent to develop marketing strategies that are customized by customer group, rather than relying on a single marketing strategy for all customers. Because customers can potentially be grouped on an almost infinite number of dimensions, it is essential to determine the end goal of segmentation.

For example, is the goal to identify differing product needs in order to develop a portfolio of products that cater to these unique needs? Or, is the goal to identify customers with differing psychographic profiles and media viewing habits in order to develop advertising with differing emphases for different media? Too often segmentation is stated as the end goal without specifying the elements of the marketing mix that will most likely be impacted.



Practical Considerations

Once research objectives have been established, there are several methodological issues that must be addressed before embarking on a segmentation study. For instance, there are different conceptual frameworks, different analytical techniques and presentation styles to consider.

Sample List Of Marketing And Research Objectives

- Understanding Current Customers:**
Identifying and characterizing heavy users, focusing advertiser efforts for greater impact
- Enhancing Company Offerings:**
Improving existing product/service design, establishing a better brand/corporate image
- Looking For New Opportunities:**
Identifying likely targets for new technology
- Understanding Current Market Structure:**
Identifying if specialized competitors more tightly define markets

Conceptual Framework

There are a few different approaches to segmentation, but the classification scheme used most often involves either:

- A priori (pre-determined) segmentation, or
- Post hoc (market-defined) segmentation



A Priori Segmentation

Apriori segmentation requires prior knowledge about the variables that segment a particular market. This approach classifies customers in advance based on prior baseline segmentation studies or experience. Since the segments have been pre-determined, the results of the research do not have any bearing on the definition of the segments themselves. The focus of segmentation rests on characteristics that help distinguish between segments.

On a practical note, oftentimes research results are analyzed using cross-tabulations where banner points consist of differing age groups, heaviness of product usage or degree of loyalty to a brand or other dimensions. Effectively, each of these customer classifications represents a form of a priori segmentation. Although it may not always be explicitly stated, the goal of profiling these different groups is to seek out opportunities for customized marketing efforts.

Post Hoc Segmentation

Post hoc segmentation begins with the premise that the exact nature of market segments are unknown prior to data analysis. Several hypotheses may exist regarding the nature of the segments based on marketing theory and experience. Post hoc segmentation analysis generally looks for patterns in product usage, attitudes, perceptions and the like, to hopefully signal useful market segments. Data analysis techniques test the hypothesized relationships to determine the existence of segments and their profiles. The results of such segmentation may yield the existence of numerous sub-groups.

In order to be considered a viable segment, the sub-group must be relatively stable over time and should have the property of being efficiently reached by marketers. Post hoc segmentation is a process of exploring and confirming segment definitions, it is more time-intensive than a priori segmentation and requires close collaboration with the client.

Variables Used To Define Segments

In post hoc segmentation studies, the analysis focuses on searching for patterns in data that point to possible segments. During the questionnaire design/data collection phase of a project, it is important to obtain all relevant information that is thought to segment markets. Needless to say, the list of variables that could be used to identify or understand segments are limitless. There are two common genres of variables that are typically used in 'a priori' or 'post hoc' segmentation:

- Customer based variables
- Product/service based variables

Customer based variables focus on the customer. Therefore, demographic information, lifestyle or psychographic information fall into the customer based variables category. Conversely, product/service related variables reveal how people react or utilize a product. Common examples of product/service related variables are usage quantity, usage patterns, attribute deficiencies, brand or store loyalty, purchase patterns, reactions to new product concepts, price sensitivity, customer's attitudes toward products/services, etc.

Analytical Techniques Used To Conduct Segmentation

Having identified the type of variables that are useful to a segmentation study, the next issue of concern is the type of analytic technique that should be used. The most common technique in use today is cluster analysis. There are several dependence and interdependence techniques that can be employed, as well. Choosing the most appropriate technique for your study can be best accomplished in consultation with an analyst that is familiar with the study.

Conclusion

In conclusion, it is important to always keep in mind that the end-goal of segmentation is the development of marketing plans tailored to different customer groups. Thus, the test of whether a particular segmentation scheme is of value is whether it identifies practical opportunities for improved marketing efforts. The best way to ensure a successful market segmentation is to decide in advance which marketing elements are being considered for change and customization.

Synchronizing the research design to ensure that relevant elements are measured will help unlock the bounties of a successful segmentation study. 📧

Possible Segmentation Variables

Objective:

General Understanding Of Market Benefits Sought

- Needs the product will fill
- Product purchase and usage patterns
- Brand loyalty and switching patterns

Objective:

Pricing Decisions

- Price sensitivity & usage patterns
- Product usage patterns
- Sensitivity to "deals"
- Product, user and self-images associated with products at different prices

Objective:

Product Selection Behaviors

- Usage rates and occasions
- Number of different brands used regularly
- Knowledge of and experience with brands
- Substitutability of related categories

Objective:

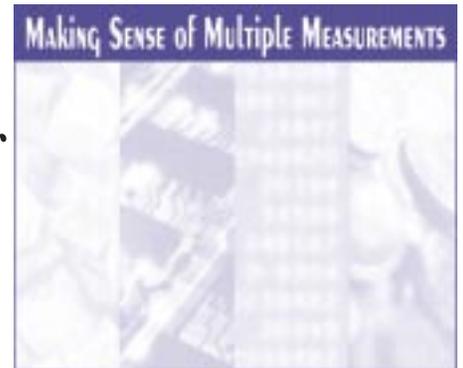
Distribution Decisions

- Store loyalty & patronage
- Benefits sought in store selection
- Sensitivity to "deals"

References:

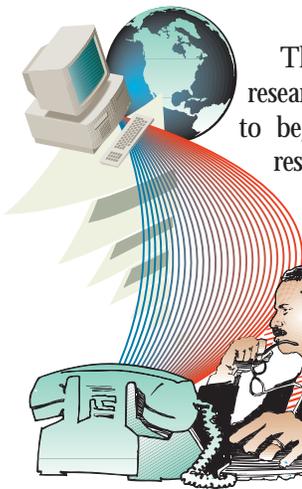
1. Steven M. Struhl, *Market Segmentation: An Introduction and Review*, American Marketing Association, 1992.
2. James H. Myers, *Segmentation and Positioning for Strategic Marketing Decisions*, American Marketing Association, 1996.

MMRI Plays Major Role At CSQM



The 11th Annual Customer Satisfaction and Quality Measurement Conference (CSQM) took place at the Disneyland Hotel in Anaheim, California, last month. Maritz Marketing Research was one of seven major sponsors who made the event possible for over 400 attendees.

Gail Gilbert, MMRI vice president, division manager, played a leadership role as conference co-chair. **Alex Vayslep**, senior vice president, conducted a tutorial titled, "Frameworks for Multiple Measurements/Evolution and Equity." The event focused on, "Making Sense of Multiple Measurements," and was a great success. 📧



Why Opt For The Net?

The simple economics of consumer research on the Internet is reason enough to begin bringing our current stable of research activities online. But both economic and methodological benefits make strong arguments for Web-based research methods.

Speed And Cost Benefits

• Online research is quick and the data immediately accessible through the benefits of real-time survey processes.

- For large surveys, Internet research is less expensive than mail and phone methods which are supported by higher fixed cost structures.
- Web-based studies readily absorb wide geographic dispersion in respondents, which will become more important as global corporate mergers and the centralization of corporate functions like marketing, product planning, and advertising increase.
- Web-based reporting is also catching on as the reporting method of choice, even for reporting information based on offline data collection methods.

Methodological Benefits

- The Internet survey is easily monitored and revised at any point in the design and fielding processes. Responders can even be watched in action surreptitiously.
- Web-based surveys can eliminate item non-response in closed-end questions by requiring item completion before the respondent is allowed to advance his or her screen. In a recent Internet survey conducted by Maritz, this technique eliminated item non-response to closed items. Identical mail and phone surveys showed higher rates of item non-response, the phone study faring better than mail.
- The Internet eliminates interviewer bias yet provides an interactive option through e-mail access for questions or feedback from the respondent. And like any self-administered survey, the Web questionnaire can be completed at the respondent's convenience.
- Web-based surveys deliver other advantages of self-administered questionnaires, including more frequent and higher

quality open-end responses without the wait imposed by the mail method and without the higher rates of open-end item non-response characteristic of mail surveys.

- Qualitative research also benefits from some of the characteristics of the online environment. Focus groups are less expensive, can include participants from distant geographic locations in any one session, avoid the bias of the group dynamic, and may be conducted simultaneously for a quicker turnaround of findings.
- In-depth interviews, concept testing, and copy testing are also well suited to the Web. Support materials that would be used live can be delivered online or mailed.

Resolving The Recruitment Challenge

There are many approaches to overcoming the challenges posed by the lack of both e-mail directories and personal or home e-mail addresses for some users. Some of the alternatives described below allow for more rigorous sampling designs, but each may yield a sufficient sample depending on the researcher's information objective.

- With national Web access at 55 percent and climbing, and even higher rates of Internet users in key U.S. markets (some areas as high as 75 percent), representative target populations may be contacted through traditional methods (mail or phone) and directed to the Web to respond to online surveys or participate in qualitative research. The known characteristics of the recruited sample—often at a minimum zip code and geographic location—are useful in assessing the quality of the return sample and guiding decisions about data interpretation and possible weighting schemes.
- An excellent online alternative for Web-based research sampling is the Internet panel, which provides access to well defined and representative online households. Individuals within the households are profiled for ready access.
- Web communities, like talkcity.com and theglobe.com, provide access to millions of consumers who can be screened and then selected based on a predetermined sampling criteria. The data can then be analyzed within demographic cells or in total weighted to represent a targeted population of consumers, depending on the researcher's knowledge of the target population.
- Visitors to manufacturers' Websites also provide good representation of current and potential customers when the level of visits is high. E-mail addresses may be picked up as the customer visits the site for later use in sample recruitment. Developing an "edialogue" with Website visitors enables the manufacturer to gain the customers permission to market, making future communications more effective (Seth Godin,

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Incubation of the Online Sampling Frame

Implications for Marketing Research by Lynn Kincaid

Sales Account Manager, Lynn Kincaid, oversees a variety of client studies including a large-scale international dealer satisfaction study, multiple-country mystery shopping, and national competitive dealership assessment for her automotive clients. Prior to Maritz, she held positions as research director and research project manager. Kincaid earned her B.S. in Sociology at the University of Wisconsin. She has a M.A. and pre-doctoral studies in Sociology from the University of Michigan.

An important Internet application that will have profound effects within the marketing research community, but is only now emerging as a methodological option, is the online collection of primary data among mainstream consumer populations. Until recently, the limited universe of consumers with access to the Internet was the key impediment to bringing traditional consumer research programs online. Now, after over a decade of growth and on the heels of recent growth spurts, the online population of adults in the United States is beginning to resemble the national average.

Today's Online Users

Measuring the online population in the U.S. today has been complicated by the rapid growth in newcomers to the Web as estimates are quickly outdated. In a review of the literature at cyberatlas.com, a reference site for Web marketing, a reasonable estimate puts the online population of adults in the U.S. at 108 million during the last quarter of 1998. This represents about 55 percent of all adults, up from 40 percent only three quarters earlier (INTECO Corporation, January 1999).

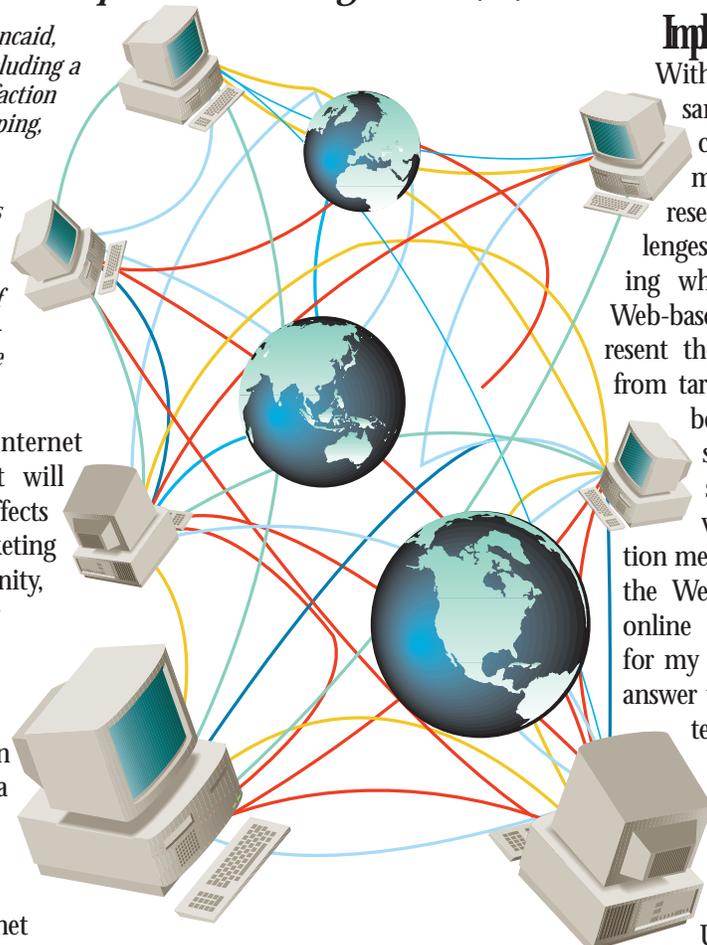
As the profile of adult Internet users in the U.S. converges with the national profile, men still outnumber women, representing 55 percent of all adult users. However, women have the edge in the gender split among recent entrants to the Internet, comprising 52 percent of all newcomers in the last year. The profile of the typical adult Internet user is also shifting toward average in both age and affluence (Pew Research Center, January 1999).

Implications for Marketing Research

With the incubation of the online sampling frame, those of us who count Web-based data collection methods among our repertoire of research designs face two key challenges. The first challenge is anticipating when samples obtained through Web-based methods will sufficiently represent the consumer intelligence sought from targeted populations. Despite the best efforts of methodologists to survey random or representative samples, sample characteristics vary systematically by data collection method. The question to ask about the Web today is "Is the universe of online users sufficiently representative for my needs?" In many instances, the answer will be, "yes." A survey methods test conducted by Maritz for a domestic manufacturer measured customer sentiment toward brand equity and purchase consideration if production were moved outside the U.S. Although the sample characteristics varied as expected by survey method, the substantive findings based on each method—phone, internet, and mail—were the same. The Internet sample in this case was randomly drawn from a list of visitors to the manufacturer's Website.

The second challenge faced in Web-based research is accessing targeted consumers for recruitment to Internet research sites. Ideally, respondents to Internet-based research would be recruited by e-mail just as phone samples are recruited through listed or randomly dialed phone numbers and mail samples through listed mailing addresses. But Internet sampling is confounded by both the lack of e-mail directories or lists that lend any systematic organization to the population of users, and the lack of either personal or home e-mail addresses among many who access the Web.

Among current adult Internet users, 70 percent access the Web from home, 48 percent from work, 23 percent from public locations, and 21 percent from the homes of friends or relatives. In a recent Web-based survey conducted by Maritz among nearly 600 same-make vehicle owners, 61 percent responded to an e-mail recruitment from home and 37 percent from work.



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Incubation of the Online Sampling Frame
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yahoo.com). It also allows the researcher to obtain a wide range of consumer intelligence at low cost. And, there is mounting evidence that consumers are willing to provide some personal information to get customized products or services online.

On The Horizon

Analysts predict that the U.S. Internet market will reach saturation by 2002, and that Internet access worldwide will quadruple by 2005 (Ovum, December 1998). On the technological horizon, the pending boom in broadband Internet technologies, like cable, has broad implications for Internet research. The higher speeds and the ability of broadband environments to accept rich media will enhance the use of the Internet for video assisted and interactive research designs, including interactive visual options. ☐

ISO Victory!

MMRI's Minneapolis division has achieved ISO certification, the first market research organization in the U.S. to do so. ISO 9000 is an international quality standard that is helping MMRI ensure that client deliverables meet the requirements of its customers effectively and efficiently. For over a year and a half, **Lynn Newman**, division manager of the Minneapolis division, and her staff worked to prepare for the audit. Not only did they achieve success, they did it with zero non-conformances! ☐



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MR EYE

Laurence Curtis, chairman of The Research Business International (TRBI), was promoted to the position of chief executive of Maritz TRBI, a new holding company formed to support Maritz Marketing Research Inc.'s three research brands in Europe: Maritz Research, TRBI, and QCS. TRBI is best known as a leader in international qualitative and quantitative research, particularly in brand and advertising research. Maritz Research is one of the top European providers of customer satisfaction research. QCS provides field services and mystery shopping.

In a related move, **Jim Stone** has been appointed vice president of Research and Development (R&D), International Research, and Marketing Sciences for Maritz Marketing Research. Jim joined the company in 1985 and held several positions before his most recent assignment as managing director of Maritz Research in Marlow, England. His newest assignment will be to expand MMRI's reach around the world, as well as to develop new products and services for our clients.

David Jamieson has accepted the position of managing director of Maritz Research, replacing Jim Stone. David will be responsible for all marketing and project management within the research operations group reporting into Maritz Marketing Research, Europe. David came to us from Taylor Nelson AGB after spending years in a variety of senior business roles in other industries.

Paul Pacholski and **Tom Welchans** have been promoted to account directors, Telecom Research Group (TRG). Their new roles involve sales leadership and responsibility for developing strategic partnerships with clients in telecommunications.

Gary Selinger has been promoted to senior research manager. In addition to designing, implementing and analyzing projects for MMRI on the East Coast, Gary also plays a vital role in sales support. Along with his promotion, Gary has accepted the challenge of coordinating ISO certification efforts for MMRI's Somerset office.

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