

Module 1: Marketing

Lesson 4 - Segmentation

OVERVIEW

In this lesson, students will explore one of the most important fundamentals of marketing, **market segmentation**.

OBJECTIVES

1. Define market segmentation.
2. Identify the various ways marketing professionals segment a market.
3. Explain why segmentation is an important marketing principle.
4. Describe the concept of a target market.

KEY TERMS

Behavioral Segmentation
Demographic Segmentation
Geographic Segmentation
Geotargeting
Market Segmentation
Psychographic
Segmentation
Target Market

This Lesson Bundle Includes:

- Segmentation - Lesson Outline
- Segmentation - Presentation Slides
- Discussion Deck - Happy Marketing: History of McDonald's Happy Meals
- Student Activity - Segmentation
- Student Activity - Target Market
- Industry Application - Related Links

Lesson 4 - Segmentation

MARKET SEGMENTATION

Market segmentation is the process of dividing a target market into smaller, specific categories grouped together by shared characteristics. This process allows a business to define and understand the target audience.

Segmentation is important because it allows businesses to customize their marketing mix and promotion strategies to meet the target market's needs.

Forms of Segmentation

There are four primary types of market segmentation:

1. Demographic
2. Psychographic
3. Behavioral
4. Geographic

1. Demographic Segmentation

Demographic segmentation information provides descriptive classifications of consumers. This is the most common form of segmentation. Demographic information, comparatively, is more accessible and less expensive to obtain.

Demographic segmentation focuses on information that can be measured such as:

- Age
- Income
- Occupation
- Gender
- Education
- Ethnicity

Age

Often, marketing professionals describe certain age groups, or generations, with specific labels.

- The age group born in the early 2010s-2025 (0-about 10 years old) is referred to as "Gen Alpha"
- The age group ranging from 10-25 typically falls into the "Gen Z" age demographic
- Consumers aged 16-41 are considered to be "Millennials"
- Consumers aged 42-57 are categorized as "Gen X"
- Consumers aged 58-76 are referred to as "Baby Boomers"

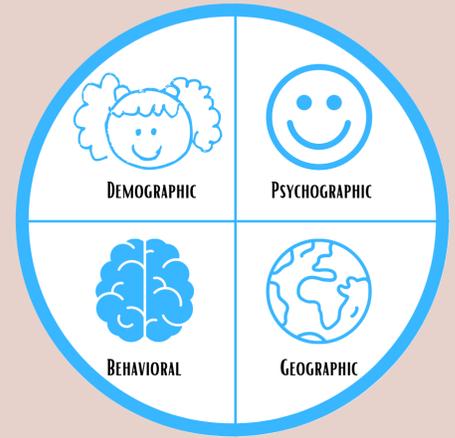
Income

- Dollar General's core customer is represented by households with incomes under \$40,000 per year, based on information from a CNN news story.¹

Occupation

- Occupation might be represented by things like job title or job function.

4 TYPES OF MARKET SEGMENTATION



¹ <https://www.cnn.com/2022/06/16/economy/kroger-groceries-inflation/index.html>



Gender

- Under Armour has ramped up its effort to cater to female consumers with the launch of its UA Flow Synchronicity, the first running shoe created specifically for women.
 - Click [here](#) to learn more about Under Armour's initiative to attract more female consumers to the brand

Education

- A business may choose to segment the market based on consumers with a certain level of education, like those who have earned a college degree.

Ethnicity

- According to a [CNBC](#) news story, Asians comprise about 7% of the U.S. population but make up 11.9% of Costco shoppers (based on data from market research firm Numerator).
- Asian Americans are the [fastest-growing](#) demographic in the U.S. and the untapped sales potential of Asian American consumers is an estimated \$13 billion, according to NielsenIQ.

2. Psychographic Segmentation

Psychographic segmentation refers to the grouping of consumers based on personality traits and lifestyle. This form of segmentation targets consumer attributes that focus on emotional characteristics that offer insight into consumer motives, preferences, and needs. Demographic data helps to describe *who* a business's customers are, while psychographic data helps to explain *why* they buy.

Psychographic Characteristics Include:

Personality traits

- Emotional
- Creative
- Pessimistic

Activities and interests

- Hobbies
- Fans of crime television shows

Beliefs, opinions, and values

- Political beliefs

Social status

- Social class impacts brand preferences based on affordability and prestige
- Hospitality and travel industry brands often segment based on social status.

Attitudes

- Different cultures can have different attitudes toward different products, services, and brands

Lifestyles

- Habits and preferences
- For example, Burger King [opened](#) two pop-up restaurants in Switzerland last year offering only meat-free menu items for a limited time, including Veggie Whopper and Veggie Nuggets, to appeal to consumers who prefer plant-based foods.

3. Behavioral Segmentation

While demographic and psychographic segmentation focuses on who a customer is, **behavioral segmentation** focuses on how the behaviors consumers display affect their purchasing decisions. Segmenting a market in this manner allows a business to customize marketing messages that cater specifically to those behaviors.

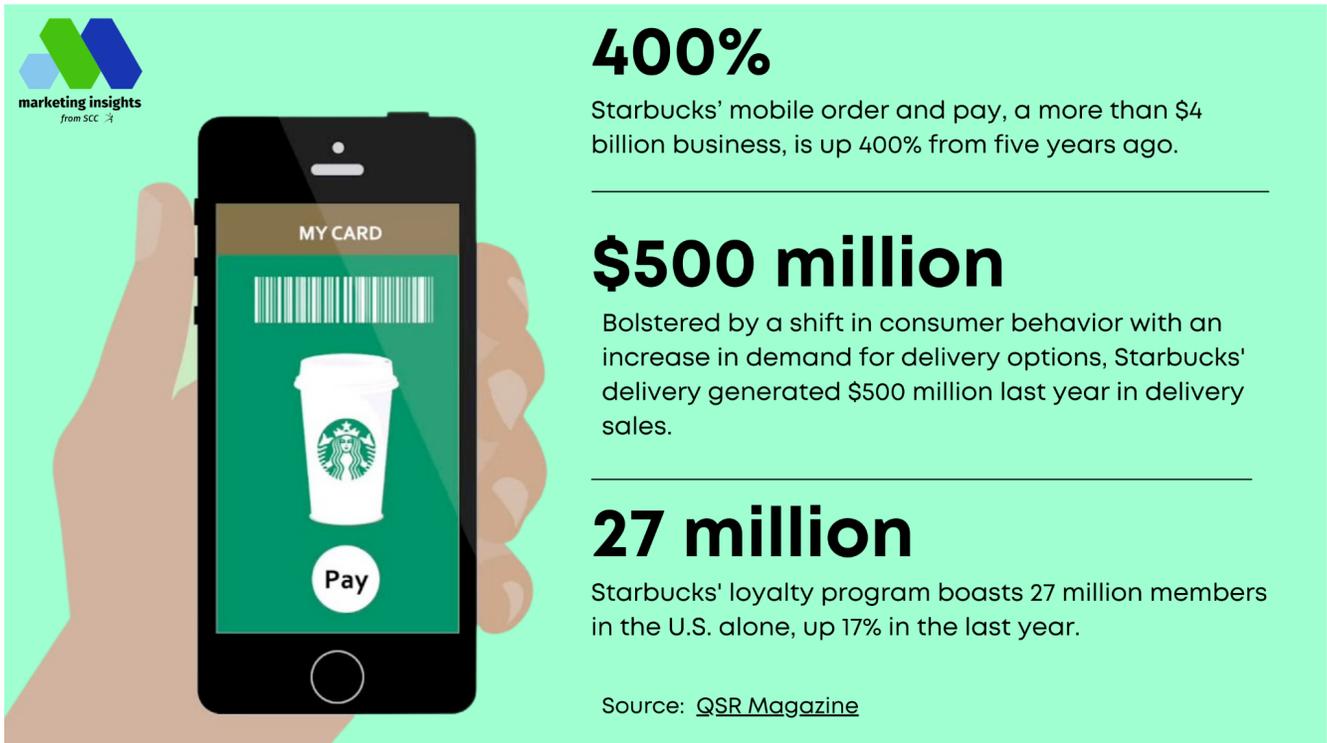


Consumer behaviors include:

- Types of content consumed
- Brand preferences
- Purchase history
- Product usage
- Benefits
- Customer loyalty
- Online shopping habits

Behavioral Segmentation Example: Starbucks

Starbucks fans appreciate the ease of ordering through the Starbucks app because it provides an added benefit of convenience when the drink is already paid for and ready for pick up when the customer arrives. This behavior represents consumers seeking additional benefit from the product or service. The benefit also helps Starbucks to build customer loyalty. Starbucks also noticed a shifting consumer behavior with the recognition of an increased demand for delivery. The company invested significant resources in developing its app, delivery and mobile strategy, and it has paid off in a big way for the brand.



400%
Starbucks' mobile order and pay, a more than \$4 billion business, is up 400% from five years ago.

\$500 million
Bolstered by a shift in consumer behavior with an increase in demand for delivery options, Starbucks' delivery generated \$500 million last year in delivery sales.

27 million
Starbucks' loyalty program boasts 27 million members in the U.S. alone, up 17% in the last year.

Source: [QSR Magazine](#)

4. Geographic Segmentation

Geographic segmentation is the process of dividing markets into physical locations. Identifying the location of customers helps a business to create more targeted advertising messages.

Types of geographic segmentation:

Location

- Countries
- Specific geographic regions
- Zip codes

Geographic characteristics

- Climate
- Population



Geotargeting

Geotargeting is the practice of using technology to send messages or alerts to consumers through their mobile devices once they enter a predetermined geographic location or area, also known as a geofence. The geofenced region could be anything from a specific department in a store, to an area where an event is being held, to a specific neighborhood or an entire city.

Choosing Multiple Market Segments

Businesses often select multiple segments when establishing a target market. For example, consider the target consumer for a high-end, organic grocery store. The business might not target just one market segment, they look at a variety of factors that influence who shops at their stores:

Income: Families with income above the national average

Lifestyle: Health-conscious

Behavioral: Typically try to purchase environmentally friendly products and services from companies dedicated to sustainability

Education: College degrees

Geographic: Upscale suburban or metropolitan areas

WHAT DETERMINES A MARKET?

Before we examine target markets, we must first understand what determines a market.

Market Characteristics Include:

1. The group of potential consumers who share common needs and wants.
2. That consumer group must have the ability and willingness to buy the product.
3. Businesses strive to meet the needs and wants of those consumers.

Target Markets

A **target market** is a group of people with a defining set of characteristics that set them apart. The target is a specific group of consumers with a defining set of characteristics. This market shares one or more similar and identifiable needs or wants.

Four Considerations for Evaluating a Target Market:²

1. **Sizeable**
 - The size of the market
 - Market can have too many or too few consumers
2. **Reachable**
 - Ability for marketers to reach consumers
 - Marketer must have a means for communicating with target group of consumers
3. **Measurable and identifiable**
 - Refers to the ability to measure size, accessibility and overall purchasing power of the target market.
4. **Behavioral variation**
 - Marketers seek to find similar behaviors within each respective target market.
 - For example, purchase motivation for the corporate season ticket holder is different than it is for the individual season ticket holder.

² Sports Marketing: A Strategic Perspective, M. Shank, p. 217-219



Target Market Strategies are Influenced by a Variety of Factors:

- Diversity of consumer needs and wants
- Organization size
- Attributes of company products and/or services
- Size and strength of competitors
- Sales volume required for profitability

Businesses must have an understanding of their target market to create an effective marketing strategy that caters to their audience.

Marketing Strategies Example: Red Bull

Red Bull believes that action sports fans provide an accurate representation of their target market. As such, they sponsor events like the X Games and use athletes like popular ski jumper Sarah Hendrickson and Olympic star Lindsey Vonn to drive marketing campaigns.³

- Click [here](#) to see a Red Bull commercial featuring popular surfer Carissa Moore and other action sports stars.
- Red Bull has also successfully built its brand through content marketing strategies, like [this](#) video starring Ryan Sheckler.

Marketing Strategies Example #2: Cava Mediterranean fast-casual restaurant chain

Cava positions itself as a fast, healthy, flavorful restaurant option. They make ready-to-order bowls with Mediterranean ingredients. By 2023, the company was worth more than \$1 billion, and its growth trajectory shows no signs of slowing. The company can attribute a significant percentage of its success to its segmentation strategy.

According to a story published at [medium.com](#), Cava's target market can be generally defined as upper-middle income households in high-population, high-workforce urban and suburban areas. Key metrics within a 10-minute drive of a typical Cava location include:

- 115,000: Residential population
- 88,000+: Workers (as of 2018)
- \$93,000: Typical income (US Benchmark = \$65K)
- 55%: Percent of adult population with a Bachelor's degree or higher (US Benchmark = 33%)



CASE STUDY HAPPY MARKETING

Introduced in 1979, McDonald's has been serving up millions of Happy Meals over the years. Its strategy to offer a smaller portion size and include a toy has been incredibly successful, with a target market defined by families with young children.

Over the years, McDonald's has adapted the Happy Meal in response to shifting consumer behavior and societal concerns relating to childhood obesity. They have focused on improving the nutritional profile of Happy Meals over the years by offering apple slices instead of fries and milk instead of soda.

To promote its Happy Meals, the company often partners with popular movie franchises, musicians, TV shows, and toy brands to include themed toys. These collaborations have led to strong sales year after year.

Explore the history of the McDonald's Happy Meal and some of the most popular promotions with this Marketing Insights from SCC discussion deck. To help guide your classroom conversation surrounding the concept of target markets, [review the "Happy Marketing: History of McDonald's Happy Meals" visual case study and discussion deck.](#)

ACTIVITY SUGGESTION: After reviewing the discussion deck, challenge your students to create the next McDonald's Happy Meal. Be sure to have them present their ideas in class.

³ <http://www.targetmarketingmag.com/article/case-study-red-bull-content-marketing/all/>





ACTIVITIES

Activity #1: Using the “Segmentation” worksheet provided by your teacher, describe the target market for each of the companies or brands identified in the activity.

Activity #2: Using the “Target Market” worksheet provided by your teacher, identify how one of your favorite brands might segment a market using each of the four primary types of market segmentation.



KEY TAKEAWAY

Market segmentation is the process of dividing a target market into smaller, specific categories grouped together by shared characteristics. This process allows a business to define and understand the target audience.



INDUSTRY APPLICATION

Connect your classroom with industry examples by reviewing the following news stories relating to concepts covered in this lesson:

Segmentation - [Millennials Are More Likely to Spend on This Than Other Generations](#)

Segmentation - [KFC targets younger consumers with its new ad campaign](#)

Segmentation - [Nike's approach to solving the biggest problem for girls in sports](#)

Segmentation - [Tupperware wants to jump from grandma's cupboard into the cool kids' homes](#)

Segmentation - [‘Trying to be where she is’: Why beauty brand targeting women over 40 is still reliant on Facebook](#)

Segmentation - [Inside Target's push to target Latino consumers](#)

Demographics - [Funkos, and Legos, and Toys, Oh My! Adults Are Buying More Toys Than Ever Before](#)

KEY TERMS DEFINED:

Behavioral Segmentation: Grouping consumers based on shared consumer behaviors.

Demographic Segmentation: Information that provides descriptive classifications of consumers.

Geographic Segmentation: Dividing markets into physical locations.

Geotargeting: The practice of using technology to send messages or alerts to consumers through their mobile devices once they enter a predetermined geographic location or area.

Market Segmentation: The process of dividing a target market into smaller, specific categories grouped together by shared characteristics.

Psychographic Segmentation: The grouping of consumers based on personality traits and lifestyle.

Target Market: Refers to people with a defining set of characteristics that set them apart as a group. The target is a specific group of consumers with a defining set of characteristics.

