



# SEGMENTATION

## **BENEFITS OF SEGMENTATION**

Segmentation is an analytical process that identifies key segments within a target market and determines which segments are of higher or lower priority for a brand. Segmentation is ideal for identifying target audience characteristics beyond basic demographics and category behaviors.



*"Market segmentation is a natural result  
of the vast differences among people."*

*-Donald Norman*



# W5 ON SEGMENTATION

Understanding consumers' motivations for purchasing, supporting, and spreading the word about a brand or product is a fundamental business challenge—often preceding effective brand positioning, marketing strategy, and communications tactics.

Market segmentation is a powerful tool providing a strategic perspective on the ways in which distinct segments of current and potential consumers are defined and understood based on shared category behaviors, attitudes, and underlying motivations and inhibitors.

This white paper illustrates the benefits of segmentation research for a variety of marketing needs.

# WHAT IS SEGMENTATION RESEARCH?

Segmentation research explores target consumers based on information beyond demographic characteristics and basic category behaviors. In typical market research studies, variation in responses can be identified based on demographics such as gender, age, ethnicity, region, and income. However, when examining the market as a whole, this method of analysis does not allow marketers and researchers the ability to understand and tailor their strategies to address the complexity of consumer segments and their decision-making processes.

Segmentation is a valuable research tool to develop and implement more effective strategies during all phases of the marketing process—from product development through advertising campaign messaging. A segmentation study uses individuals' responses to questions concerning their core demographic makeup as well as attitudinal, behavioral, and psychographic queries to identify and target distinct consumer groups within the marketplace.

For a segmentation to be strategically actionable, members of each segment must think and behave similarly to one another while exhibiting attitudes and behaviors different from members of other segments. Additionally, the segments must be based on stable, real-world criteria, making some intuitive sense regarding the people comprising each segment.

## CRITERIA FOR CREATING STRONG AND ACTIONABLE SEGMENTS

### EXISTS

The segment must represent a real situation that exists in the environment, not a data-only situation.



### IDENTIFIABLE

The segment is defined by core traits that can easily be applied in other planning and marketing efforts.



### SUSTAINABLE

The segment represents an ongoing, consistent situation that yields strategic value over time.



### ACTIONABLE

The segment must be able to be effectively reached through specifically targeted communication initiatives.



Figure 1: Actionable Segments

In some business situations, market segmentations may be developed around a single, select consumer dimension. The following types of segmentations are sometimes developed to provide perspective on a specific market:



### **Demographic segmentation**

(e.g., based on demographic and life-stage groupings)



### **Behavioral segmentation**

(e.g., based on consumption, shopping, and purchasing behaviors only)



### **Attitudinal segmentation**

(e.g., based on brand and product/service perceptions and satisfaction only)



### **Psychographic segmentation**

(e.g., based on lifestyle behaviors and interests, and life-stage factors)



### **Needs-based segmentation**

(e.g., centered around consumer priorities and preferences, providing a snapshot of the category)



## MULTI-DIMENSIONAL CONSUMERS

**W5, however, understands that consumers' engagement in the marketplace (and their own understanding thereof) is multi-dimensional.** W5 most commonly recommends a segmentation approach that incorporates elements from all aspects of consumer behavior and mindset to develop segments that reflect the complexity of their lives.

This approach yields a **strategically actionable** segmentation highlighting opportunities for brand positioning, product/service positioning, marketing communications, and media tactics.

Figure 2 features an example of a segmentation for the casual dining marketplace. The client conducted segmentation to inform development of a customer loyalty program to gain a better understanding of consumer attitudes, behaviors, and priorities to cater to segments' specific needs and desires. These segments are based on a wide variety of data points that encompass consumers' demographics, attitudes, behaviors, lifestyle and psychographics, category and brand perceptions, and preferences.

As illustrated, segmentations are generally investigative in nature and provide actionable information with which to identify and differentiate distinct groups of target consumers.



Figure 2: Segmentation Scheme



### **Health-Conscious Avoiders (29%):**

Exercise regularly and try to maintain a balanced diet, try to prepare all meals at home so they know what goes into their food and can determine calorie content and nutritional value



### **Penny Pinchers (22%):**

Exercise when they can and want to maintain a balanced diet, but find it hard to do so; look for the most economical and convenient food options



### **Casual Dining Lovers (18%):**

Rarely exercise and are not interested in pursuing an active lifestyle; rarely cook meals at home, opting instead for the convenience and efficiency of casual dining restaurants



### **Impulsive Purchasers (31%):**

Exercise when they can and maintain a balanced diet when they are not on the run; find they often eat "on-the-go"

## **Wide Variety of Data Points**



Attitudes about health, eating, and exercise



Eating and exercise behaviors



General lifestyle and psychographics (e.g., life satisfaction scales, decision-making approaches, etc.)



Perceptions of and attitude toward the casual dining category in general



Perceptions of and attitude toward specific casual dining restaurants, including perceived differences among brands



Demographics

# HOW SEGMENTATION RESEARCH IS CONDUCTED

## QUESTIONNAIRE DEVELOPMENT

A W5 segmentation questionnaire includes a variety of specifically-tailored scalar questions addressing consumer attitudes, behaviors, and psychographics. W5 does not employ a “standard” survey line of questioning, but develops a custom crafted set of metrics in addition to category- and brand-specific measures to address the strategic objectives driving the research initiative.

To adequately inform the segmentation questionnaire, we believe in working closely with our clients to identify specific business needs. It is often helpful for W5 to first conduct exploratory qualitative research or review existing secondary research to ensure the questionnaire is well-suited to meet the brand’s needs.

As a result, each client’s segmentation study truly reflects their unique, outstanding research needs and is positioned appropriately to reflect the culture of the organization.

In developing a custom segmentation questionnaire for clients, W5 covers a variety of topics, including but not limited to:



**Category Behaviors:** Including usage and purchase patterns both generally and within a client’s category



**Beliefs:** Attitudes and beliefs in general and those specifically impacting category decisions



**Personality:** Attributes, elements, and drivers that offer insight into respondent personalities



**Psychographics:** Factors underlying attitudes that drive behaviors



**Purchase:** Habits, practices, and drivers related to purchase decisions



**Brand:** Both brand awareness, perceptions, and affinity influences: Sources of information that directly influence attitudes and behaviors



**Media Profiles:** Emerging or traditional channels engaging consumers



**Demographics:** Standard measures such as age, ethnicity, and income but also may include category or client-specific measures



## SAMPLE SIZE

For segmentation studies, W5 generally recommends a sample size of at least 600 (N=600) respondents, often ranging up to 2,400 (N=2,400), depending on the target market or category context.

A robust total sample size allows for the construction and analysis of multiple, distinct segments—each represented by 150 or more (n=150+) survey respondents. This ensures representation of all potential segments in the market and also increases the statistical validity of the segmentation.

With these segment sample sizes, W5 can reliably explore how consumers of each segment are similar and compare differences between segments. Additionally, with robust segment sample sizes, any nuanced differences within a segment (e.g., based on demographics or behavioral patterns) may be assessed, developing a better understanding of who the segments are and painting a clear overall picture of market opportunities and challenges.

## PRE-SEGMENTATION DATA ANALYSIS

W5 applies best practice quality control procedures to ensure analysis and reporting is conducted at the highest standards and complies with applicable regulations and client specifications. W5 desires to not only meet, but exceed client expectations regarding the quality of segmentation analysis; to that end, W5 applies rigorous QC standards and practices during the data collection and management process.

W5's data cleaning practices include open-end response analysis (monitoring for random typing), straight response verification (detection of same-answer ratings to scalar questions), and survey time validation (exclusion of respondents who speed through responses to specific questions, survey sections, or the survey overall).

**For a segmentation to be actionable, the members of each segment must think and behave similarly to one another and must also think and behave differently from the members of other segments.**

# HOW SEGMENTS ARE DERIVED

Segments are defined based on select demographics, attitudes, behaviors, psychographics, and category and brand-specific perceptions and preferences. The further profiling of the segments focuses on understanding the following two key marketing issues:

- A. What consumer segments exist and what is the relative size of each segment?
- B. What are the behaviors, attitudes, and needs of each segment? How do they differ between segments?

Once defined, the value of each of these segments can be derived by looking at measures such as purchase likelihood and frequency. Figure 3 outlines the approach W5 takes to develop a custom segmentation:

## STEP 1: DEFINE SEGMENTS

Attitudes

Behaviors

Lifestyle and Psychographics

Category Perceptions

Brand Perceptions

Demographics

**#1 Impulsive Purchasers**

**#2 Health-Conscious Avoiders**

**#3 Penny Pinchers**

**#4 Casual Dining Lovers**

## STEP 2: DETERMINE VALUE

High Value



Moderate Value



Low Value



Figure 3: Custom Segmentation Model

**W5 employs a multi-phased analytical approach to conduct segmentation and identify opportunity segments. This process includes three key steps: Factor analysis, cluster modeling, and discriminant analysis.**

**Each successive step in this process enables W5 to hone in on ideal metrics for measuring consumer behavior and, ultimately, data most useful in classifying consumers into strategic segments.**

## FACTOR ANALYSIS

As a first step, W5 conducts a factor analysis to uncover underlying “themes” among variables and express these as broader, unifying traits. Factor analysis is employed to reduce a full set of attitudinal, behavioral, and psychographic data points into a smaller set of variables, known as underlying “factors.”

For example, regarding the casual dining marketplace, a desire to remain healthy may be an underlying theme that defines itself through such variables as frequency of exercise, calorie-counting behavior, avoidance of fast or pre-packaged foods, and general attitudes about the importance of daily activity and healthy eating.



# CLUSTER MODELING

To generate the segmentation, W5 conducts cluster analyses to produce unique “clusters” of consumers who share a number of attitudes, behaviors, and psychographic characteristics.

W5 first identifies statistically significant differences in the aforementioned underlying factors, then identifies factors relatively strong in explaining or predicting consumer behavior. The respondents who share like behaviors and attitudes are then “clustered” into groups of consumer types who can be described and targeted with relative ease.

The clustering process requires interpretative analysis by W5. The relativity of the data analysis highlights the importance of measuring all relevant consumer attitudes and behaviors by way of a customized and informed questionnaire to ensure emerging clusters are market representative and strategically relevant.

W5 recognizes results are not merely data-driven; they must make theoretical sense and suitably aligned with business objectives. The process of defining the clusters, using statistical modeling, is a combination of science and art. The number and specificity of the clusters depends on the number of respondents included, the questions asked, and which questions are ultimately included in the cluster definition.

Typically, three or more alternative cluster sets are developed for initial consideration. These are then evaluated and considered based on each client’s specific objectives to determine the most actionable, reliable, and logical segmentation.

W5 often recommends conducting an initial phase of exploratory qualitative research prior to the segmentation to develop a full understanding of pre-existing priorities among consumers. Alternatively, meta-analysis of past consumer research and/or syndicated data reports can help ensure relevant category language, behavioral themes, and marketplace realities are represented.



**Impulsive Purchasers**



**Health-Conscious Avoiders**



**Penny Pinchers**



**Casual Dining Lovers**



Figure 4: Example Cluster Solution

# DISCRIMINANT ANALYSIS

To ensure the validity of the segmentation, W5 employs discriminant analysis to test the reliability of the chosen clustering model. First, the sample is divided into two, with the discriminant analysis conducted on one half of the sample, statistically categorizing consumers into respective segments.

The classification approach is then applied to categorize the second half of the sample into segments. The newly identified segments are then compared to the segments identified on the first half of the sample. This process permits the testing of the reliability of the classification function through measurement of how accurately the function classifies the second half of the sample into the originally defined segments.

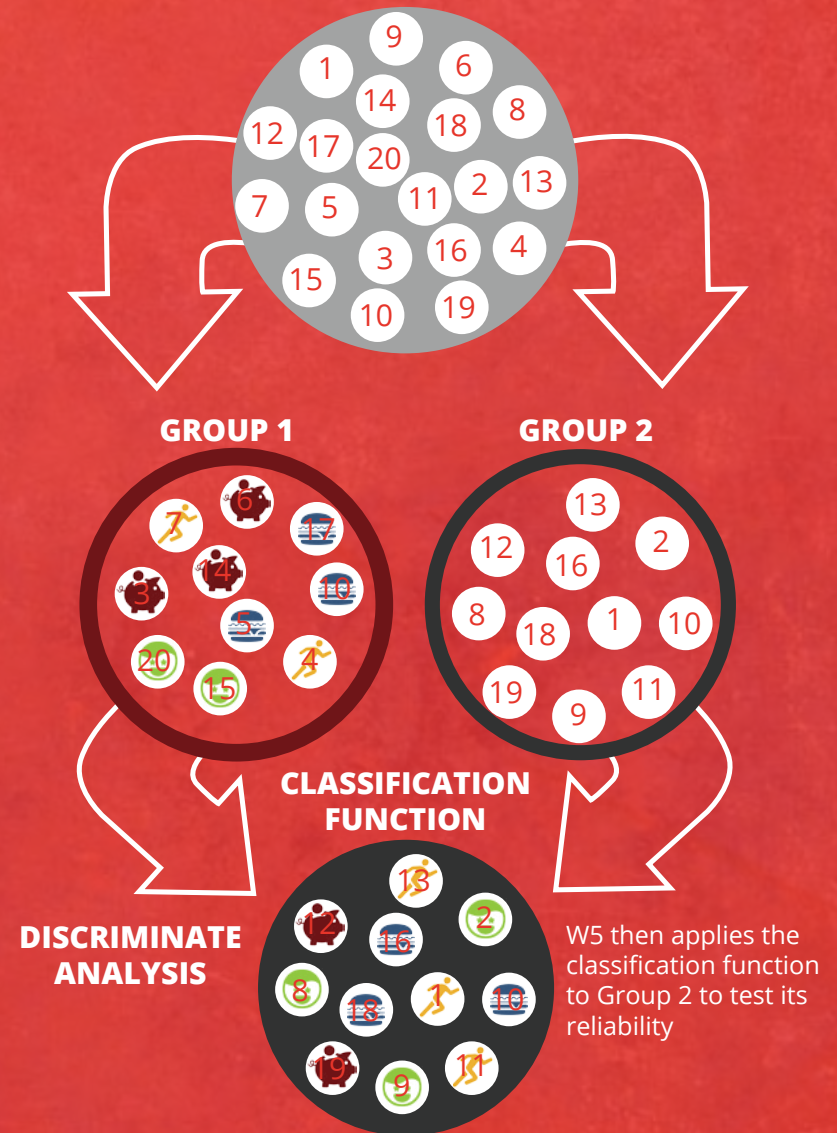


Figure 5: Discriminant Analysis

Using a discriminant analysis and testing the reliability of the segmentation and classification function ensures resulting consumer segments are expected to remain consistent over time.

# TYPING TOOL (PREDICTIVE ALGORITHM)

A typing tool is a valuable deliverable used to classify respondents into segments through a condensed list of questions and can be applied to explore differences between segments for deeper understanding. It is also helpful for respondent classification for future research related to product development, pricing, and concept or message development.

From the segmentation classification data, W5 produces the typing tool to categorize consumers into respective segments based on how they answer the questions used in defining segments. The deliverable is an Excel spreadsheet that allows clients to type in responses to key questions to be immediately categorized into one of the segments.

Typically, the typing tool offers reliability between 0.65 and 0.70, accurately classifying respondents into the correct segment between 65%-70% of the time, compared to the overall segmentation.

The predictive algorithm will be used to classify future research participants into the appropriate segment through a condensed list of questions.

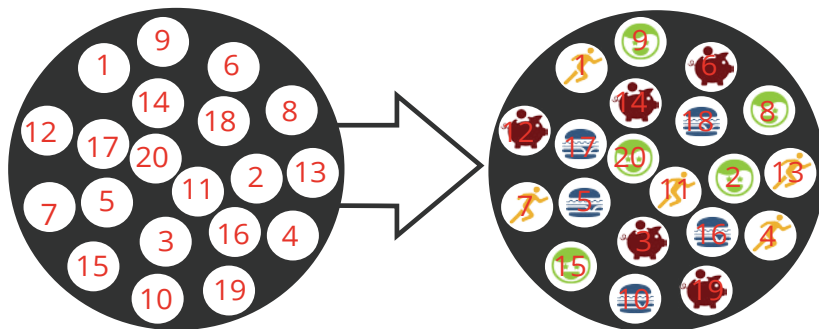


Figure 6: Application of a Predictive Algorithm



# IN-DEPTH REPORTING

After completion of all relevant analyses, W5 develops an in-depth Final Report featuring an overview of the segmentation and profiling of each segment along with strategic insights and implications. These insights provide a fresh perspective of the category, valuable understanding of the challenges and motivations of respective segments, and guidance on how to best build relationships with the segments.

W5 details the learning developed through the research including strategic conclusions, actionable recommendations, and specific key findings from survey response. W5 strives to “tell the story” of the research, focusing on the emerging narrative of insights which are highlighted through a combination of text summary, charts, tables, infographics, and related visualization.

## HEALTH-CONSCIOUS AVOIDERS HEALTH BEHAVIORS

*Health-Conscious Avoiders tend to seek out healthier alternatives to less healthy foods in their diet, limiting their intake of less healthy foods high in sugar or sodium.*

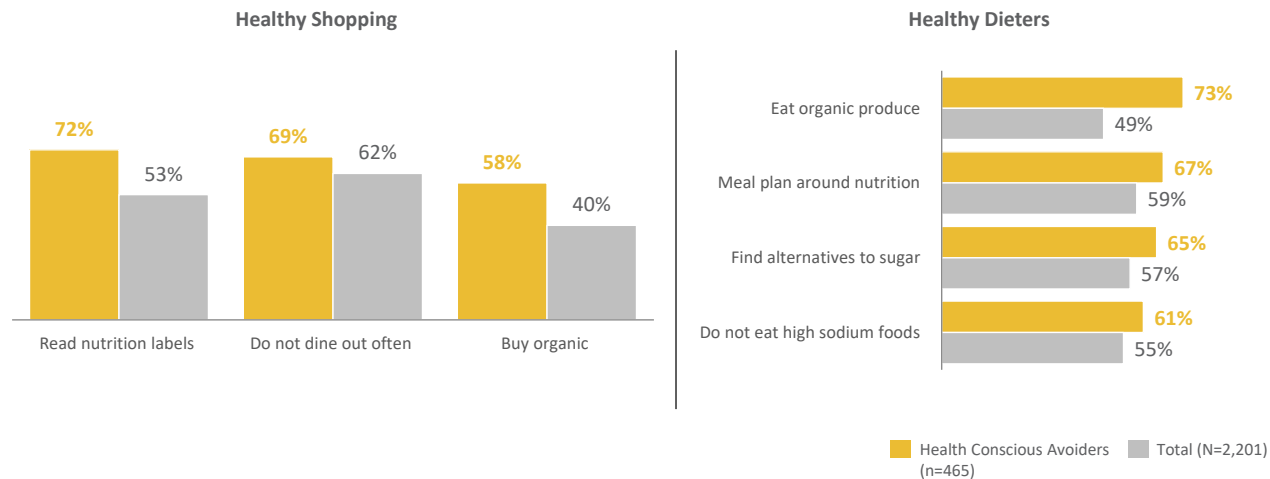
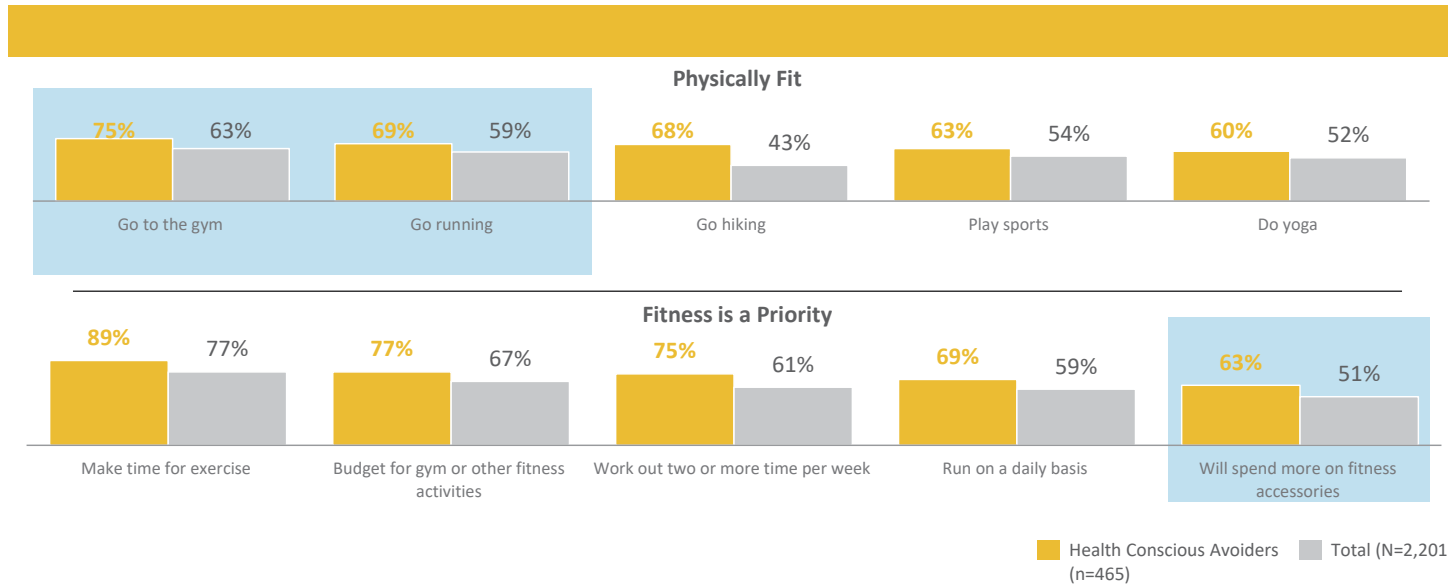
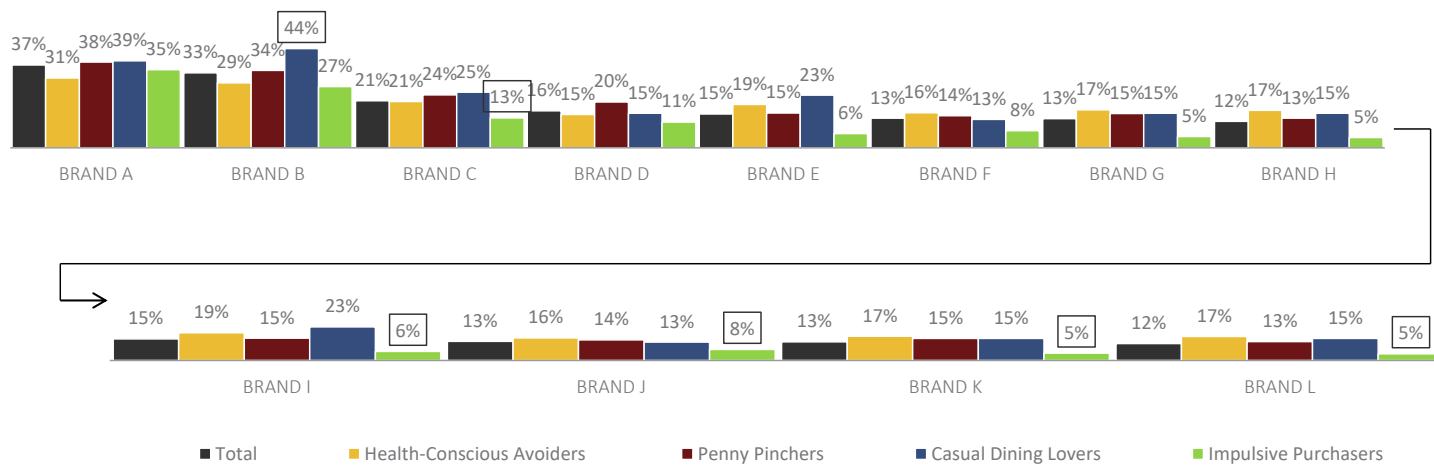


Figure 7: Example In-Depth Reporting

# HEALTH-CONSCIOUS AVOIDERS FITNESS BEHAVIORS



# BRAND PREFERENCE



□ Indicates significant difference from other segments  
Base: Seen or heard advertising recently (n=1,863)



Within the Final Report, W5 provides in-depth profiles of each segment that serve as an overall reference and also develops “snapshot” takeaway slides featuring key segment information as shown in Figure 8. Beyond descriptive measures, W5 produces key implications for communications, strategy, product development, etc. depending on the specific study needs and objectives.

## Impulsive Purchasers

31%

### 89 economic value score

*Feel generally responsible for their own health; although chance may play a role in health, they feel in control.*

- Time often stands in the way of their healthy cooking or exercise
- Try to cook meals at home but often eat out when running errands; usually less than 2x per week
- Average Weekly Category Spend: \$23.62
- Mostly married with children



## Health-Conscious Avoiders

29%

### 76 economic value score

*Health-Conscious Avoiders feel primarily responsible for their own health. They do not believe that good or bad health is a matter of chance.*

- Make time for health
- Avoid casual dining restaurants and rarely eat out
- Focus on cooking and eating at home
- Category spend primarily coffee and related beverages
- Exercise 3-5 times a week
- Lowest Average Weekly Category Spend: \$16.55
- Mostly married, many have children



## Penny Pinchers

22%

### 99 economic value score

*Feel responsible for their own health, but express concern about the cost of healthy eating, gym memberships.*

- Try to cook at home but complain about cost of health food
- Feel casual dining saves time and money
- Typically exercise less than once a week
- Average Weekly Category Spend: \$41.33
- Younger, mostly single without children



## Casual Dining Lovers

18%

### 107 economic value score

*Do not feel there is much they can do to improve their health; believe good and bad health are a matter of chance.*

- Do not understand their caloric needs and view exercise as waste of time
- Rarely cook at home; typically eat at casual dining or other restaurants due to convenience
- Rarely or never exercise
- Highest Average Weekly Category Spend: \$76.81
- Younger, mostly men without children



Figure 8: Hypothetical Consumer Segment Profiles



## CONCLUSION

Market segmentation is an ideal method to develop sound perspective on the ways in which distinct segments of consumers share common category behaviors, attitudes, and underlying motivations and inhibitors.

W5's approach to segmentation is multi-dimensional, incorporating these varied aspects of consumer behavior and mindset. This approach yields a strategically actionable segmentation, deepening consumer and segment understanding, but also highlighting opportunities for brand positioning, product/service positioning, marketing communications, and media tactics moving forward.

# FREQUENTLY ASKED QUESTIONS

## What are the benefits of working with W5 for segmentation?

W5 possesses a wealth of experience developing relevant and actionable segmentations for our clients. W5 understands a gap often exists between theoretical marketing research and sales or marketing practices.

As such, W5 works closely with each client to identify key business objectives, developing consumer segments that not only make statistical sense, but also bring target consumers to life, allowing for a full understanding of the target audience from a behavioral, attitudinal, and psychographic perspective.

## How are W5's segmentation studies different from other research companies?

W5 collaborates closely with clients to inform and customize the array of attitudinal, behavioral, and psychographic areas of investigation to be explored in segmentation engagements. This partnership leverages W5's experience and best practices and also integrates clients' expertise to develop a strategic research initiative that goes beyond a basic segmentation study.

This partnership also empowers the segmentation analysis process, supporting the definition of well-rounded segments with insights that align with overall business goals. At the conclusion of the study, W5 provides actionable learning, including insights into the choices and opportunities consumer segments have when engaging with clients' brands.

## How can the results of a market-oriented segmentation study be applied to my business strategies?

W5 recognizes that market segments must be relevant and actionable, meaning the client is able to use segments based on behaviors, psychographics, and attitudes to address business strategies.

While profiling consumer segments, W5 focuses on insights around desired products/services, specific category behaviors, the role of brand in consumer decision making, purchase likelihood, information-seeking behaviors, and media usage. These lines of questioning allow W5 to make clear recommendations regarding the best products to market to a particular segment, and best channels to reach this target segment.

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