

WINE & SPIRITS CONSORTIUM

WHITE PAPER – 2 SEGMENTS AND SEGMENTATION

GBI

**“IT’S AMAZING WHAT YOU CAN OBSERVE BY
LOOKING”**

Yogi Berra

Segments

In this paper we will discuss various segments and types of segmentation and ultimately the difference between a meaningful segment and a manufactured segment. We start here because this is the first step in determining our brand strategy.

A segment is any defined body that is grouped together based on one or more common elements. For example; 21 year old Asian males is grouped together to make up a demographic segment based on ethnicity and age. Similarly, looking at all convenience stores within the city limits of Topeka, Kansas creates a segment based on store type within a specific geography. As you can see there are as many segments as there are products in the market. The trick is to define meaningful, and therefore, marketable segments and have some means to measure them. To do this we must first understand the process of segmentation. The reason segmentation is important to any brand analysis is because it creates a relative backdrop with which we can compare, target, distribute and evaluate brands and helps specify defined targets rather than a shotgun approach. Simply put, the company who targets their marketing programs to receptive segments is more likely to succeed.

Segmentation

As the name suggests, segmentation is the procedure of taking a large number items and breaking them down into manageable and ultimately marketable segments. It is the marketer's job to use the segmentation process to define

relative segments and devise viable propositions that will satisfy unmet wants or needs within those segments. There are four general segmentation categories. We will discuss the pros and cons of each to help you to use the segmentation process to define marketing activities such as promotional and distribution targets for your products.

The four segment categories are: Consumer Segments, which are groups based on attributes particular to the consumers; Product Segments, which are based on attributes specific to a product; Geographic Segmentation, which are segments based on where the product is sold in terms of a geographic region; and Channel Segments where any given retail outlets are segmented in terms of their channel designation or outlet type.

Marketers must evaluate each segment category to create a target market that their product can compete. By combining elements within each of these segment categories, defined and marketable segments emerge that allow actionable marketing programs consistent with the wants and needs of the defined relevant consumer segment.

Creating *relevant* segments is critical to any market or brand analysis. For example; Bud Light™ is in the consumer package goods segment. However, comparing Bud Light™ to all consumer package goods is not helpful when trying to find placement or promotional opportunities in the market. The general rule when defining the market and subsequent segments within that market is that you must take care to ensure that the segment is both relevant to the brand and viable/profitable in terms of its size.

Product Segmentation

Product segmentation often follows the manufacturers' conventions in terms of the offerings, or variants, within a trademark. For example, Budweiser™ has several brand styles (or variants) that all fall under the trademark "Budweiser™". However, each variant is uniquely different in terms of the offering. The assumption is that each brand style was created to satisfy a set of consumers' unmet wants or needs, and that the Budweiser™ trademark will convey confidence regardless of the product variant.

Product segment examples include, but are not limited to, package, size, flavor and price. To get a better understanding let's take a look at the many different segments that exist for the variant Bud Light™. Thinking in terms of the number of segments this product is in, it is helpful to move from the general or broad segments and work toward the specific more marketable segments:

1. Consumer Products (Share of Market Basket)
2. Beverage (Share of Stomach)
3. Alcohol (Share of Category)
4. Beer/Malted (Share of Segment)
5. Light Beer (Share of Sub-Segment)
6. Premium Light Beer (Share of Sub-Segment by Price)

Which level you choose to compare Bud Light™ to is dependent upon the question you are trying to answer. The chart below demonstrates the value of

each segment level that Bud Light™ falls into cross-tabbed by geography. At a strategic level the first two segments may be useful to determine if a substitute product has entered the market that has taken the place of Bud Light™ in the minds of the consumer. The next three segments are intended to compare Bud Light™ to relevant markets and are helpful when developing programs.

Product Segments

		Beverage	Alcohol	Beer/Malted	Light Beer	Prem. Lt. Beer
Geography	Total US					
	Region					
	State					
	Metro					
	Account					

Not Useful

Used Strategically

Used Tactically

Product segmentation alone is not enough to develop actionable programs within the market. Product segment analysis demonstrates where strengths or weaknesses are compared to non-direct and direct competitors, however, in order to define a solid tactical program; the marketer must know where to go to apply those programs. That is why you need to develop a matrix that will give not only the relative competition but also where the programs are executed. The

next section defines geography and trade channel segmentation and its value when defining target markets.

Geographic Segmentation

In the simplest terms, geographic segments tend to follow defined boundaries such as country, region, state or metro definitions. In many ways this segment category is the most misused of the four. Marketers tend to make tactical promotional and placement decisions based on geographic location rather than looking at the consumers' behavior. Generally, a given company's sales force is aligned along geographic hierarchies such as state, city, county etc. Further, promotional budget dollars are allocated to the sales force which means that these dollars follow the same geographic hierarchies. This forces promotional programs and tactics to follow the same geographic logic.

Unfortunately for the marketer, consumers' wants and needs are not dependent upon geographic classifications. For example, your sales force has a rep in Providence, Rhode Island and another in New Your City. If the company decides to allocate resources by sales rep there is a good chance that the number one opportunity account for your product in Providence is less relevant than the one hundred and first opportunity account in New York City. If the resources allocated to each rep limit the marketing activity to only 50 outlets then the promotional resources for the brand are wasted by not targeting all one hundred opportunity accounts in New York City. By artificially allocating resources along

geographic lines, the company (and the brand manager) missed an opportunity to target the most receptive consumers for the activity.

Trade-Channel Segmentation:

Trade-channel segmentation breaks down retail outlets in terms of the type of outlet categories in the market such as grocery, super market, convenience/gas, liquor store and others. Some marketers use trade-channel marketing at both a strategic and tactical level. Many who use trade-channel marketing make the mistake of assuming that consumers purchase products based on *where* the product is as opposed to the consumer behavior within the individual store. In other words these trade-channel marketers assume that a consumer will not buy certain products at a grocery store, but rather, wait until they get to a convenience store.

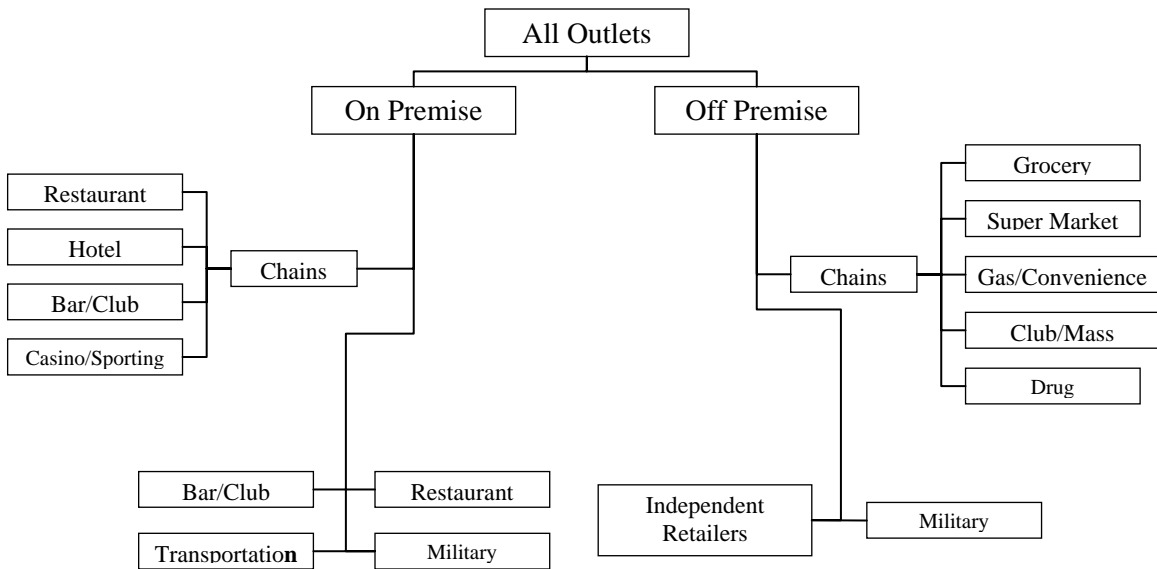
While trade-channel marketing is not helpful in determining the assortment of products within the outlet type, tactically it can help determine pack size. For example you can expect larger pack size purchases from Sam's Warehouse™ than you might from a Speedway™ convenience store. There is another apparent advantage utilizing channel marketing and that is the ease in which the sales manager can gain distribution of brand in multiple stores. Many of the outlets within any given trade-channel are part of a larger chain and usually have one buyer who can make a promotional or distribution decision for hundreds of outlets. This gives the sales manager the opportunity to make one phone call to secure broad scale marketing programs and/or distribution.

While this tactic is expedient, it does not speak to the appropriateness (or lack thereof) of the distribution or marketing program within individual accounts in the chain. When looking at multiple outlets across many states, or even within the same city, it is unwise to assume each outlet would have consumers with identical wants and needs.

Historically channel marketing is the primary vehicle marketers use to look at and evaluate their products in the market place. The fundamental flaw with this type of thinking is that it does not take into account the behavior of the consumer within each specific account or the evolution of retail trade-channels over time. It is my belief that it is the *source* of the data that drives the trade-channel reporting development. Companies such as AC Nielsen™ and IRI™ have defined the trade channels because the data was, by and large, sample data from specific trade-channels and reporting along the trade-channel definitions made it easier to collect and quantify.

In terms of segmenting at the trade-channel level (if you must) there are several ways to classify these accounts. The figure below shows the retail segments I have found to be most helpful when trying find relevant retail channel segments for tactical executions in the market:

Outlet Segments



Note: On Premise are accounts where the product is consumed at the establishment whereas Off Premise refers to establishments where the product is consumed elsewhere.

You will notice that there are no distinctions within the segments in terms of price or ethnicity. For example the restaurant segment is not further segmented between fine dining versus casual, and French versus Italian. The reason I do not distinguish between these attributes is because I believe the consumer behavior within the outlet, are exhibited by the sales within the account and will segment any particular outlet for me. Specifically, if I know that consumers who frequent Mexican food restaurants tend to have a higher consumption rate of Jose Cuervo Tequila™ and Corona™ beer, and when I find an outlet within a given geography that satisfies this criterion, then I can assume that those outlets are Mexican food restaurants without further analysis. And even if it is not a traditional Mexican food establishment, the consumer behavior within the account suggests it is close enough to treat is as such. The advantage of this

type of analysis is that it gives the marketer the ability to match the right products to consumers who exhibit a desired behavior (more on this in chapter 3).

Consumer Segmentation

Consumer segments can range from demographic to psychographic to behavioral and all points between. Marketers who use Demographics as the basis for consumer segmentation at a strategic level inherently believe that markets are composed of groups of homogenous consumers in terms of age, ethnicity, and gender just to name a few. The implication is that these consumers have similar reasons for buying a particular product based on the fact that they are in the same demographic group.

Users of Psychographic consumer segments believe that by understanding what and how consumers think gives them the ability to see inside their heads and make better marketing decisions, especially when it comes to directing creative executions. It does not give the marketer much help in deciding where to go to meet the wants and needs in the market, however.

On the other hand, Behaviorist believes that the market is composed of consumer groups with homogeneous *reasons* for purchasing a product regardless of their demographics or psychographics. As an example, there may be a 68 year old black female in New York City who prefers Lucky Strike™ cigarettes for the same reason as a 21 year old white male living in San Francisco does. The premise is that the wants and needs of the consumer determine the segment that the consumer falls into, regardless of demographics.

This is not to say that there are products in the market that will lend themselves to a certain age or ethnic group. For example, skateboards would not necessarily be targeted toward, nor appeal to, many individuals over the age of 70. Similarly Afro-Sheen™ is not useful to groups outside the black ethnic group. In these examples the proposition has segmented the market by appealing to a specific group, based on some physical attribute the consumer possesses. However, within those groups there are many players competing for the same consumers. The company who satisfies the consumers wants and needs the best, regardless of other demographic constraints, will win the game.

So, how do behaviorists find demographically different people who share a common want or need in the marketplace? The answer is to find the accounts where the desired activity is taking place. Embedded in the sales data are the tools necessary to find the marketing opportunities. In the example below the process is laid out and gives you an idea of how to whittle (or segment) the accounts down into manageable (and thereby marketable) opportunities.

A fundamental question that marketers must come to grips with is, “Why would you invest in an account whose customers do not display a propensity to purchase either your brand or your competitors?” The reciprocal of this concept is to search for accounts who *do* display a propensity to purchase your brand or its competitive set more so than other accounts and then find those accounts where your brand is underrepresented.

The following example illustrates the process of using account level sales data rather than demographics to define promotional opportunities in the market.

Assumptions:

1. Smirnoff™ vodka is your company's proposition while Absolut™ Vodka and Grey Goose™ vodka are your closest competitors' propositions.
2. Nationally each brand has a share figure of 7.7%, 8.2% and 6.8% (respectively) as indicated in the National column of the Relative Share table.
3. Each of these three brands competes within the same price tier and is considered very close in terms of product quality and attributes.
4. Each of these accounts sells around the same weekly volume.
5. You only have enough program dollars to invest in one account.
6. Which account do you invest in?

Share of Market

	National	Account 1	Account 2	Account 3
Smirnoff™	7.7%	9.2%	4.3%	7.7%
Absolut™	8.2%	8.0%	9.8%	6.2%
Grey Goose™	6.8%	6.5%	8.2%	4.3%
Total	22.7%	23.7%	22.3%	18.2%

The first step in evaluating the opportunity is to look at the total share of the competitive set (segment) within each account; and then compare that to the national share by indexing (see box below) the account share to the national share.

Indexing

Indexing is a mathematical technique that allows you to compare the relative share of each brand within an account to a larger geography.

The formula is simple:

$$(S_A / S_N) * 100$$

Where:

S_A = Account Segment Share

S_N = Total Segment Share (in this case national)

The closer to 100 the result is indicates that the account share is at least equal to the national share.

The table below gives each brand's index versus national within each account. For example; in Account 1, Absolut™ has an index of 98 which tells us that the share within the account for this brand is very close to its national share. Put another way Absolut™ is almost achieving its "fair share" of the account's sales based on the national share of market for the brand.

Account Share Indexed to National Share

	National	Account 1	Account 2	Account 3
Smirnoff™	100	119	56	100
Absolut™	100	98	120	76
Brand C	100	96	112	63
Total	100	104	98	80

Both Account 1 and Account 2 indicate that the total account share index for the competitive set (segment share) is very close to 100 while Account 3 indexes very low by comparison. As a first cut a marketer would be more interested in

Accounts 1 and 2 because the data indicates that those consumers who prefer this segment are more likely to shop in these accounts than in Account 3.

Looking only at Account 1, we see that Smirnoff™ (our company's brand) does very well as its index is 119 indicating that it is receiving more than its "fair share" of Account 1's sales compared to the brand's national share. While the other two brands in the set are relatively close to gaining their "fair share" as compared to national levels. Some would say that Account 1 is the number one account in terms of promotional opportunity, however, since both the store and each brand within the account are above or close to the national average it would be difficult to garner incremental sales from this account since it appears to be getting its "fair share" both in total and by brand. The upside in this account is minimal given the total accounts index vs. National. The only way to increase your sales for Smirnoff™ is to take it from your competition, which in this case will be very costly given the maturity of the segment in the account.

Moving to Account 2, however, shows that Smirnoff™ is under indexed in terms of its "fair share", and the fact that the account's total index is at almost the national average for the segment tells us that there is an opportunity to move Smirnoff™ up taking share from its two (better developed) competitors. In other words, the ducks are there but you are not getting your "fair share" of them.

In Account 3, Smirnoff™ is clearly the market leader and outpaces its rivals. The 80 index for the segment in Account 3 suggests that is not a priority account in the minds of the consumer given the low index vs. National.

The only way to grow in account 3 is to either take it from the meager volume your competitors have or get more consumers to buy the product in this account. The first is costly in that there is not much volume to garner and the second option is dangerous because you must pull customers into the store from another account. The danger here is that you may drive value in this account at the expense of one of the other accounts at a higher cost. This is commonly referred to as “across the street” sales and only increases your costs but not your sales. In the case of account 3, you simply count your blessings and apply your marketing dollars in Account 2, where there are more consumers that are receptive to the segment and your sales are underrepresented. Keep in mind that in this analysis we did not indicate what type of outlet these accounts are. In fact, you should ask yourself the question: “Would your decision to promote in Account 2 change if you knew that Account 1 is a liquor store, Account 2 a drug store and Account 3 is a super market?” I would submit that it is not relevant what the trade channel designation is until it is time to devise the tactical elements of the program you plan to use. The idea here is that there are some programs that lend themselves to certain trade-channels but the fact that an outlet is in a particular trade-channel has no bearing on whether or not you invest in it. Further, would your decision be different if you knew that the majority of the consumers who shopped at Account 1 were Asians and the majority of the patrons for Account 2 were Black? The answer is obviously no. This exercise is simply how we rationalize which accounts we want to invest our resources in.

However, when it comes to tactics we *do* need to understand not only what trade-channel we are dealing with (for pack size, and other promotional constraints) but also who we are targeting to help develop appropriate creative executions.

Now that we know which accounts to invest in, what research do we use to lead us in the right direction as it pertains to understanding how our product (and our competitors' products) are perceived in the market? Further, how do we get a profile of both our consumers and our competitors' consumers? The answer is to use a Segmentation Study.

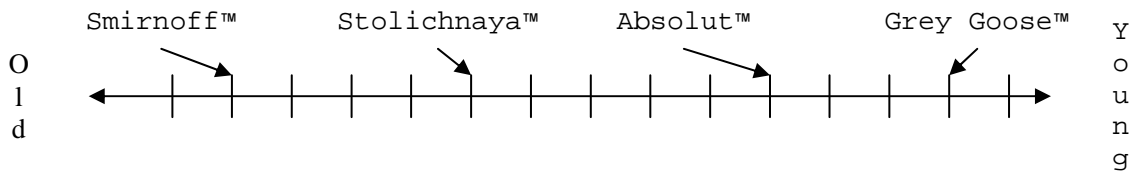
A segmentation study is a type of primary research designed to determine similarities and differences among both target consumer groups and competitive products. The segmentation studies identify what motivates consumers to buy particular brands and their perception of all brands in a competitive set. These segments are comprised of purchasers who are as similar as possible to each other, but also as different as possible in terms of their purchase behavior.

Target segments are then selected and profiled to help you understand how to market your product.

A quantitative methodology, such as telephone interviews, mail surveys etc. is used in segmentation studies. Analytical tools, such as cluster analysis, are used to divide the sample into segments, and discriminant analysis is used to determine the characteristics that motivate each segment.

For example, your brand exists in a "competitive Set". The segmentation study asks the consumer to rate this competitive set of brands relative to each other on

a scale based on a perception the consumer has of each brand. For example, you might be interested in the consumers' perception of the competitive set of brands based on the perceived age of the users. The instructions for this rating are: "Rate these brands on a scale for those that older people might buy to those that younger people might buy".



Each of the respondents' answers are recorded, which when tabulated, give the researcher a quantifiable result set giving the relative perceived age of the consumer of each brand. This is important if you are the brand manager of Smirnoff™ and consumers that have vodka in their consideration set perceive the brand as "old" and when appealing to a trendier set of consumers a perceived elderly attribute is not necessarily appealing to this group.

Segmentation studies are crucial when determining how your brand is perceived by the target consumer relative to your competition. The results of this research allow the marketer to determine the strengths and weakness of their brand as it relates to its competitive set. Given that one of the ways to lose volume is an increase in "quitting", Smirnoff™ is in a position to lose its consumers users due to the ultimate "quitting" if its consumer set is dying and there are no inflows from other sources such as "switchers-in" or "starters".

Segmentation studies are the first step in determining the brand strategy for future activity. Ideally this research is conducted annually but not less than every other year.

In the example above where we were trying to decide what account to invest in, we determined that the consumers who patron account 2 found our competitors' brands more compelling than ours. Our segmentation study will help us determine why some consumers prefer those brands to ours.

If we assume that our brand (Smirnoff™) skews older and the competitors skew younger we can make the assumption that Account 3's patrons are older and account 2 skews younger. Further, if we are trying to reposition our brand to a younger set of consumers then our merchandising and communication efforts is directed to where the "younger" brands tend to over index.

Summary

In this paper we introduced the concept of segments and segmentation. Of the four general segmentation categories, the most reliable is the consumer behavior segment where the consumers' activities help segment each outlet by way of the aggregations of sales in individual accounts over time. If, for example, one set of similar products tend to over index in a particular account then by definition consumers who prefer that set of brands are satisfying their wants and needs in that account over other accounts in the same geography regardless of trade-channel, geography or demographics.