

– More on Market Segmentation –

Segmentation research is used to identify lead segments for strategic focus with product development, marketing, pricing, and distribution. It is also appropriate for a wide range of other business objectives, such as new product or service development, positioning of individual brands, promotional messaging, and customer retention, to name a few.

StrataMark partners closely with our clients at all points in the research process, with the experience and expertise necessary to ensure successful results. So whether segmentation is newly on the horizon for your company or additional segmentation is required in response to a changing market or category over time, StrataMark is strongly positioned to support your growth initiatives.

Development of Basis Variables

Because the quality of measures serving as principal inputs to the statistical segmentation will directly impact the quality of the segments uncovered, StrataMark places a great deal of emphasis on development of these measures, which are commonly referred to as the **basis variables**.

As necessary, StrataMark will conduct qualitative research in advance of the quantitative segmentation to ensure that the set of basis variables are comprehensive and resonate properly with respondents.

Though many different types of basis variables may be considered as inputs to the statistical clustering algorithm being used to develop segments, final basis variables are carefully selected to support study objectives and reduce redundancy between measures.

Common Types of Basis Variables

- **Benefit or Features Desired**
- **Unmet Needs**
- **Product-related Attitudes**
- **Lifestyle/ Psychographics**
- **Usage Quantity/Patterns**
- **Geographic**
- **Firmographics**
- **Demographics/Classification**

Profiling Variables

StrataMark also recognizes the importance of including a wealth of profiling measures. These profiling variables can include questions in media habits, category-related behavior, and other descriptive measures that help to characterize the segments to help you design ways to best access them through marketing and distribution channels.

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Statistical Segmentation Algorithms/ Clustering Methods

In addition to a rich, comprehensive set of basis variables, the statistical segmentation algorithm (clustering method) that is utilized to generate segments is of paramount importance in driving the quality of segments uncovered. Different kinds of data result from different types of basis variables, and some statistical algorithms will be more successful than others in deriving segments from certain types or combinations of data.

StrataMark takes great care in selecting the most appropriate clustering algorithm, and may apply more than one algorithm or a combination in order to achieve the highest quality segmentation solutions for client consideration. Depending on the study objectives and type of variables in the data set, some of the more frequently applied and/or emergent clustering methods include:

- ***Latent Class Cluster Analysis***
- ***K-means Iterative Partitioning***
- ***Cluster Ensemble Analysis***
- ***Hierarchical Clustering***
- ***Two-Step Clustering***
- ***CHAID and CART***
- ***Random Forest Algorithm***
- ***Neural Networks***

Note that solutions achieved with a statistical clustering method can be further augmented by including additional key variables (e.g., category spending or geographic region) if doing so makes the final solution more actionable. StrataMark believes the relevance of any clustering approach is summed up entirely by its ability to yield highly credible, intuitive, and actionable segments for our clients.

Segment Classification Tools

Clients will often also benefit by receiving a ***Segment Classification Tool*** -- a model based on the research results which predicts segment membership from a significantly reduced set of variables. This predictive model can be used to classify members or prospects of the target market, and for screening future qualitative or quantitative research participants.

Please see analysis reporting examples included in this document.

(Fictional Brands and Data in Examples 1-5)

Example 3

Food Shopping & Health Mindsets



Segment Size	Healthy Actives 15%	Busy Families 29%	Affluent Gourmands 17%	Frugal Families 21%	Traditional Socials 7%	Thrifty Seniors 8%	Productive Seniors 3%
How they differ...							
Food shopping tendencies...	Rate convenience over price when choosing a store	More desire to get in and out quickly	More likely to look for new items and meal ideas when shopping	More likely to shop many stores (go where the bargains are)	More apt to take their time and look around when shopping	More likely to shop many stores (go where bargains are)	More apt to take their time and look around when shopping
	More likely to shop at one store regardless of what's on sale	Less tolerance for crowded stores	More willing to buy food they want regardless of cost	More likely to have children with them when shopping	More likely to dip coupons and to shop warehouse stores	More likely to wait for sales on desired items before buying	More desire to see others they know when shopping
	Food quality and selection more important than price	Looking for sales and bargains	Less likely to be keeping a tight budget	More willing to forego desired food if too expensive	Less likely to shop at just one store	More apt to seek most inexpensive food possible and wait for sales on desired items before buying	Less likely to view shopping as a task or something they need to get done quickly
	Prefer smaller grocery stores over large super centers	Less likely to be an impulse shopper or seek out new items when shopping	Less interest in searching out least expensive food options	Will wait for sales on desired items before buying	Less likely to be an impulse shopper	Less apt to buy on impulse	More likely to look for ideas while shopping
	Not as likely to dip coupons	Make one big shopping trip but multiple fill-in trips per week	Enjoy browsing and open to trying new foods		Enjoy browsing and open to trying new foods	More likely to plan meals before shopping	More apt to buy on impulse
Health related tendencies...	More likely to be satisfied with their eating habits	Strongest desire to improve eating habits of their children	Greatest knowledge of any segment for healthy foods	Less desire to improve eating habits of children	Taste and flavor more important than health when choosing meals	Less willing to pay more for healthy foods	Strongest desire to improve the eating habits of their spouse or significant other
	More apt to buy organic fruits and vegetables	More likely to consider their eating habits unhealthy	More willing to pay for healthy foods	Less knowledgeable about healthy foods	Less likely to consider organic or natural foods important	More likely to consider their eating habits unhealthy	More likely to consider organic or natural foods important
	Like to cook simple but healthy meals	More willing to favor convenience over health when choosing meals	More willing to take the time necessary to make healthy meals	Less willing to pay more for healthy foods	Less willing to pay more for healthy foods	More willing to favor convenience over health when choosing meals	More willing to buy healthier foods if it didn't cost as much
	More knowledgeable about healthy foods	Would be willing to buy healthier foods if they tasted better	More likely to consider organic or natural foods important	Less likely to consider their eating habits healthy	More willing to take the time necessary to make healthy meals. Would be willing to buy healthier foods if they tasted better	Would be willing to buy healthier foods if it didn't cost as much	More willing to pay more for healthy foods



NOTE: Fictional brand and data.

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Demographic & Food Shopping Profiling



Segment Size	Healthy Actives 15%	Busy Families 29%	Affluent Gourmands 17%	Frugal Families 21%	Traditional Socials 7%	Thrifty Seniors 8%	Productive Seniors 3%	
How they differ...								
Demographics...	78% Women	85% Women	70% Women	85% Women	80% Women	80% Women	88% Women	
	Older Middle-aged (age 45-54)	Younger (age 25-44)	Older (45-64)	Younger (age 21-34)	Middle aged (34-54)	Later middle-aged to older (age 45+)	Older (age 45+) Highest % 65+ (16%)	
	Majority empty nesters (57%) or teens (18%)	Most have children <18 (71%)	Fewer with children <18 (16%)	Majority have children <18 (69%)	Majority have children <18 (58%)	Smallest % with children <18 (7%)	Lower % with children <18 (9%)	
	Smaller HH (2.3)	Larger HH (3.3)	Smaller HH (2.1)	Larger HH size HH (3.1)	Larger HH (3.1)	Smaller HH (2.0)	Smallest HH (1.8)	
	Higher Income (\$61K)	Average Income (\$49K)	Highest Income (\$69K)	Lower Income (\$39K)	Average Income (\$51K)	Lowest Income (\$39K)	Higher Income (\$58K)	
	More education	Average education	More education	Less education	Average education	Least education	Higher education	
	Average FT employment/ More PT employment	Less FT employment, More PT employment	Less FT but more PT employment, more are retired	More PT employment	Lower employment More homemakers	Lower employment highest % retired	Lower employment more retired	
	More married (83%)	Average married (69%)		Most apt to be minority (still 87% Caucasian)	Highest married (83%)	Fewer married (51%), more widowed	Average married (67%)	
	Food shopping practices...	On average, 65% of food budget spent at traditional grocer	On average, 50% of food budget spent at traditional grocer	On average, 49% of food budget spent at specialty grocers	On average, 45% of food budget spent at warehouse or discount grocers	On average, 54% of food budget spent at traditional grocer	On average, 49% of food budget spent at traditional grocer	On average, 66% of food budget spent at traditional grocer
		52% shop Ramone's weekly or more often	15% shop Ramone's weekly or more often	Lowest % buy most of their groceries traditional grocer (49%)	15% Shop at Ramone's weekly or more often	32% shop Ramone's weekly or more often	9% Shop at Ramone's weekly or more often	46% shop Ramone's weekly or more often
More apt to make multiple grocery shopping trips weekly		One big shopping trip weekly with frequent fill-in trips	Highest shopping of Ramones weekly or more often (61%)	Likely to shop many different grocery stores		Highest usage of traditional grocery stores for shopping	Highest usage of QTR's for grocery shopping	

NOTE: Fictional brand and data.

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Segments Overview



✓ Four segments are based primarily on shopping behavior and the emotional state of the shopper:



"Man on a Mission" (9%)

– Shopper is focused, in a hurry. Chooses Family Market Center to get in & out quickly. Usually purchases just one or very few items. These shoppers are not motivated by sales and specials.



"Convenience-Driven" (22%)

– Trip is driven by a need for convenience. Family Market Center is easier than a larger and/or more distant store to pick up "fill in" products. Makes multiple purchases to save another trip.



"Let's Get a Deal" (19%)

– Trip is taken primarily to buy items on sale or redeem coupons. Often uses a list based on Family Market Center ads/circulars, or uses Frequent Shopper coupons as a working list.



"Pleasure Cruise" (13%)

– Trip satisfies desire to shop. Shopper enjoys browsing – "looking for what's new" -- and purchases are not necessarily driven by sale prices. Multiple items are bought – the majority of purchases are "impulse" buys.



NOTE: Fictional brand and data.

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Segments Overview



✓ Three additional segments are formed primarily on the key purpose of trip and/or shopper perceptions and attitudes toward Family Market Center:



"Friendly Neighborhood Store" (19%)

– Shoppers are motivated by familiarity, comfort, trust. Prefer Family Market Center to a larger, less personal store for many of their "everyday" items. Shopper has close interactions with store employees, and strongly appreciates their advice & personal service.



"Nurturer" (7%)

– Primary purpose of the trip is to obtain items for a relative, friend, or neighbor – a "caregiver". Could be doing volunteer work. Family Market Center helps fulfill the shopper's desire to help others or take care of an ailing loved one.



"Get Ready, Set, Go" (11%)

– Customer is getting ready for an event, function, or occasion and needs to pick up specific items to complete this task. Family Market Center is closely associated with the needed item and is the destination of choice to fulfill that specific need.










NOTE: Fictional brand and data.

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Comparison of Segments



SEGMENT DIFFERENCES	 Man on a Mission	 Convenience-Driven	 Let's Get a Deal	 Pleasure Cruise	 Friendly Neighborhood Store	 Nurturer	 Get Ready, Set, Go
Gender	69% Male	75% Female	80% Female	91% Female	87% Female	53% Female	79% Female
Key Characteristic	In & out-focus ed in a hurry, use a very little of store.	Driven by need for convenience — "one-stop shopping".	Trip taken to redeem coupons or buy on sale; price/value-driven.	Trips satisfy desire to shop & browse. Tends to be loyal FM's shopper.	Shoppers driven by familiarity, comfort, trust in FM-- strongly positive toward FM.	Primary purpose is to pick up items for relative, friend or neighbor.	Shopper is getting ready for an event, function, or occasion & needs specific items.
Store Type	Urban stores more often than Suburban Neighborhood	Suburban and Urban Neighborhood more than Urban Business	Suburban and Urban Neighborhoods; Urban Business on weekends	All about equally	Suburban and Urban Neighborhood more than Urban Business	Suburban and Urban Neighborhoods more than Urban Business	Suburban Neighborhood & Urban Business (UB near hotel & retail area)
Daypart	Urban stores weekday & weekend, Sub. Nghbrhd - eve & weekend	Urb. Bz - weekday - evening & weekend, Suburban Nghbrhd - daytime	Weekend, especially in Urb Bz and Suburban Neighborhood	Evening, but also other dayparts -- weekend in Suburban Nghbrhd stores	Urban Nghbrhd - weekday, Suburban Nghbrhd - evening & weekend	All dayparts. Slightly more weekday & evening than weekend	Weekday or weekend. Rarely in evening.
Browsing Behavior	No browsing	35% browsed Avg. 5-10 min. to trigger reminders of "what else is needed"	71% browsed Avg. 5-10 min. what's on sale, look for coupon/circular items	100% browsed Avg. 30-40 min. primarily in beauty aisles	56% browsed Frequent shoppers not as likely to browse	43% browsed avg. 10-20 min	72% browsed Time spent varies based on time constraints
Typical Purchases							
Avg. Basket Size	1-3 items	25 items	25-30 items	30 items	15 items	15-20 items	15 items
Avg. Shopper Expenditure *	\$7.50	\$107.40	\$122.50	\$161.50	\$67.50	\$91.00	\$81.50
Ratio Planned vs. Unplanned Items	4:1	3:2	3:2	1:3	1:1	1:1	7:3
Made Planned Purchase	Virtually all	9/10	Virtually All	3/4	4/5	Virtually all	Virtually All
Avg. Expenditure - Planned **	\$5.50	\$76.50	\$82.50	\$57.00	\$61.50	\$65.00	\$68.50
Made Unplanned Purchase	22%	6%	50%	97%	41%	43%	59%
Avg. Expenditure - Unplanned **	\$2.90	\$65.50	\$100.00	\$124.00	\$51.00	\$60.00	\$23.50
Sales Driven?	No	Some are price-conscious	Yes	Sale prices drive some unplanned	Like Frq Shopper Points	Sale prices drive unplanned buys	No
Used Coupons	1%	20%	63%	10%	55%	6%	2%
Used Circular/Sale Ads	0	15%	55%	12%	21%	8%	18%
Bought Item(s) on Sale	5%	22%	75%	86%	33%	28%	17%










NOTE: Fictional brand and data.

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Comparison of Segments (Continued)



SEGMENT DIFFERENCES	 Man on a Mission	 Convenience-Driven	 Let's Get a Deal	 Pleasure Cruise	 Friendly Neighborhood Store	 Nurturer	 Get Ready, Set, Go
Top Planned Item Categories	Beauty Beverages Snacks Gum/Mints	Beauty Household Food OTC/First Aid Toiletries	Beauty Food Toiletries Greeting Cards	Toiletries Beauty OTC & First Aid Prescription Photos/Film	OTC & First Aid Prescription Gummints Cigarettes Baby Household	OTC & First Aid Prescription (esp. skin & hair) Prescription Vitamins/Nutrients Household	Beauty (esp. cosmetics & hair care) Beverages Food Toiletries
Top Impulse Item Categories	Snacks Gum/Mints Toiletries	Beauty Food Beverages Snacks Toiletries	Beauty Food Household OTC & First Aid	Beauty (esp. cosmetics & skin care) Snacks Household	Beverages Snacks Office Supplies Household	Beauty (esp. cosmetics) Snacks Beverages Seasonal	Snacks Gum/Mints Food Beverages
List usage	No list	19% written list 34% mental list	29% written list 53% mental list Some use coupon as "list"	No written list 30% mental list	47% written list 26% mental list	36% written list 9% mental list	35% written list 21% mental list
Consumption	Immediate/very soon	Today or within next day or two	Stocking up or items running low on but not necessarily out of yet	Varies -- some impulse items want to "try right away" or will eat soon, some stocking up	Varies Many impulse items are snacks/beverages for immediate consumption	Planned items tend to be immediate/soon, impulse items more varied	Today/soon for planned item, immediately for impulse snacks & beverages
Buying for	Self	Self & families/household	Self & families/household	Self, families, & friends -- also gift buying	Self & families	Spouse, child, other relatives, neighbors, self	Self & families
Shopping with	Alone	Alone or with child	Alone	Some Alone / some with friend, child	Alone or with child	Alone or accompanying sick/elderly	Alone
Trip Context	Near home/work Midst of other stops/errands/shopping	Most heading home after trip. Highest % (1/3) returning to same place left from	Stop is often in midst of other errands & shopping trips - esp. on weekends	Evening trips on way home from work or home/return home. Weekends - shopping & errands	Most going home after trip, some in midst of other errands	Most heading home, some returning to same place (home-home, work-work, hospital-hospital)	Most going home after trip, some in midst of other errands



NOTE: Fictional brand and data.

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Example 5

Sample Data and Algorithm Worksheets [See p. 2 for explanation]



(Move your mouse pointer over cell label to see data entry definitions (where necessary). They will appear in a red box offset slightly to the right of the cell.)

A	B	C	D	E	F	G	H	I	J
CUSTOMER ID	Household Income (enter 1-5)	1= Under \$30K 2= \$30K-\$50K 3= 550K-\$75K 4= 75K-\$100K 5= \$100K+	Home Ownership (enter 0 or 1)	College Grad (enter 0 or 1)	Gender (enter 0 or 1)	Children <18 (enter 0 or 1)	Married (enter 0 or 1)	Checking Account (enter 0 or 1)	Savings Account (enter 0 or 1)
11079021	4	4	1	1	0	1	1	1	1
11079022	2	1	0	1	1	0	0	1	0
11079023	3	4	0	0	0	0	0	1	0
11079024	3	3	0	0	0	0	0	1	0
11079025	5	6	0	0	0	0	0	1	0
11079026	1	1	0	0	0	0	0	1	0
11079027	4	5	0	0	0	0	0	1	0
11079028	4	3	0	0	0	0	0	1	0
11079029	3	6	0	0	0	0	0	1	0
11079030	5	5	0	0	0	0	0	1	0
11079031	1	1	0	0	0	0	0	1	0
11079032	2	4	0	0	0	0	0	1	0
11079033	1	5	0	0	0	0	0	1	0
11079034	4	3	0	0	0	0	0	1	0
11079035	3	4	0	0	0	0	0	1	0
11079036	6	3	0	0	0	0	0	1	0
11079037	1	2	0	0	0	0	0	1	0
11079038	5	3	0	0	0	0	0	1	0
11079039	3	4	0	0	0	0	0	1	0
11079040	2	4	0	0	0	0	0	1	0
11079041	1	5	0	0	0	0	0	1	0
11079042	4	3	0	0	0	0	0	1	0
11079043	3	4	0	0	0	0	0	1	0
11079044	6	3	0	0	0	0	0	1	0
11079045	1	2	0	0	0	0	0	1	0
11079046	5	3	0	0	0	0	0	1	0

A	H	I	J	K	L	M	N	O
CUSTOMER ID	1. Accumulators	2. Acquirers	3. Goal-Oriented	4. Floaters	5. On the Bubble	6. Fragmented	Predicted Segment	Name of Segment
11079021	0.99999995	0.00000001	0.00000000	0.00000000	0.00000000	0.00000000	1	Accumulator
11079022	0.00000000	0.86512249	0.00026014	0.00000109	0.00000001	0.00000000	2	Acquirer
11079023	0.00000120	0.97775879	0.00000000	0.02224001	0.00000000	0.00000000	2	Acquirer
11079024	0.00000000	0.00000000	0.97659988	0.00000000	0.00000000	0.00000000	3	Goal-Oriented
11079025	0.00000003	0.00000000	0.00000000	0.00000014	0.99963002	0.00000000	5	On the Bubble
11079026	0.96096380	0.00000000	0.03903219	0.00000003	0.00000000	0.00000000	1	Accumulator
11079027	0.00000000	0.00000000	0.00110172	0.50819747	0.00000000	0.00000004	4	Floater
11079028	0.00000000	0.94560068	0.00029701	0.00000012	0.05409925	0.00000000	2	Acquirer
11079029	0.00000000	0.18285240	0.00000000	0.00000013	0.81711455	0.00000000	5	On the Bubble
11079030	0.99415227	0.00537786	0.00000000	0.00000000	0.00046987	0.00000000	1	Accumulator
11079031	0.00009582	0.00000002	0.00009806	0.00000060	0.05629456	0.00000000	5	On the Bubble
11079032	0.00000000	0.00000001	0.96876907	0.00000000	0.00011130	0.00000000	3	Goal-Oriented
11079033	0.00000000	0.00000001	0.00000000	0.46732772	0.00005888	0.00000005	4	Floater
11079034	0.00000829	0.99979741	0.00000000	0.00000001	0.00011130	0.00000000	2	Acquirer
11079035	0.99999999	0.00000001	0.00000000	0.00000000	0.00000000	0.00000000	1	Accumulator
11079036	0.00003215	0.81711455	0.00000063	0.18285240	0.00000000	0.00000000	2	Acquirer
11079037	0.99999740	0.00005357	0.00000000	0.00000000	0.00000000	0.00000000	1	Accumulator
11079038	0.00000000	0.00006643	0.66889626	0.00000000	0.00000000	0.00000009	3	Goal-Oriented
11079039	0.00000000	0.99566637	0.00000056	0.00134012	0.00000000	0.00000000	2	Acquirer
11079040	0.18285240	0.00000000	0.00003112	0.81711455	0.00000000	0.00000000	4	Floater
11079041	0.00000000	0.00015141	0.00000000	0.00000000	0.92616613	0.00000000	5	On the Bubble
11079042	0.99865417	0.00005357	0.00000000	0.00000226	0.00134012	0.00000000	1	Accumulator
11079043	0.00000000	0.00000000	0.00003171	0.00000000	0.00000000	0.99996827	6	Fragmented
11079044	0.00000000	0.96876907	0.00005357	0.00000000	0.00000000	0.00000000	2	Acquirer

NOTE: Fictional brand and data.

Segmentation Classification Tool
Brief Overview



This classification tool uses customer financial data that are the basis for Southwest Financial customer segmentation. Data on a variety of characteristics can be entered to predict the segment to which that person belongs.

The tool contains a "Data" spreadsheet in which customer characteristics can be entered. Each row represents a customer and each column represents a characteristic of the customer. Columns A through N contain codes for customer characteristics. Columns O through W contain values that are defined by the column header. Any amount that is "none" must be entered as a '0' in the spreadsheet.

The "Algorithm" spreadsheet contains a predictive algorithm that uses data from the "Data" spreadsheet to predict the most likely market segment for each customer. The algorithm implements a multinomial regression model that predicts the probability that a customer belongs to each of the segments and classifies the practice as belonging to the segment with the highest probability value. The model was derived from the original sample of over 800 customers.

Columns H through M contain predicted probabilities for each of the six segments. The segment number and segment name to which the customer is assigned is presented in Column N and Column O, respectively (as well as in Column Y and Column Z in the "Data" spreadsheet for convenience).

NOTE: Fictional brand and data.