

The power of segmentation

Michael Lieberman, Multivariate Solutions, shows how survey data and careful analysis can be used to refine targeting and define creative direction

NOT EVERY DOLLAR spent in an advertising and sales effort is created equal. Some of those dollars generate far more revenue than others in the advertising and sales budget. It seems that if one only knew beforehand which dollars to spend, and where they should be directed, success would be far more certain.

Our client wanted to find, define and then speak to a particular group of consumers who are willing to pay more for a commodity that is highly price-elastic – gasoline. Our approach to market segmentation and customer targeting is importance based, using a common segmentation technique called Q-factor. This uses the output of fairly straightforward factor analysis to group respondents into four distinct segments; two of these were combined to form a group of people – roughly 25% of the population – who were willing to pay more for gasoline.

This article follows a case study from the identification of the target segmentation, through sociodemographic characteristics, psychographic information, automotive self-description, brand equity of client gasoline based on future

TABLE 2

Segmentation of respondents

| Segment | Respondents in category | % of sample |
|---------------------------|-------------------------|--------------|
| Dependability/ protection | 77 | 12.8 |
| Price | 407 | 67.8 |
| Environment | 55 | 9.2 |
| Performance | 61 | 10.2 |
| Total | 600 | 100.0 |

behaviour intentions and, finally, a brand communication strategy.

Finding the Payers

Cluster analysis is a term thrown around liberally in the market research world. In fact, it encompasses any of a number of techniques – formal and otherwise – that can be used to ‘cluster’ respondents or consumers into marketable groups.

I prefer to apply a Q-factor. This technique uses a principal components analysis, more commonly known as factor analysis, to determine underlying behavioural structures of attributes included in the analysis. Factor analysis

creates ‘families’ of attributes that tend to be rated at similar levels.

Our survey contained a section in which respondents are asked to rate the importance of 13 gasoline attributes. The factor analysis (Table 1) grouped those 13 attributes into the families already described.

After the factor analysis, SPSS software creates four new variables. Each respondent receives a factor score for each of the variables. Each is then assigned to the one where their score is the highest. The segments are named according to the importance ratings contained in the division (Table 2).

Not surprisingly, more than two-thirds of respondents clustered into the ‘Price’ segment. Gasoline is a highly price-elastic business and price is the biggest issue on people’s minds when they decide to fill up.

The Q-factor segmentation was the first step in the search to find our Payers. Now that we have the respondents in four groups, we want to know what they will spend on gasoline.

In the following section of the survey, respondents were asked ‘How much more are you willing to pay for ...’ across a series of gasoline attributes. It is by comparing each of the four segments above that we will be able to find our target audience.

Naturally, the largest group, the ‘Price’ segment, were not among the biggest Payers (Table 3). Although our cluster analysis yielded four segments, our target group consists of two of those segments combined – Dependability/ protection and Environment. These two groups are willing to pay consistently more for gasoline. Together they make up 22% of the total sample.

When combined and tallied, our group is willing to pay, on average, 1¢ more per litre, or 4¢ more per gallon. Given the size of the gasoline market, that is a sizeable chunk and a target for marketing activity. We will call these people the ‘Payers’.

TABLE 1

Gasoline attributes: rating of importance by attribute ‘family’

| Attributes | Dependability/ protection | Price | Environment | Performance |
|--|---------------------------|-------|-------------|-------------|
| 1 Protects your engine | 0.84 | 0.07 | 0.13 | 0.16 |
| 2 Is consistent and reliable | 0.82 | 0.13 | 0.18 | 0.22 |
| 3 Prolongs the engine life | 0.76 | 0.15 | 0.19 | 0.13 |
| 4 Adds power to the engine | 0.66 | 0.08 | 0.02 | 0.37 |
| 5 Has a higher octane level | 0.63 | 0.25 | 0.16 | 0.06 |
| 6 Has a competitive price | 0.23 | 0.76 | 0.13 | -0.01 |
| 7 Has a low price | 0.01 | 0.74 | 0.08 | 0.11 |
| 8 Gives the best mileage | 0.19 | 0.52 | 0.06 | 0.33 |
| 9 Reduces cost of operating your car | 0.43 | 0.52 | 0.08 | 0.35 |
| 10 Does not pollute the air | 0.20 | 0.10 | 0.92 | 0.10 |
| 11 Does not damage the environment | 0.22 | 0.17 | 0.89 | 0.16 |
| 12 Helps your car to accelerate better | 0.35 | 0.08 | 0.02 | 0.75 |
| 13 Helps your car run more smoothly | 0.10 | 0.17 | 0.27 | 0.71 |

Note: figures are factor scores for each variable

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Who are the Payers?

Table 4 shows the demographics of the Payers. The target group is better educated, with a higher income, and, not surprisingly, has a significantly higher usage of premium gasoline. This bodes well for the communication effort, as many of these

Payers will not have to be persuaded to move to a higher-premium gasoline. Also, more than half (54%) already use the client’s gasoline. Again, it is easier to retain a customer than to attract a new one.

Most importantly, the investigation into what they want from a gasoline gives us clues on how to speak to these people.

The Payers are for the most part responsible, busy people, who buy well-known brands (Table 5). What most distinguishes them from the rest is that they will pay more for quality and are willing to try new and exciting things.

Payers are confident drivers who cannot live without their cars. They maintain their cars well, are willing to pay more and believe that there is a difference in brand quality (Table 6). Perhaps our client wants to position its premium gas as the quality, new thing for serious drivers?

Which gasoline uses drive purchase intent?

The importance of brand image lies in the fact that consumers’ response to the

TABLE 4

Sociodemographics of Payers

| | Payers | Price/ performance |
|----------------------|-----------------|-----------------------|
| Average age | 38 yrs | 38 yrs |
| Median annual income | \$32,000 | \$28,000 |
| Attended college | 54% | 46% |
| Married | 63% | 62% |
| Prefer to pay cash | 86% | 88% |
| Male | 67% | 65% |
| Female | 33% | 35% |
| Premium gas | 56% | 39% |
| Use client company | 54% | 47% |

Note: figures in bold illustrate the target group

brand revolves around it. This makes the concept an essential input into marketing strategy, since a positive, strong brand image will lead, presumably, to higher sales. There are a number of approaches that would be useful to the client’s brand managers.

We know that the Payers are willing to pay, on average, 4¢ more per gallon. We know who they are and, on balance, how they view themselves and their cars. The next question is: What characteristics of a gasoline brand will raise purchase intent?

Key association analysis is regression analysis. It measures the strength of descriptive attributes or performance ratings in relation to a strategic characteristic. The strategic characteristic could be, ‘How likely are you to purchase [client’s] gasoline?’ or ‘Overall satisfaction with [client brand] gasoline.’

In the survey, respondents were asked how many times in the next five fill-ups they intend to use the client’s gasoline. Then they were asked a series of questions about the client’s brand of gasoline (as well as about performance ratings of key competitors).

Using the next five purchases as the dependent variable, and the client’s brand performance ratings as the independent variables, we can run a key association ▶

TABLE 3

‘How much more are you willing to pay (¢) for a fuel that ...’

| Attributes | Dependability/ protection | Price | Environment | Performance |
|---|------------------------------|-------|-------------|-------------|
| Prolongs the life of your car | 4.44 | 3.05 | 4.37 | 3.66 |
| Provides added power to the engine | 4.35 | 3.09 | 4.20 | 3.43 |
| Has consistent and reliable quality | 4.27 | 2.97 | 4.06 | 3.3 |
| High-technology fuel engineered to perfectly meet the requirements of today’s engines | 4.23 | 2.91 | 3.91 | 3.4 |
| Is a cleaner-burning fuel, ensuring maximum performance | 4.14 | 3.03 | 4.31 | 3.44 |
| Gives better fuel economy | 4.10 | 2.91 | 3.83 | 3.39 |
| Cleaner and purer fuel, reducing emissions | 3.96 | 2.85 | 3.91 | 3.29 |
| Gives your engine better acceleration | 3.51 | 2.72 | 3.44 | 3.4 |
| Is a gentle fuel that better protects your car’s engine | 3.29 | 2.71 | 3.73 | 3.21 |
| Enables your engine to run more smoothly | 2.96 | 2.59 | 3.27 | 3.4 |
| Average extra ¢ per litre | 3.93 | 2.88 | 3.90 | 3.39 |

Note: figures in bold illustrate the target group who are willing to consistently pay more – the Payers

TABLE 5

Psychographics of Payers

| | Payers | Price/performance |
|--|-----------|-------------------|
| I am a responsible person | 98 | 98 |
| I have a very busy lifestyle | 93 | 87 |
| I am prepared to pay more for services and products of high quality | 82 | 58 |
| I like to buy well-known brands | 75 | 77 |
| I like to try new things | 74 | 56 |
| I like exciting things | 63 | 56 |
| I have a varied lifestyle | 57 | 63 |
| I enjoy relaxing without doing anything | 55 | 57 |
| Material possessions make me feel good | 50 | 60 |
| I am a person who sticks to what I know | 47 | 58 |
| I do not like shopping | 39 | 33 |
| I am always looking for the least expensive products | 28 | 45 |

Note: bold illustrates the distinguishing characteristics of Payers

TABLE 6

Vehicle self-description (% agreeing with statement)

| | Payers | Price/performance |
|---|-----------|-------------------|
| I always have confidence in my own ability to drive | 97 | 97 |
| I rely very much on my vehicle to help me look after my family | 92 | 92 |
| Life without a car is inconceivable | 89 | 87 |
| I give my car maintenance regularly | 87 | 82 |
| I am willing to pay more for a fuel that provides better car performance | 86 | 74 |
| There are certain brands of fuel that are more reliable than others | 82 | 75 |
| I don't mind paying a bit more for a brand of fuel I trust | 80 | 65 |
| Some brands are better for my vehicle than others | 79 | 82 |

Note: bold illustrates the distinguishing characteristics of Payers

TABLE 7

How Payers see themselves, their vehicle and the brand

| See themselves | See their driving and their vehicle | See client's brand |
|---|-------------------------------------|---------------------------------|
| Responsible and busy | Confident | Protects the engine |
| Will pay more for quality | Rely on vehicle | Consistent and reliable quality |
| Will try new things but like known brands | Maintain it well | Adds power to the engine |

‘The strategic focus of any advertiser’s effort on behalf of a client is to intensify the relationship of its loyal customers to its premium products’

regression to see which performance ratings are driving purchase intent. In marketing terms, this is brand image – and is also sometimes known as brand equity. An effective communication effort is based on these attributes. The client brand attributes can be shown on a key association map.

When designing the final brand communication strategy, all of the above come into play. In the upcoming brainstorm before designing the campaign to bring in the Payers, Table 7 should be shown and considered.

Conclusion

These days brand managers are looking for the edge. They are turning more and more to the marriage of good research and advertising know-how to get there.

The above mix of methods – cluster analysis, simple top-box rankings and regression – is the process by which value is added to the client/agency relationship; the one that melds solid research with advertising savvy.

The strategic focus of any advertiser’s effort on behalf of a client is to intensify the relationship of its loyal customers to its premium products. However, the process of segmentation, data mining, and uncovering existing brand equities may reveal other opportunities that represent a significant increase in profit for the client. ■

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