Marketing Module 2: Customer Analysis

Sandra Cuellar-Healey, MFS MA
Miguel Gomez, PhD

Charles S. Dyson School of Applied Economics & Management
College of Agriculture and Life Sciences
Cornell University, Ithaca NY 14853-7801
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Foreword

A marketing strategy is something that every single food and agriculture-related business (farms, wholesalers, retailers, etc.), no matter how big or small, needs to have in place in order to succeed in the marketplace. Many business owners in the food and agriculture sector in New York State and elsewhere are hesitant to set up an actual marketing strategy because they simply do not know how to go about developing it. How to better market their products and services remains a primary concern among New York State food businesses as a result.

In response to this need, we offer this Marketing Modules Series of eight modules which constitute a comprehensive training course in marketing management. The overall goal of this series is to improve the marketing skills of food business managers and owners in New York State so that they can develop successful marketing strategies to increase business profitability. More specifically, these Marketing Modules are intended to support the efforts of extension specialists and extension educators as they develop marketing training programs for their stakeholders.

Module 1 (Marketing) offers an overview of the series and discusses the basic pillars of a marketing strategy. Modules 2, 3 and 4 (Customer, Company and Competition, often referred to as ‘The 3 Cs’) focus on key concepts and techniques to conduct market analysis. Modules 5, 6, 7 and 8 (Product, Price, Placement/Distribution and Promotion, or ‘The 4 Ps’), hone in on the essential elements of marketing tactics.

To facilitate their use in extension-related educational activities, modules two to eight consists of three components: 1) a summary of the fundamental concepts, 2) a real-world example relevant to the New York State food and agriculture system to illustrate these concepts, and 3) a set of teaching slides to be used in training sessions and other educational activities in which these modules can be used individually or in combination. Because Module 1 (Marketing) is an overview of the whole series it only includes components 1 and 3. Examples for each of the sections in Module 1 can be drawn from the other seven Modules.

The authors are in debt to Wen-fei Uva for initial funding and direction of the Marketing Modules project; to Nelson Bills for his extensive editorial and content suggestions; and to Michael Hawk for contributions to formatting.

The complete Marketing Modules series can also be accessed online at: http://hortmg.t.gomez.dyson.cornell.edu/Marketing-Modules.html.
1. The Customer First! Why Customer Analysis is Important

Customer satisfaction is the focus of market-oriented firms. Development of a firm’s marketing strategy begins with its customers, or more specifically, with the definition of the target market(s) the firm wants to serve. Firms need to know how and why their target customers buy. This means that firms need to have an in-depth knowledge of customers’ buying behavior and buying decision process in their potential market(s).

2. Understanding Consumer’s Behavior

As illustrated in Figure 1, buying behavior is determined by consumers’ own characteristics as well as by external factors. Consumer’s characteristics encompass cultural, social, personal and psychological traits. The external factors that most directly influence consumer’s buying behavior include marketing and environmental stimuli. Marketing stimuli include the marketing mix (the 4Ps: product, price, promotion and place/distribution) while environmental stimuli encompass the economic, technological, political and cultural environments to which consumers are exposed.

Figure 1. Model of Consumer Behavior

Source: Gomez, Miguel. Customer Analysis Lecture– NCC-553, Fall 2005: adapted from Philip Kotler, Marketing Management (2003), Instructor Course Organizer CD-ROM
2.1 Cultural traits

Culture, subculture and social class have a particularly marked influence on consumer behavior. Culture and the corresponding values are the most fundamental factors in determining what a person wants and how she/he behaves. Within each culture there are subcultures that provide more specific identification for their members. Subcultures include nationalities, religions, ethnic groups, and geographic regions. Social classes reflect income, occupation, education, etc. Social classes are hierarchically ordered and members tend to share similar values, interests, and behavior.

2.2 Social traits

Reference groups, family and social roles and status also have a marked influence on consumers’ behavior. Reference groups are classified into primary and secondary and include groups that have a direct or indirect influence on a person’s attitude or behavior. Primary groups include family, friends, neighbors and co-workers while secondary groups include professional and trade union groups, for example.

While the “family” used to be the most important buying unit for analysis of consumer behavior, due to the socio-economic and demographic trends of recent decades in the US and most developed countries, nowadays “households” are a more appropriate buying unit for marketers to focus on. These trends include: longer life expectancy, lower birth rate, divorce, delayed marriages, cohabitation (two people of opposite or same sex living together), dual careers, and “boomerang children” (children coming back to live with their parents). A household is defined as “a single person living alone or a group of individuals who live together in a common dwelling, regardless of whether they are related.” Households encompass families along with many types of non-traditional living arrangements. Families include the “nuclear family” consisting of a father, a mother and children as well as the “extended family” which includes grandparents, uncles, aunts, and cousins and other relatives, in addition to the nuclear family. Non-traditional households include: households headed by single mothers or single fathers, same-sex couples’ households, and non-family households, among others. As Table 1 illustrates, between 1990 and 2010 married couples’ households and family households grew the least (12% and 19%, respectively) while single fathers’ households increased the most (93%) followed by non-family households (42%) and single mothers’ households (36%).

Single parent households typically face important budget and time constraints and therefore significantly rely on convenient time-saving, microwaveable and convenience food products. As such, they tend to be more experimental and impulsive and are not brand loyal. Married couples without children spent less money on food-at-home than married couples with children (57% vs. 60%), and married couples with children spent 75% more on food-away-from-home than one-parent households, according to the 2011 Consumer Expenditures Survey of the US Bureau of Labor Statistics.
Table 1. Family and Non-Traditional Households in the U.S. 1990 - 2010

<table>
<thead>
<tr>
<th></th>
<th>1990 Number</th>
<th>1990 %</th>
<th>2010 Number</th>
<th>2010 %</th>
<th>1990-2010 (% Change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Households</td>
<td>83,347,000</td>
<td>100</td>
<td>117,538,000</td>
<td>100</td>
<td>41</td>
</tr>
<tr>
<td>Family households</td>
<td>66,090,000</td>
<td>79</td>
<td>78,833,000</td>
<td>67</td>
<td>19</td>
</tr>
<tr>
<td>Married couples</td>
<td>52,317,000</td>
<td>63</td>
<td>58,410,000</td>
<td>50</td>
<td>12</td>
</tr>
<tr>
<td>Single fathers</td>
<td>2,884,000</td>
<td>3</td>
<td>5,580,000</td>
<td>5</td>
<td>93</td>
</tr>
<tr>
<td>Single mothers</td>
<td>10,890,000</td>
<td>13</td>
<td>14,843,000</td>
<td>13</td>
<td>36</td>
</tr>
<tr>
<td>Non-family Households</td>
<td>27,257,000</td>
<td>32</td>
<td>38,705,000</td>
<td>33</td>
<td>42</td>
</tr>
<tr>
<td>Persons/Family</td>
<td>3.17</td>
<td></td>
<td>3.16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Persons/household</td>
<td>2.62</td>
<td></td>
<td>2.59</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


To be successful, firms need to understand the role that individuals in these different household structures play when deciding what products/services to purchase and consume. These roles include: gatekeeper, influencer, decider, buyer and user. In addition, they should be aware that household purchase decisions can be made by one, some, or all members of the household and, similarly, that the products/services may be consumed by one, some or all of the household members.

2.3 Personal traits

Personal traits encompass age, stage in the life cycle, occupation, economic circumstances, lifestyle, personality and self-concept.

Age: consumer’s demand for products and services changes over their lifespan. For example, foods consumed change according to consumer’s needs and preferences from their early years (baby foods), through their adult life (most foods) and elderly years (special diets). Similarly, taste in clothes, music, furniture, and entertainment change with age.

Life cycle stages: consumption also changes as consumers age and as life changing events, such as marriage, divorce, remarriage, widowhood, children arriving or leaving, and aging, shape the structure of the households they live in. The term “family life cycle” encompasses these different household arrangements characterized by different needs, attitudes and purchasing behavior. According to Philip Kotler, the traditional family lifecycle encompasses nine stages, namely: bachelor, newly married couples (without children), full nest I (young married couples with youngest child under six), full nest II (young married couples with youngest child six or over), full nest III (middle aged married couples with dependent children), empty nest I (middle aged married couples with no children at home - head of household still in the labor force), empty nest II (older married couples with no children at home-head of household retired), solitary survivor in labor force and solitary survivor retired. Furthermore, divorce which is still significant in the US, gives
way to single parent households along with all of the non-traditional household arrangements of today’s society, that will undergo similar life cycles. A few examples of consumer’s status and purchasing behavior at these different life cycle stages help illustrate the implications for marketers. Bachelors (young single individuals not living at home) typically have few financial burdens, are opinion leaders and spend a good amount of money on entertainment-related products and activities. Full Nest I families, on the other hand, are interested in new products, are much influenced by advertising and spend a good amount of their money on home and children goods. And finally, single parent households tend to have lower incomes, spend less on most things, value convenient products (especially foods) and tend to be renters rather than owners.

Occupation: an individual’s occupation also influences his/her consumption pattern, depending on their specific roles and interests as well as on their status and income level. For example, a blue collar worker will buy work clothes and shoes, while a corporate executive will buy more expensive suits and country club memberships.

Economic Circumstances: consumer’s purchasing behavior is heavily influenced by their economic circumstances, reflected by their spendable income, savings and assets, debts, borrowing power, and attitude toward spending vs. saving.

Lifestyle: an individual’s lifestyle reflects than individual’s own pattern of living and is expressed through the activities, interests and opinions of that individual as she/he interacts with her/his environment.

Personality and self-concept: an individual’s own personality (determined by traits such as self-confidence, sociability, defensiveness, and adaptability) along with her/his self-concept (how the individual sees her/himself), also have a marked influence on buying behavior.

2.4 Psychological traits

The psychological traits that most heavily influence consumer buying choices include: motivation, perception, learning and beliefs and attitudes.

Motivation: individuals have many biological (e.g. hunger, thirst, discomfort, etc.) and psychological (e.g. recognitions, esteem, belonging, etc.) needs at any given time. When sufficiently aroused, a need becomes a motive that drives an individual to buy (or not buy) a product. Psychologists have developed theories of human motivation based on the principles of Sigmund Freud, Abraham Maslow and Frederick Herzberg, intended at providing more specific leads for marketers.

Perception: what a motivated individual actually does is heavily influenced by her/his perception of a particular situation. Perception is the process an individual goes through to select, organize, and interpret information in order to develop a picture of the world around her/him. It depends not only on the physical stimuli but also on the relationship of these stimuli to the
surroundings and on the individual’s own circumstances. Individuals can have different perceptions of the same object.

Learning: most human behavior is learned and learning encourages changes in behavior that arise from experience. Experts believe that learning is the product of a combination of drives, stimuli, cues, responses and reinforcement. For example, if an individual’s experience with a product is rewarding, her/his tendency is to be positively inclined to buy other product categories of the same brand/company.

Beliefs and attitudes: a belief can be based on knowledge, opinion or faith and reflects what a person thinks of a particular object or idea. Attitudes are very consistent and difficult to change and are as important as beliefs in determining consumer’s behavior. Attitudes reflect consumers’ favorable or unfavorable evaluations, emotional feelings and tendencies towards a specific object or idea.

3. Understanding How Consumers Make Buying Decisions

Firms need to have specific information about the process by which consumers buy the product(s) or service(s) they sell: how important is the need/problem the product addresses? Do they search for information? If so, how do they go about that search? What are the key attributes they look for and how important are they? How do they evaluate the available alternatives? How will the product be used? How frequently? Where do they prefer to buy? How do the members of the Decision Making Unit (DMU) interact? etc.

Understanding how consumers make buying decision requires an in-depth knowledge of the Decision Making Unit (DMU) and the Decision Making Process (DMP).

3.1 The Decision Making Unit (DMU)

Knowledge about the Decision Making Unit (DMU) encompasses knowing who is involved in the purchasing process and the role they play. A member of the DMU can be an initiator, a decider, an influencer, a purchaser and/or a user. More than one member of the DMU can play each role and each member can play more than one role.

*Initiator(s):* is/are the individual(s) that become(s) aware of the importance of addressing a particular need or desire and stimulate(s) the search for a product/service

*Decider(s):* is/are the person(s) who make(s) the decision of what product/service to purchase

*Influencer(s):* is/are the individual(s) that have an influence over the final decision even if not making the actual decision

*Purchaser(s):* is/are the person(s) who actually make the purchase

*User(s):* is/are the individual(s) that actually use/consume the product/service
When planning their communications’ strategy, firms need to have a good understanding of the DMU. Since there can be anywhere from one (the user) to many persons involved in the DMU, playing different roles with different perceptions and specific desires, the communications’ mix needs to appropriately address the issues pertinent to the different members of the DMU.

**Example - Roles played by DMU members in the purchase of a home computer:**

The oldest child realizes having a computer at home will improve his ability to complete his school assignments more efficiently and thus becomes the initiator of a computer purchase. A friend of the family with ample knowledge of computers provides input in regards to the best option and becomes the decider. The parents and siblings provide their input in terms of features, price range etc. and as such act as influencers. The father is the purchaser and ultimately, all members of the family are users.

### 3.2 The Buying Decision Process

As illustrated in Figure 2, customers typically go through five stages when making buying decisions: identification of a need or problem, search for internal and external information (level of involvement), identification and evaluation of alternatives, purchase decision, and post-purchase behavior.

**Identification of a need or problem:** results from the customer’s identification of a real or perceived difference between her/his actual and ideal states. This need can be as simple and real as having no milk in the refrigerator or needing a haircut all the way to the perception that a certain style of haircut or type of clothes is needed in order to be accepted in a group.

**Search for information or level of involvement:** relates to the amount of time and effort customers put into searching for information on a particular product or service before making a purchase decision. Low involvement is typical in the purchase of frequently purchased products or services, where customers make decisions on their own previous experiences or on brand familiarity (e.g. milk, shampoo, carwash services, etc.). High involvement, on the other hand, is characteristic in the purchase of products that are expensive, are bought infrequently, have an important social connotation, or imply a high risk (e.g. personal computers, club memberships, or real estate). In this case, consumers spend a significant amount of time in the search for information, examine different brands, consider many sellers, evaluate many product attributes, and use as many external sources of information as possible.

**Identification and evaluation of alternatives:** customers see products as a bundle of attributes with varying abilities to satisfy their needs and expectations. The key attributes vary by product and their relevance and importance varies among consumers. In addition, customers have their own beliefs about where each brand or seller stands in regards to specific attributes. Ultimately, the attitudes customers develop towards the different alternatives result from their evaluation of the attributes of products, brands and/or sellers.

**Purchase decision:** in this stage the customer develops preferences among the alternative brands of choice and even an intention to purchase one of them. However, the attitude of others and unanticipated situational factors can reverse a customer’s intention to buy or alter the timing of a
purchase. The influence others may have depends on the intensity of their negative attitude towards the customer’s preferred alternative and on the customer’s motivation to go along with their attitude. Examples of unanticipated situational factors include: losing one’s job, other purchase(s) becoming more important or urgent, perceived high risk involved in making the purchase, etc.

Post-purchase behavior: after purchasing the product or service, the customer compares it with her/his expectations and experiences a certain level of satisfaction or dissatisfaction. The level of customer satisfaction is a function of how close the expectations and the product perceived performance are. If the product doesn’t meet the expectations, the customer will be dissatisfied. On the other hand, if it meets or exceeds expectations, the satisfied customer will buy the product again and talk favorably about it to others.

Customer satisfaction is key to a firm’s success for the following reasons: 1) the cost of attracting a new customer is several times the cost of retaining one; 2) the average firm loses 10% of its customers per year; 3) reductions in customer defection increases profits; and 4) the profitability of retained customers tends to increase over time.

**Figure 2 – Consumer Buying Decision Process**

![Figure 2 – Consumer Buying Decision Process](image)

Source: Gomez, Miguel. Customer Analysis Lecture– NCC-553, Fall 2005: adapted from Philip Kotler, Marketing Management (2003), Instructor Course Organizer CD-ROM

4. **Selecting a Target Market**

Because any single firm can rarely satisfy everyone in a given market, identifying those segments that can be served in a profitable way is the key to success. A target market is that part of the “available market” that the firm decides to pursue. The available market includes consumers who have the interest, access and ability to respond to the firm’s offer. Markets can be targeted at four
levels: segments (large identifiable groups within the larger market), niches (a more narrowly defined group), local areas (specific trading areas or neighborhoods), and individuals.

In the selection of its target market(s), a firm explores which potential customers (segments) it will attempt to serve and the resources needed to do it successfully. To this end, the firm needs to assess the fit between the potential target market and the firm’s objectives, the firm’s competitive position (strengths and weaknesses) with respect to the competition, and the likely financial returns that might accrue from the potential target market(s).

Once a firm selects its target market(s), it can determine how to position its product or service in the mind of its target consumers and define the preferred marketing mix (product, price, promotion and place/distribution).

4.1 The Market Segmentation Process

To determine which potential customer segments to serve, firms make use of market segmentation, a technique by which customers can be aggregated into groups in such a way that they are homogeneous within a group and heterogeneous across groups. Different segments usually have different needs and expectations and may require different versions of the same product, pay different prices for it, buy in different places and may be reached by different media. The market segmentation process is conducted in four steps: 1) identify the rationale for segmenting the market; 2) identify segments and develop profiles for each; 3) assess and select the segment(s) to target; and 4) develop marketing strategies for each selected segment.

4.1.1 Step 1: Identify bases for segmenting the market

Segmentation can be conducted on the basis of several different criteria such as: demographics, psychographics, socioeconomic characteristics, geographic location, behavioral factors, etc.

Demographic Segmentation

Demographics encompass the characteristics of a population such as age, gender, education, marital status, household characteristics, family life cycle, ethnic background, occupation, income level, religion, social class, etc. Each of these variables, either singly or in combination, is used to define market segments with specific opportunities related to their demand for goods.

Age is one of the most significant variables in segmenting a population because of differences in needs, interests, along with different purchase and behavior patterns. One way in which the U.S. population is commonly segmented based on age is into “generations” so-called Generation Y, Generation X, Baby Boomers and Traditionalist Americans. The characteristics and behavior of each generation group is influenced both by the relative size of the group and the events associated with their childhood and “coming of age” (Tables 2 & 3).
Table 2. U.S. Market Segments According to Generation: Size and Influences, 2010

<table>
<thead>
<tr>
<th>Generation</th>
<th>Size</th>
<th>Influences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditionalists</td>
<td>40 million</td>
<td>Great depression, WWII, Korean War, Cold War</td>
</tr>
<tr>
<td>Born before 1946</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Baby Boomers</td>
<td>81 million</td>
<td>Economic prosperity, Vietnam War, Rock n’ Roll, sex, drugs</td>
</tr>
<tr>
<td>Born 1946-1964</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Generation X</td>
<td>61 million</td>
<td>Sesame Street, MTV, End of Cold War, Divorce, PCs</td>
</tr>
<tr>
<td>Born 1965-1981</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Millennials</td>
<td>85.4 million</td>
<td>Expanding technology and media, Fall of the Berlin Wall, violence, drugs, gangs</td>
</tr>
<tr>
<td>Born 1982 - 2000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau, American Fact Finder: Age Groups and Sex 2010 & BridgeWorks 2000

Table 3. U.S. Market Segments According to Generation: Traits and Characteristics

<table>
<thead>
<tr>
<th>Generation</th>
<th>Traits</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditionalists</td>
<td>Patriotic, loyal, faith in institutions</td>
<td>Brand loyal, expect value for money</td>
</tr>
<tr>
<td>Baby Boomers</td>
<td>Idealistic, competitive, question authority</td>
<td>Value status, willing to try new brands, limited time</td>
</tr>
<tr>
<td>Generation X</td>
<td>Eclectic, self-reliant, skeptical, highly adaptive to change and technology</td>
<td>Value individuality: need respect and safety and value those who can provide it</td>
</tr>
<tr>
<td>Millennials</td>
<td>Globally concerned, cyber literate, media savvy, environmentally conscious</td>
<td>Savvy consumers, value opinions of peers, loyal to their brands</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau, American Fact Finder: Age Groups and Sex 2010 & BridgeWorks 2000

Ethnic markets are another example of demographic segmentation. Typically an ethnic market is defined as a group of consumers that share a common cultural background and many times even concentrate in a specific geographic area. The food choices of a specific ethnic group, for example, set it apart from the other groups while at the same time, constitute a way to share their identity. To some extent, immigrants adapt to the food habits of the dominant group but ethnic minorities also influence the eating habits of the dominant culture. Immigration now accounts for one third or more of the annual U.S. population growth with those entering the country being ever more culturally diverse. Between 2000 and 2020, the foreign-born population is forecasted to go from 28% to 36%
of the total U.S. population. Supplement 1, at the end of this module illustrates the characteristics of the Hispanic market segment in the U.S. and the corresponding opportunities for the food industry.

- **Psychographic Segmentation**

Psychographics relates to the attitudes, values and interests which define consumers’ lifestyle. Factors recently at work that have changed the way consumers in the U.S. live, with important impacts on the food market include: a rapidly aging population, an increasing number of women joining the workforce, a growing number of dual-income households, less time and desire to buy, prepare and eat foods at home, and an increasing awareness and concern about health, food safety and the environment.

As a result of these changes, new consumer lifestyles and market segments have emerged in the U.S. market. Examples include the “health conscious consumer” and the “environmentally conscious consumer” segments, which have fueled the rapidly growing markets for natural, organic and local foods. The “time-pressed consumer” segment constitutes the driving force for the rapidly growing market for convenience and value-added foods. The “gourmet/specialty foods’ consumer” segment has been brought about by more ethnic diversity and evolving tastes in the U.S.

- **Geographic Segmentation**

Geographically, the U.S. market can be segmented on the basis of any number of spatial alignments. In its broadest geographical segmentation, the U.S. market is often divided into four multi-state regions, namely the Northeast, the Midwest, the South and the West. Each of these regions constitutes a market segment defined by its own geographic and demographic characteristics, but more granular segments can fall along the boundaries of counties, cities, and towns or, finally, individual neighborhoods. Markets can be further segmented by combining geographical, demographic and psychographic variables.

- **Behavioral Segmentation**

In behavioral segmentation consumers are grouped on the basis of their knowledge, attitude, usage and response to specific products or services. Behavioral variables for the purposes of segmentation can include: occasions, benefits, user status, usage rate, loyalty status, readiness stage and attitude.

*Occasions*: buyers are segmented on the basis of when they develop a need or a desire to purchase a product or service. Examples: demand for air travel triggered by college spring breaks, major holidays or vacation seasons; demand for catering services triggered by special family occasions such as weddings, graduations, etc.

*Benefits*: consumers can be segmented on the basis of the benefits they seek when consuming a particular product or service. For example: those who travel to stay in touch with family and friends, those who travel for fun or adventure, and those who travel for work.
**User status:** with respect to a particular product or service, consumers can be segmented into: nonusers, former users, potential users, first time users and regular users.

**Usage rate:** those who use a certain product or service can be segmented into light, medium and heavy users. The later typically constitute a small portion of the market but account for a high percentage of total consumption.

**Loyalty status:** consumers can be divided into four groups based on how loyal they are to particular brand: hardcore loyals, split loyals, shifting loyals and switchers. Hard core loyals always buy only a specific brand, split loyals buy two or three brands, shifting loyals shift from one brand to another, and switchers show no brand loyalty at all. Every market has a proportion of each of these four segments. However, in a market with a high proportion of hardcore loyals, it is difficult for the dominating company to gain more market share and for competitors to break in.

**Readiness stage:** markets are composed of consumers in different levels of readiness to buy a product or service: unaware, aware, informed, interested, desiring, and intending to buy. The marketing program therefore, should be designed according to the proportion of consumers in the different levels of readiness.

**Attitude:** on the basis of their attitude towards a specific product or service, consumers in a market can also be grouped as: enthusiastic, positive, indifferent, negative or hostile. Marketing efforts are typically focused on reinforcing enthusiastic and positive consumers and on attracting indifferent consumers rather than negative or hostile consumers.

### 4.1.2 Step 2: Identify segments and develop profiles for each

Upon identifying specific segments firms need to develop a profile of each based on their key characteristics. Once segment profiles are developed, firms need to evaluate them on the basis of their attractiveness and select the most appealing to target. For example, Tables 2 & 3 illustrate the four key “generational” segments identified for the U.S. market and their profiles based on size, specific traits, and characteristics. Supplement 2, at the end of this module includes a more detailed description of these generational segments in the U.S. and the opportunities they represent for the food industry.

### 4.1.3 Step 3: Evaluate Market Segments

Choosing which segments to target is a challenge for firms and requires vital skills because selecting the wrong segments can result in wasted money and missed opportunities in more profitable segments. Firms must evaluate segments both in terms of their attractiveness and the firm’s own objectives and resources. Weighing each segment’s attractiveness requires taking into account criteria such as: size, growth potential, structural characteristics, and product-market fit.

- **Segments’ size and growth potential**
The estimated size and current market penetration are important criteria in market segment selection. Growth potential is yet another key criterion because, even if the market is initially small, it may be attractive if growth potential is high.

- **Structural characteristics**

Evaluation on the basis of a segment’s structural characteristics involves analyzing the competition, the segment’s level of saturation, opportunities for protection, and environmental risk. Criteria to use in evaluating the competition include: number and relative position of competitors, their ability to retaliate, and entry and exit barriers. Firms also need to evaluate whether the segment is totally saturated or if there are gaps that it can fill. Firms need to look into opportunities for protection, such as the possibility of patenting products or taking advantage of any barriers to entry. Last but not least, for each segment, firms need to consider potential risks arising from economic, political or technological changes.

- **Product-Market Fit**

Very importantly, each market segment has to be evaluated in relation to its fit with the firm’s objectives and resources, likely interactions with other segments (i.e. synergy, cost interactions, image transfers, cannibalization, etc.), and its profitability potential (i.e. entry costs, margin levels and return on investment).

**4.1.4 Step 4: Select Market Segments and Develop Marketing Strategies**

Typically, firms select those segments with the following characteristics:

1) The segment is large, growing, makes frequent purchases, and is not price sensitive (i.e. is willing to pay high prices).

2) The firm has the resources and capabilities to compete for a share of the market and can serve the target customers better than the competition in a profitable way.

Ultimately, a firm can choose among five possible patterns of target market selection: single-segment concentration (target one segment), selective specialization (target different segments with a variety of products), product specialization (target several segments with one product), market specialization (target one segment with several products) and full market coverage (target the whole market with as many products as possible).

When targeting the whole market, firms may choose to use either a differentiated or undifferentiated marketing strategy. Differentiated marketing means that the firm operates in several segments and develops different marketing programs for each, while undifferentiated marketing implies that the firm ignores the differences between segments and uses the same marketing program for the whole market. Table 4 illustrates some of the strategies firms could use to target the generational segments profiled in Tables 2 & 3.
### Table 4. Strategies to Target the Different Generational Segments

<table>
<thead>
<tr>
<th>Traditionalists</th>
<th>Baby Boomers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Respect history</td>
<td>• Offer choices</td>
</tr>
<tr>
<td>• Focus on “value”</td>
<td>• Focus on “needs”</td>
</tr>
<tr>
<td>• Refer to opinion leaders</td>
<td>• Refer to status brands</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Generation Xers</th>
<th>Millenials</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Respect skepticism, be candid</td>
<td>• Respect they are growing up</td>
</tr>
<tr>
<td>• Stay loose, show humor</td>
<td>• Show how it is “new” and “different”</td>
</tr>
<tr>
<td>• Provide information: let them decide</td>
<td>• Help them express themselves</td>
</tr>
</tbody>
</table>

Source: BridgeWorks 2000
References


Always a nation of immigrants, the United States presently receives twice as many newcomers per year as any other country. Immigration accounts for one third or more of the annual U.S. population growth with those entering the country being ever more culturally diverse. Between 2000 and 2020 the ethnic population is expected to go from 28% to 36% of the total U.S. population. The influx of such a diverse immigrant population continues to fuel widespread increases in food choices offered in American supermarkets and restaurants and to a growing exposure and interest in ethnic foods among mainstream consumers.

Typically an ethnic market segment is defined as a group of consumers that share a common cultural background who often concentrate in a specific geographic area. The food choices of a specific ethnic group set it apart from the other groups and at the same time constitute a way to share their identity. To some extent, immigrants adapt to the food habits of the dominant group but, at the same time, influence the eating habits of the dominant culture.

Hispanics constitute the largest minority and fastest growing consumer segment in the U.S. with an estimated population of 50.5 million in 2010 or 16.3% of the total U.S. population. This group is forecasted to continue its fast growth to reach 64 million people, or 19% of the total population, by 2020 and 112 million or 28% of the total population by 2050.

Characteristics of Hispanics

- Hispanic families are younger than average and tend to live in multigenerational households
- In 2011, 30% of Hispanics were children under 15 years with only 5.7% of Hispanics over 65 years old and a median age of 27 years vs. 41.4 years for non-Hispanics
- Hispanics have a strong sense of family and pride in their food traditions
- Family relations are reinforced through frequent celebrations with food at the center of these celebrations
- In 2011 almost 65% of Hispanics in the U.S. were of Mexican heritage, 8.4% were Central Americans, 5.7% South Americans, 9.3% Puerto Ricans and 3.6% Cubans
- Key holidays, as well as the foods typically prepared to celebrate them, can vary significantly from one country of origin to another
- Newly-arrived Hispanics tend to shop in small, urban stores, while more acculturated Hispanics are more likely to shop at retail chains and other retail formats

Opportunities – Hispanics Expenditures on Food:

- Compared to non-Hispanics, this population spends more on food in general (15.3% of total expenditures vs. 12.5% for non-Hispanics) and on food at home (61% of their food budget vs. 58% for non-Hispanics)
Hispanics also spend 33% more on fresh fruits and 19% more on fresh vegetables than non-Hispanics.
They make an average of 26 grocery trips per month, three times the frequency of the average U.S. consumer.
Hispanics were responsible for 30% of the $40 billion sales growth in the food industry between 2005 and 2009.

Opportunities - Hispanics are prime targets for:

- Produce, meats and seafood
- Fresh ingredients and spices
- Mexicans and Central Americans: tomatillo, chiles (many varieties), jicama, cactus pear and cactus leaves, corn husks, squash blossoms, hibiscus, etc.
- Puerto Rican and Caribbeans: gandules, fava beans, saffron, green pepper, pepino melon, malanga, white and yellow sweet potatoes, sapote, chile (caribe yellow), boniato, chayote squash, baby bananas and tamarindo pods, etc.
- For most Hispanics: cilantro, avocado, plantain, yucca root, mango, bananas, coconut, papaya, pineapple, beans, squash, sweet peppers, corn, saffron, etc.

Sources:


Projections of the Population by Sex, Race, and Hispanic Origin for the United States: 2015 to 2060 (Table 4) accessed February 24, 2013 at: http://www.census.gov/population/projections/data/national/2012/summarytables.html


Supplement No. 2

U.S. Market Segments by Age:

Older Americans, Baby Boomers, Gen Xers and Millenials:
Characteristics & Opportunities for the Food Industry

Age is one of the most significant variables in segmenting a population as at different ages people generally have markedly different interests, purchase and behavior patterns and needs. One way in which the U.S. population is commonly segmented by age is into “generations” under the labels of: Older Americans (or Traditionalists), Baby Boomers, Generation X (GenXers) and Millenials. The boundaries between these generations reflect points of significant change in the number of births. The characteristics of each generation group are influenced both by the relative size of the group and the events of their childhood and “coming of age” years.

Older Americans

The segment “Older Americans” or “traditionalists” which includes any resident of the U.S. who was 65 years or older in 2010, actually includes two groups: the so-called Swing and World War II generations. Individuals born between 1933 and 1945 that is, people who were between the ages of 65 and 77 in 2010, constitute the Swing Generation and those born before 1932, who were 78 years or older in 2010, make up the World War II generation. According to the 2010 U.S. Census data, this group included 40 million U.S. residents. Key characteristics of this group along with the opportunities they represent for the food industry follow.

Characteristics of Older Americans

- The "younger" in the group are likely to be more active and have more disposable income
- The "older" in the group are likely experiencing declining health
- Most are on fixed incomes
- All spend less in groceries per week than the average U.S. shopper
- Might have more time than other age groups but prefer easiness and convenience

Opportunities – Older Americans are prime targets for:

- Frozen and prepared foods
- Healthy meals and smaller portions
- Traditional cost-effective meals
- Restaurants that offer good service and reasonable prices
- Restaurants that offer early-bird specials
**Baby Boomers**

Baby Boomers” constitute the largest generation group in the U.S. market. It includes individuals that were born between 1946 and 1964 or who in 2010 were between 46 to 64 years old. Because of the sheer size of this age group (81 million in 2010) their eating and health habits have been and will continue to be a major driving force in the US food market.

**Characteristics of Baby Boomers:**

- High proportion of affluent professionals who can afford to spend money freely
- Many live in dual-income households and are well traveled
- Spend more than other age groups on both “food at home” and “food away from home”
- Thirty three percent are overweight and 30% are obese
- Interested in health and fitness with 1 out of every 4 being on a diet
- Most (84%) believe they can manage many of their health issues through proper nutrition
- Increasingly concerned about saturated fats, trans-fats and cholesterol, sweeteners, calories and carbohydrates
- Concerned about preservatives and pesticides in foods
- Value and quality conscious consumers (not necessarily price sensitive)
- Want high levels of customer service
- Older Boomers becoming grandparents

**Opportunities – Baby Boomers are prime targets for:**

- Natural and organic foods
- Fresh foods with authentic flavors
- Ethnic and gourmet foods
- Sophisticated meals with exotic flavors
- Functional foods
- Low-fat/fat free foods
- Sugar free, low/reduced sugar foods
- Reduced calories foods
- Low carbohydrate foods
- High scale restaurants
- Family-friendly restaurants

**Generation X**

Generation X is the label given to the group of people born between 1965 and 1981 or individuals who in 2010 were between 29 and 45 years old. In 2010 this group included 61 million consumers in the U.S.

**Characteristics of Generation X’ers:**
• Relatively small generation group compared to Millenials and Baby Boomers
• Slightly less likely to be married than people in other age groups
• Most of those who are married live in double income households
• Strong family values
• High percentage of entrepreneurs and employees who easily transition from one employer to another
• High levels of educational attainment
• Propensity for technology
• Spend a lot of time in front of the computer
• Concerned with value
• Seek convenience
• Spend more in groceries per week than the average U.S. shopper

Opportunities – Generation X’ers are prime targets for:

• Quick-service restaurants
• Mid-scale operations that offer all-you-can-eat salad bars and buffets.
• Value added and prepared foods
• Gourmet and specialty products
• Online marketing

Millennials

Millennials are also labeled as Generation Y or Echo Boomers. This age group is constituted by people born between 1982 and 2000. That is individuals who were between 10 yrs and 28 years in 2010 and included 85.4 million consumers in 2010, according to the U.S. Census Bureau.

Characteristics of Millenials:

• Second biggest generation after Baby Boomers
• Most are the children of Baby Boomers
• Highly self confident
• More racially diverse than other age groups, with 1 out of every 3 identifying themselves as non-Caucasian.
• One out of every 4 lives in a single-parent environment
• Three in every 4 have working mothers
• Most are technology and web savvy
• “Eating on the go” is part of their lifestyle
• Enjoy eating foreign foods
• Expect services “on demand”
• Want convenience and speed
• Have distinct preferences for organic, ethnic, gourmet and prepared foods

Opportunities – Consumers in Gen Y are prime targets for:
• Value added and prepared foods
• Fast food, particularly burgers and pizza
• Take-out food
• Low carbohydrate, low calorie, low-fat and fat free meal options
• Natural and organic foods
• Ethnic and specialty products
• Online marketing

Sources:


Mintel Reports USA, Food and Foodservice: “Eating Habits - Changes in Eating Patterns and Convenience is Key to Consumers”, July 2004