# Segmenting The Opportunity

Grouping customers based on their responses to benefits, programs and services reveals opportunities to increase sales.

**Sergio Zyman and Dave Singleton,** Zyman Group

**When people ask us to give them an example of effective** marketing, we tell them, "New York City hot dog vendors." Why? Because those guys use marketing to sell stuff (or they go home each day with nothing to show for it). And believe it or not, those hot dog vendors know how to use segmentation to sell more hot dogs, to more people, for more money, more efficiently. Segmentation is perhaps the most misused form of marketing because it's extremely easy to group consumers, markets or occasions based on some common characteristic. On the other hand, it's extremely hard to do so in a way that will enable growth. Most attempts to segment the market actually fall short of their intended goal. More often than not, the result is an "organization" of the market instead of a "segmentation" of it. Organizing the market identifies groups of customers that share similar characteristics. Segmenting the market reveals opportunities to increase sales by grouping customers based on their responses to benefits, programs and services.

One of the reasons it's much harder to use segmentation than it is to do segmentation is that typically it's highly dependent on after-the-fact interpretation and inference on what actions are required to increase sales or usage. Moreover, they do not provide explicit direction on exactly what programs, products or services it will take to move infrequent users to light status, light to medium, medium to heavy, and heavy to super-heavy.

Typical segmentation approaches fall short of what's needed to increase sales and profits because they segment on what customers currently do, instead of what customers will do.

The downside to segmenting is that it's based on the past instead of the future. You have to infer what actions, ideas or products will increase sales. You have to use the understanding segmentation has provided to deduce how to be more relevant and efficient with your marketing.

Opportunity-based segmentation doesn't require inference and is therefore a much more user-friendly (and useful) approach to increasing sales and profits. It segments consumers based on the opportunity they represent. Perhaps more importantly, opportunity segmentation provides clear direction on what it takes to realize the opportunity. What products, what services and what benefits will actually increase sales?

To first understand opportunity segmentation and its advantages, it is helpful to understand the other ways to segment the market and their strengths and limitations. For example, traditional segmentation or descriptive segmentation groups consumers based on similar attitudes, needs or wants. It's descriptive segmentation because it describes the segments and can be useful if used appropriately.

### Descriptive Segmentation

On a recent project, we used descriptive segmentation to identify the target market and most relevant benefit for a hypertension drug. Of course, we knew the target would consist mostly of men who were at least aware of their high blood pressure.

What we didn't know or expect was how the attitudes toward hypertension would differ among two of the segments we identified. One segment, which we called the "I can manage it" segment, was convinced of their ability to manage hypertension with diet and exercise. These guys, who were typically middle-aged white professional males, were holding on to the air of invincibility they enjoyed in their youth. Conversely, the "I can't afford to be sick" segment was willing to do whatever was required to manage their problem. This segment was often blue-collar men with two kids in

**Sergio Zyman** is chairman of Zyman Group, a strategic consulting firm that helps companies accelerate profitable top-line growth. Prior to founding Zyman Group, he served as chief marketing officer of The Coca-Cola Company and was named one of the top three pitchmen of the 20th Century by *Time magazine*. **Dave Singleton** is vice president of Marketing Science and Insights at Zyman Group, a top strategic consulting company with offices in Atlanta, Chicago and Mexico City.

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|---|---|
| Altruistic Values | 30% |
| **Good Taste** | 5% |
| Meat Reduction | 1% |
| Positive Self-Image | 15% |
| **Satisfying** | 14% |
| Veggie | 1% |
| Weight Mgmt | 2% |
| Women's Health | 20% |
| **General Health/Convenience** | 11% |
| Health Protein | 4% |
| **Proactive/Reactive Health** | 6% |
| Natural Organic | 3% |

**Figure 1:** Turbo Vegetarian Factors

school, a car payment and a mortgage and could not afford to be ill. Needless to say, each segment represented different opportunities and required very different value propositions.

### Occasion-Based Segmentation

Occasion-based segmentation identifies opportunities for growth based on the occasion when the product or service is used. In many categories, like beverages, the same consumer can experience a wide variety of needs, based on the situation. For example you get up in the morning and you drink coffee and orange juice. At lunch you drink iced tea or a soft drink. In the afternoon maybe diet soda or perhaps another coffee. For dinner you may drink water and later that night maybe juice again. Throughout the day the same person experiences many different needs and then makes beverage choices based on those needs.

If you can identify the psychological needs that drive those choices, you can position your brand to be the preferred choice. We used occasion-based segmentation at Coca-Cola to grow our business from nine to 15 billion unit cases because it allowed us to segment the opportunity in a way that was consistent with how consumers use the category.

### Demand-Based Segmentation

Demand-based segmentation is an approach based on what actually drives demand. In the previous Coke example, the key driver of demand was the situation and the specific type of refreshment the consumer is looking for, whether that be a desire to connect with others or to take a moment to herself. In that example, occasions and needs are a valid and useful way to segment because we know a lot about beverages and how they are used.

In other situations, the key drivers of demand are less clear or perhaps less straightforward. In these situations, it would be a mistake to set out with a predetermined basis on which to segment. Instead, the more effective approach is to let the market segment itself, based on the wide variety of different dimensions that drive demand.

In a recent project we were asked to identify the opportunity for protein-based products. With all the recent focus on protein, carbohydrates and dieting we knew that we did not know enough about protein, how consumers think about what they eat, when and why. So we used demand-based segmentation to identify the multiple forces that drive demand of protein-based products.

One segment we identified was "turbo vegetarians," a group of consumers, mostly younger, female students, who ate little red meat, were very disposed to environmental issues, and were heavy users of soy-based products. See Figure 1 for the drivers of demand for soy-based products among this group. Knowing the drivers of demand for this segment allows us to develop strategies for product development and communications that aligned with the benefits that drive demand for protein-based products.

### Opportunity-Based Segmentation

Opportunity-based segmentation is perhaps the most unique approach to segmenting the market that we have used. Perhaps because it is the most practical use of segmentation of any of the techniques discussed thus far.

Opportunity segmentation categorizes consumers based on the opportunity they represent to increasing sales and profits. Segments are based on consumers' response to different benefits, ideas, products or services. Thus, when segmenting the opportunity using this approach, you first identify your most valuable customers and focus on understanding how to make them more valuable.

The outputs are unique combinations of products, services and benefits that will increase usage (sales). Thus, opportunity segmentation is prescriptive, not descriptive.

Unfortunately, few of us have the view of the marketplace and the consumer that the hot dog vendor has. What we do have, however, is the ability to use segmentation as effectively as they do, if we remember that understanding consumers is necessary but insufficient to increase sales. To increase sales and profits, segmenting the opportunity is required.

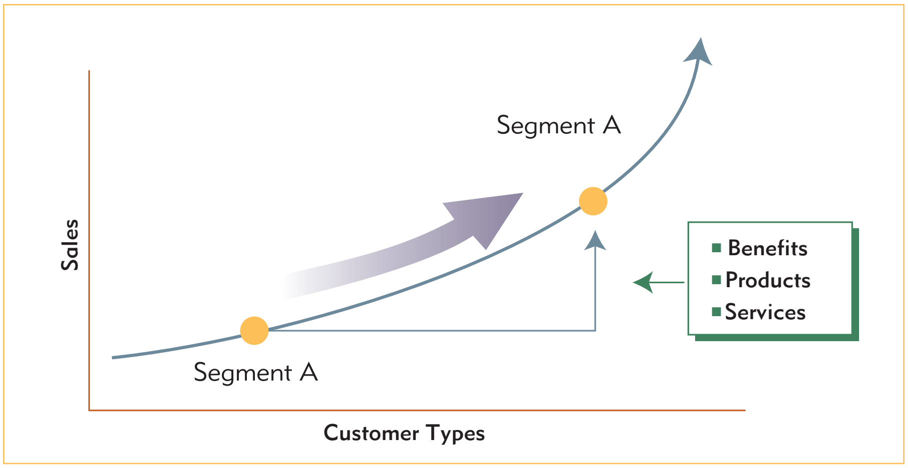


**Figure 2:** Opportunity-Based Segmentation