Lifestyle Market Segmentation

Dennis J. Cahill
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For my children
Abigail and Teddy
ABOUT THE AUTHOR

Dennis J. Cahill has headed North Union Associates, Inc., a finance, investment, and marketing consulting firm in Cleveland, Ohio, since 1983. He founded the firm after almost a decade of increasingly responsible financial positions held in the cement and banking industries. Mr. Cahill has also taught undergraduate and graduate marketing and finance courses at four Cleveland area colleges. He is the author of *Squeezing a New Service into a Crowded Market*, *Internal Marketing: Your Company’s Next Stage of Growth*, and *How Consumers Pick a Hotel: Strategic Segmentation and Target Marketing* (all published by The Haworth Press, Inc.). He has also published numerous articles in scholarly and professional publications and spoken at national professional conferences and local meetings. While heading North Union Associates, Mr. Cahill has been active in many aspects of new product and new service development, from initial concept through delivery of completed product to end user. He is a member of the American Marketing Association, the Academy of Management, the Association of Psychological Type, the Association for Consumer Research, the Cleveland Business Economists Club, and The Barnard Society, USA.
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Foreword

It's hard to imagine finding anyone more qualified than Dennis Cahill to author a book on the very latest in Lifestyle Market Segmentation.

If I may mix a metaphor, here is a guy who has walked the talk and now talks the walk. For he has been ever-present on every side of the segmentation equation: as academic, as researcher, and as practitioner in a most hands-on manner, crafting digital algorithms that enable segmentation to enrich computer programs.

Further this is not his first book to address segmentation. Seven years ago he produced a delightful book, at once droll but ever so instructive: *Strategic Segmentation and Target Marketing: How to Pick a Hotel.*

All of this coming out of a rich background that includes three college degrees, academic time at three universities, corporate duty with a Fortune 500 company, financial seasoning at two top Cleveland banks, creative work at a top 4A advertising agency, and, mainly, successfully operating his own financial and marketing consulting firm, North Union Associates.

I have been closely associated with him for twenty-five years. He and his company have performed a wide range of marketing tasks for us: participating in numerous focus groups, doing equally numerous surveys requiring detailed questionnaires and interviews, writing reports and guidelines . . . plus being my interface to academia and all the riches to be mined there.

This is all motivated by a desire to bring lifestyle segmentation concepts down out of the realm of theory into our workplace so that we may communicate better with readers and advertisers.

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*Lifestyle Market Segmentation*  
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Preface

Why this book? Why this book now? I wrote *How Consumers Pick a Hotel* in 1997, and many things have changed in American society since then: we have seen more immigration, we have seen a rise in Hispanic population born in the United States, baby boomers are about to start hitting sixty and are dealing with aging parents as people continue to live longer. And more and more changes have appeared, many of which will be discussed in the book. And *How Consumers Pick a Hotel* was written from a different perspective. As an aghast and upset reviewer at Amazon.com noted, the book was about consumer behavior and not how to run a hotel; it was a book designed to be read with a strategic perspective, as the subtitle *Strategic Segmentation and Target Marketing* stated. In many ways, much of this book is a revised edition of *How Consumers Pick a Hotel*, but in many other ways it is totally different and a different kind of book. Although not a cookbook, this book is less strategic in character and more focused on the here-and-now of segmentation.¹

This book is organized in five sections. Sections I and II discuss segmentation theory as well as various methods of segmentation and then focus on “lifestyle” segmentation, which primarily means “psychographic” segmentation today. My clients and I have been heavily involved in various psychographic segmentation schemes and projects for almost a quarter of a century, from VALS and VALS 2 to PRIZM and a proprietary scheme; I will discuss all of these in detail. Sections III and IV explore some applications of lifestyle and psychographic segmentation based on personal experience, mostly with clients. Section V addresses some ways to communicate with the various segments that the firm has drawn or discovered and shares some thoughts about the future as the population (as well as the author) continues to age.

I wrote the book from July to September 2004. This is seven years after *How Consumers Pick a Hotel* was published, during which...
period I have not written anything for public consumption. As a consultant, I have periods of intense activity and periods of little or no activity with clients; the preceding seven years have been busy with client concerns—new services, new products, old products being revived and revised. All have left little or no time for writing or for the contemplation needed to be able to write. The intense activity slowed during the spring and summer of 2004; I started writing and have articles in review with various journals again. It was in pursuing getting one of the articles into review that I contacted Art Weinstein, who asked if I would like to submit a proposal for the current book.

So, the first debt I owe here is to Art Weinstein and the folks at The Haworth Press, who have once again shown their faith in an independent author. Although none of the books I have written has appeared on *The New York Times* best-seller list, sales must have been satisfactory. Furthermore, there are translations into Chinese, Spanish, and Indonesian either in print or underway; according to my daughter Abigail, I am now “incomprehensible in four languages”—an accomplishment indeed, considering that the only foreign language I ever studied was French! Of course, I have expressed my ongoing debt to my friend and client Hal Douthit by asking him to write a foreword to this book; my debts to Hal are ongoing and deep. A client who pays your bill is hardly rare; one who is a friend (and was a friend before being a client, but has continued being a friend during the almost quarter-century he has been a client) and allows a consultant to publish without consideration or wanting to see what is being written is, in my experience, almost unheard of. Hal has always encouraged me to write about him and his projects, never asking to see proofs before the articles or books appeared nor the finished works either; if what I have had to say was seriously negative, I have disguised the names. My family has always encouraged my writing, although Abigail is now at Colgate and not in the day-to-day orbit of the amount of time writing takes away from family—my son Teddy is still here, although he also spends time now with his mother. Various librarians, of course, must take credit for not sighing audibly at the umpteenth request for the same book to be retrieved because I need it again since I missed something the last time I had the book. And friends too numerous to mention, but some must be: Steve Verba, formerly of Realty One and Wyse Advertising, who reads almost every word I write (and frequently complains about many of them) and with
whom I have co-authored; Jim Webb of Cleveland State and The American Real Estate Society, who has read much of the real estate work that shows up here and elsewhere and with whom I have co-authored several articles now in review; the folks at AdWriter, Inc., from Ed Toomey to Bryan Blue, who have worked on a day-to-day basis with the Tribes segmentation scheme and have offered me their experience with it. And last, but not least, Dr. Louise E. Hoffman of Penn State (Harrisburg), who has read every word I have written since I started writing again in 2004—and corrected most of them. Despite my friends and colleagues, I am sure there are mistakes in the book: *Mea culpa, mea culpa, mea maxima culpa.*
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SECTION I:
NONLIFESTYLE ISSUES

Section I presents the theory of segmentation and other methods to segment other than on lifestyles. Much more detail about these can be found in *How Customers Pick a Hotel* (Cahill, 1997).

My son Teddy and I went to the Cleveland Auto Show in March 2006. I was not looking for a car (well, not really, but everyone is always looking at cars the way they look at houses—always with an interest), but I had to go for a client. Every major manufacturer was represented with a portion of the floor. In 2005, Teddy made fun of my first choice—the Subaru Baja, a very small four-passenger “pickup.” I am driving a Toyota Corolla, the first sedan I have had since a 1964 Dodge. It is not easy having a small sedan; although the trunk is big enough, it is impossible to carry some items because there is no way to knock the seat down and put the hatch up. Pieces of plywood are 4' × 8'—much too long for a sedan. The Baja would take care of that problem. Teddy thought it was the dumbest car he had ever seen.

We walked the floor this year and picked out cars. I like the Dodge Caliber—a hatchback with lots of room, or possibly the Scion xB (Teddy’s candidate now for the dumbest car ever, despite the fact that he is in the demographic and I am definitely not.) Age, lifestage, number of dependents—all these play into our product choices.
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Chapter 1

Segmentation Theory

Segmentation, or market segmentation, is the dividing of a total market into its constituent parts by some method. Segmentation is not a new concept. It has been around for so long that a countervailing wisdom developed a couple of decades ago that for some products and some services the seller does not need to segment, that segmentation is too expensive of corporate resources to be worth doing and does not gain the firm anything.\(^1\) In the past couple of generations, however, marketers have segmented their markets more often than not—Wilkie and Cohen (1977) discuss research dating from as far back as the mid-1950s. Despite a folkloric view of the 1950s as the golden age of mass marketing when everyone sat in a similar living room and watched *Leave It to Beaver* on identical television sets, there were, let us remember, three major U.S. car makers at the time, and not everyone used Tide to wash their clothes or brushed their teeth with Colgate toothpaste (I used Ipana). There were several competing products in many categories, and these products had what today we would recognize as differing brand personalities, attracting different kinds of customers; these product categories where, thus, segmented.

Art Weinstein (1987, p. 3) has called segmentation “the key to marketing success,” a statement he reiterated in the revised edition (1994, p. 2), where he also discussed the “segmentation imperative.” By 2004, Weinstein deals with the role that segmentation plays in business-to-business marketing, a subject I covered in *How Consumers Pick a Hotel.*\(^2\) We are inundated with dozens of varieties of dozens of products and services that would not have existed until the product explosion of the 1990s, and in many cases those products would previously have been sold under different brand names. A huge literature has developed in the past couple of decades excoriat-
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Ining "brand extensions"—where a brand name is used on products that are different from the original. Coke becomes Coke and Diet Coke (which destroyed Tab as Coca-Cola Inc.'s diet cola) and Cherry Coke and Vanilla Coke, etc. The reason that academic marketers condemn brand extensions is that the original product can get lost in the shuffle, and the "franchise" (now known as "brand equity" in discussions of the advisability of its appearing on the firm's balance sheet) built up over the years can be diluted or dissipated entirely. The case of Miller Lite is often pointed to as an instance of the dangers, because the extension became so successful that the extension almost destroyed the original brand—Miller Hi Life. Miller has made repeated, but rather desultory, efforts to resurrect Hi Life. Of course, another view of brand extensions is that the firm is simply expending some of the investment in the brand equity that has been built up over the years to build further equity. Given the high rates of new-product failure—it is typically stated that around 80 percent of new product ideas do not make it to their first anniversary in the marketplace—this may not be an unwise way to get new products to market with a hope of survival.

Segmentation can help in product and service development and marketing. Instead of Henry Ford developing the Model T for everyone, allowing variations in color as long as the variations were black, developing products and services for a specific segment allows for a much better focus on what people want and will pay for. This restatement of the Marketing Concept at the segment level—the Marketing Concept is a customer-oriented, integrated, profit-oriented philosophy of business, that can be bluntly stated as "Find out what people want and give it to them" (see Cahill, 1997, for an extensive discussion of the Marketing Concept)—shows a path for improvement in the new-product failure rate. This restatement of the Marketing Concept at the segment level is the foundation of segmentation as a strategy: either introduce one product to a specific segment as a solo target, recognizing that not everyone will buy the single product, or introduce an array of products with different features and benefits in each to attract several different types of consumers as multiple-target markets. It seems appropriate here to mention the Internet's use by consumers to search out new products and by producers to target customers. Despite major advances in Internet connectivity since I wrote about this subject in 1997, I still do not believe that the nature of the Marketing Concept has changed, nor has the definite increase in con-
nectivity in the United States negated the need for producers to target one or more well-defined segments for their existing products or their new products, nor do I see this fact changing in the near future.

When undergraduate students are faced with the concept of segmentation for the first time, they usually decide that the basis for segmentation is by differences: what makes one group different from another must be what is important in segmenting. Such is not the case. What is much more important for the marketer is similarities: what makes the members of one group more like each other than they are like the members of another group. The use of similarities allows us, using one or more statistical techniques, to cluster people into groups and then to target our appeals to the members of one or more of the groups that our statistics have uncovered. Little work has been done on the theory of segmentation—it is a pragmatic, empirical technique driven by surface validity.

The segmentation scheme used must satisfy a number of criteria within the segments. Every segmentation scheme and its segments must possess the following criteria (DeSarbo and DeSarbo, 2003, pp. 473-474):

1. Differential behavior
2. Membership identification
3. Reachability
4. Feasibility
5. Profitability
6. Substantiality (Segments that are too small are apt to be artifacts of the method used.)
7. Responsiveness
8. Stability over time
9. Actionability
10. Projectability to the entire market

The schemes to be discussed in the rest of this book—whether syndicated, off-the-shelf varieties such as VALS 2 and PRIZM, or proprietary, such as Douthit Communications, Inc.'s Tribes—meet most if not all of the DeSarbo and DeSarbo criteria. It is possible that the substantiality test is the most difficult to achieve; very small segments may simply be the result of the segmentation methodology and cannot be eliminated. The Integrated group in VALS was only 1 percent
of the population and could not be found by using the instrument that SRI used to place the population into the other eight VALS types. However, the theory that VALS was based on required that this segment be present in the population. On the other hand, it is just possible that there are such small segments occurring in the population. Obviously, a scheme with fifteen segments is more likely to have a very small segment than one that has only five.

Once the firm has decided to segment its market and has created the segments, it faces the problem of how to tell the segments that they exist and that the firm is interested in them. For some marketers, this is an easy task. Model railroaders, for instance, are not numerous; I doubt there are 2 million adults in the United States who are seriously involved with model trains. Nevertheless, there are two national magazines that specialize in reaching this general market—and nothing else. If one makes something for the serious model railroad market, one advertises in either *Model Railroader* or *Railroad Model Craftsman* and lets the editors of those magazines know about one's products. There are also a few other magazines that take this small segment one step further and specialize in one scale or in one type of railroading to model.

For other firms in other types of product or service markets, how to communicate with their customers is not as easy to determine. Despite the advocates of one-to-one marketing (Peppers and Rogers, 1993) and those who claim that the Internet has changed everything, we are still in an age when mass media, perhaps sliced a bit thinner than it was in the past, is the king of communications. Anyone who doubts that this is still true only needs to consider the brouhaha around the “wardrobe malfunction” at the 2004 Super Bowl halftime when Janet Jackson’s breast was exposed for a few seconds—to somewhere around 143 million people, approximately 40 percent of the television sets in the United States. Try to get that level on the Internet. This fact of huge numbers is why television broadcasts still attract advertisers willing to spend money. It is easy—and quite cynical—to say, “How many of those 140 million are ever going to buy your product?” Without telling them it is available, the rejoinder is, none. The Super Bowl may not be the venue for going into much detail about a product or service, but it is a marvelous place to tell a lot of people a little about a product—especially a new product. It is up to
the segmented communications plan to finish the job of reaching the potential buyers and showing them that the product is right for them.

Before considering specific kinds of segmentation schemes and approaches, where are we? There is always a temptation for a producer to attempt to make one product and get everyone to buy it as it comes. Production costs will be greatly reduced by following such a strategy, although selling costs may be higher. The problem is that this approach so rarely works, and it seems to work best in a tiny niche market that is so specialized as to be not worth the notice of many producers. There was no golden age of mass marketing in the 1950s (and probably not before). There were dozens of detergents offering different benefits, and television shows were broadcast on three different national networks with different appeals. Even in the 1950s there were three major U.S. automobile companies—General Motors, Ford, and Chrysler—offering Chevrolet, Pontiac, Oldsmobile, Buick, and Cadillac; Ford, Mercury, and Lincoln; and Plymouth, Dodge, DeSoto, and Chrysler models, respectively. Until the end of that decade, there were also Studebaker, American Motors, and Hudson Motors as well. All of the models were aimed at different people with different wants and needs—and finances. No “one size fits all,” even in this most “marketed” of all products. Each car had a personality of its own to match that of a specific segment of consumers, and simply creating segments out of thin air does not work well. In a discussion of the statistical technique of conjoint analysis, a technique often used in segmentation analysis, Simmons and Esser (2003) state that conjoint analysis should be used to confirm or deny data validity because some attributes are either more or less important than expected, the needs of the segments are different from those hypothesized by management, and the segment sizes and demographic profiles do not match expectations—in other words, a priori hypotheses created by management need to be checked against the reality of the marketplace.

Segmentation schemes can be divided into two major groupings: those based on physical attributes (geographics, demographics, and the combination of the two—geodemographics) and those based on behavioral attributes of the customers (lifestyle, life stage, psychographics, and usage). The latter is the main focus of this book, of course.
REVIEW QUESTIONS

1. What is a brand extension? Why might market segmentation lead to brand extensions?
2. What is the Marketing Concept? What role does segmentation play in our understanding of the Marketing Concept?
3. How does segmentation make it easier to communicate with customers?
References


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