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Segmentation Marketing: A Case Study on Performance Solutions Group, LLC.

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Segmentation Marketing: A Case Study on Performance Solutions Group, LLC.

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Abstract

This purpose of this research is to show how Performance Solutions Group, LLC can effectively use segmentation marketing both in their current market and in expansion. The goal is to find a solution and suggest changes that should be made to the marketing team at Performance Solutions Group. This research was completed by looking at how segmentation marketing is used in broad industries currently and investigating how Performance Solutions Group can use it in their company. This case study shows that segmentation marketing is an effective way for Performance Solutions Group to market its services.
Introduction to Segmentation Marketing

Segmentation marketing first appeared in the 1950’s. As focus shifted from manufacturing needs to consumer needs in the early 20th century, market-oriented goals grew through firms of the time. These market-oriented goals made way for segmentation marketing, first introduced by Wendell Smith in 1956. He regarded market segmentation as “viewing a heterogeneous market as a number of smaller homogeneous markets, in response to differing preferences, attributable to the desires of consumers for more precise satisfaction of their varying wants” (Wedel, 2000).

Smith’s early discovery of segmentation marketing lead to segmentation research done extensively by Peter Dickson and James Ginter in 1987. They found that market segmentation and product differentiation must be combined with demand for the product or service in order for the marketing mix to be successful in the targeted segment (Dickson, 1987). Today, technology is allowing companies to look at consumer behaviors like never before and allows managers to use micro-marketing to focus even closer on specific consumer groups (Wedel, 2000). Market segmentation is defined today as “the process of defining and subdividing a large homogenous market into clearly identifiable segments having similar needs, wants, or demand characteristics” (Market Segmentation, n.d.). This then allows companies to design a marketing mix that attracts the potential customers in the selected segment.

A great example of segmentation marketing was the release of the iPhone 5S and the iPhone 5C in 2013. Apple was already an immensely popular brand name in the smartphone
business but was also known for their high priced products. In an attempt to market to people who were fans of Apple products but were also conscious about how they spent their money, Apple released the iPhone 5C. This iPhone had the newest iOS technology but was in a plastic case and did not offer upgraded features, like the newest resolution camera featured in the 5S model. Apple wanted a way to keep its customers who would pay the extra money for the newest phone but also wanted to infiltrate a new market segment of people who were not as willing to spend the extra money (Arora, 2013). Their plan seemed to work as consumers saw the release of the iPhone 6 and the iPhone 6+ in 2014.

The Segmentation Process

The segmentation process consists of 5 steps: strategy, choosing segmentation methods, evaluating segment attractiveness, selecting a target market, and identifying and developing a position strategy. This process leads to the development of a marketing mix for the target market.

Figure 1. An Overview of the Segmentation Process
The first step is to analyze which strategy best suits the company and their goals for marketing. Doraszelski and Draganska (2006) recognized the niche and the full-line strategy in their paper titled “Market Segmentation Strategies of Multiproduct Firms”. A niche segmentation strategy focuses all marketing efforts on a small portion of the population; a full-line segmentation strategy offers many variations of a product to appeal to more of the population. These are just two of the many different strategies a company could use to develop market segmentation for their company.

Once the strategy is determined, the company must look at the best method for segmenting the market. Vriens, Wedel, and Wilms (1996) investigated a priori segmentation, a method where consumers are separated into groups based on demographic and socioeconomic variables a priori. They mention another method called the componential segmentation method where groups of consumers are linked by characteristics other than socioeconomic or demographic that they share. The method used depends solely on the needs and wants of the company. After the segmentation method is determined, the company must evaluate the attractiveness of the market they are entering.

To evaluate market attractiveness, market demand, competitive intensity and market access must be assessed. To assess market demand, size, growth rate, and growth potential are all important factors when deciding if the market is attractive. Even if the market demand looks promising for the future, competitive intensity can quickly change the attractiveness. A more attractive market in terms of competitive intensity is one that has few competitors and substitutes for the product. Once both of these aspects are assessed, market access must be thoroughly examined. If the market cannot be penetrated, the market is useless to the company. There must
be a demand for the product in the market for it to be useful. All three of these factors must be examined and deemed useful in order to find the most attractive market for the good or service being provided (Best, 2013).

After evaluation of market attractiveness is complete, a target market must be defined. To select a profitable target market, companies should do extensive research to understand who will most likely benefit from their product, and then analyze the characteristics of this group of people. After the general target market is assigned, companies can use the information to create a customer profile. Customer profiles are a specific group of customer characteristics the company believes will be most profitable in the long run. The more specific the target market and customer profile is, the more effective the marketing strategy to this group will be in the long run (Pakroo, 2014). Once there is a clear view of the target market, a position strategy must be identified and developed.

Position strategies are important because they determine how customers will view the product or service offered. First, position strategies require research into what the target market finds important as well as what competitors offer. After this information is acquired, the company can decide which position will be the most beneficial for both them and their customers (Market Positioning Strategies, n.d.). Once the segmentation process is complete, the company should have a better idea of how to market their product or service to the specific segment they are targeting.
Six Types of Segmentation Marketing

Market segmentation is used to classify a large market by smaller groups with similar characteristics. This segmentation makes targeting a specific audience easier because the marketer can tailor their message to the specific needs of the targeted consumer (What is a Market Segment, n.d.). This approach is different from mass marketing strategies where the entire market is targeted. The market can be segmented in several ways; however, the six types this paper will focus on are behavioral, benefit, demographic, geodemographic, geographic, and psychographic.

To use behavioral segmentation, marketers must look at spending behavior, consumption, and desired benefits. This type of segmentation is “a more focused form of market segmentation that groups consumers based on specific behavioral patterns they display when making purchasing decisions enabling producers to adapt their marketing approach to specific groups” (Behavioral Segmentation, n.d.). This approach is normally the most powerful form of segmentation; however, it is also the most difficult to execute beneficially, because the research involved in finding these behavioral characteristics is time-consuming and expensive. Behavioral segmentation combined with demographic or geographic segmentation is much more powerful than behavioral segmentation only, because a more in depth customer profile can be created (Ferrell, 2005). When the market crashed in 2008, Hyundai quickly determined how they would keep their customers whose behavior was changing. Their customers became more wary of buying expensive items so Hyundai developed the Hyundai Assurance. The campaign read, “We’re introducing Hyundai Assurance to show you the faith we have in you. Right now,
finance or lease any new Hyundai, and if in the next year you lose your income we’ll let you return it. That’s the Hyundai Assurance” (Barr, 2009).

Benefit segmentation, on the other hand, considers the “differences in specific benefits that different groups of consumers look for in a product” (Benefit Segmentation, n.d.). Not everyone is willing to spend money, especially extra money, on certain benefits that they do not necessarily need. Marketers consistently determine which product benefits most interest their potential consumers. Lifestyle change is important in this form of segmentation, because sometimes characteristics that consumers once found important may no longer matter to them. If the main benefit of the product changes, marketers must also change their marketing campaigns to fit consumers new needs (Strydom, 2007). Nike is a great example of benefit segmentation in play. Their consumers vary from professional athletes to casual performers. They segment these markets by “benefits sought” and cater to the needs of consumers from all aspects of athletic life (Shank, 2015).

The next type of market segmentation is demographic segmentation which segments the market by age, family size, race, religion, gender, ethnicity, income, or education. Segmenting the market demographically helps categorize the needs of the company’s consumers. Two main advantages to segment the market in this way are: the information needed to separate the market by demographics is easily available through census and other population surveys and customer retention and loyalty are higher because the company can easily satisfy their customers (Gigli, n.d.). Starbucks uses demographic segmentation to their advantage. About 89% of all Starbucks revenue comes from two specific demographic age groups. The first is 25 to 40 year old professionals who normally have high end jobs and are at management level or higher in their
workplaces. The other group is aged 18 to 24. Starbucks markets to this second age group for creating the coffee houses with enjoyable atmospheres to hang out and using the latest technology and innovative ideas. By breaking the market into these two specific groups, Starbucks can effectively market to both groups separately (Cachola, 2012).

Geodemographic segmentation is similar to demographic segmentation but combines geographic information, psychographic information, and consumer behavior to better determine who the company is marketing to. This approach is based on the idea that people in the same regions, states, cities, and even neighborhoods have similar buying habits and are interested in similar products (Goss, 1995). Using a computer system like PRIZM (Potential Rating Index for ZIP Markets) or ACORN (A Classification of Residential Neighborhoods) allows marketers to specifically target consumers with the same wants and needs (Mitchell, 1994). An example of this strategy is when discount retailers or grocery stores open new stores in a neighborhood with a high level of unemployment or families depending on welfare.

The next form of segmentation, geographic segmentation, is the oldest form of segmentation and separates consumers into geographic regions such as cities, counties, states, or regions. Consumers in urban and suburban areas tend to have very different needs from each other and this allows marketers to target consumers who will benefit from their products. However, it can be argued that the internet has completely eliminated geographic segmentation, making it harder to achieve the boundaries that were once clearly seen (Strydom, 2007). A great example of geographic segmentation is, again, Starbucks. Because of their demographic segmentation, the company tends to put coffee houses in upscale areas of town near business offices and around college campuses (Cachola, 2012).
The last way to segment a market is through psychographic segmentation which assists “marketers [to] understand the lifestyle, personality, and social class characteristics of the target market” (Strydom, 2007). Understanding how consumers live assists marketers in developing marketing strategies that will appeal to very specific market segments that act and live in similar ways. Marketers can assess how people spend their time, what interests them, or how they consume products. This approach is becoming more popular than using the typical segmentation types because not everyone who has the same lifestyle lives in the same geographic region (Strydom, 2007). For instance, energy drink consumers are normally either business people who work long hours or students who are working late and getting up early. All business people or students do not live in the same area, so it makes sense for a company like Red Bull to market to that lifestyle instead of the region of the country the consumer lives in (Segmenting, 2013).

Using segmentation strategies can be extremely beneficial to a company. Instead of marketing to the mass market, the market can be categorized into specific groups that react to specific marketing strategies. Because not everyone has the same needs at the same time, this strategy allocates company’s money more effectively by spending advertising budgets where the dollars will return the most profit it in the long run. Small business owners, such as Chad Miller from Performance Solutions Group, LLC., need to understand how to effectively market their businesses while spending no excess money. Looking closely at the target market of Mr. Miller’s company will allow him to penetrate new markets and expand in current markets profitably.
Case Study

Case studies are effective when a researcher seeks to answer a question about a specific subject instead of answering a generic question on a broad subject. They are also helpful when deciding which processes work best in the real world. A case study is used in this paper because the research question answered is about a specific company that is choosing the best process to market products to both existing and potential clients.

Performance Solutions Group, LLC. Overview

Performance Solutions Group, LLC. (www.performancesolutionsgroup.biz), or PSG, is a small leadership consulting business located in Mount Juliet, Tennessee and was founded in 2011. The company focuses all trainings on the commercial truck and tire business, as the owner has previously worked in that industry. PSG offers six different products to grow sales, build teams, and develop leaders. The offerings are QBQ! Question Behind the Question Personal Accountability Training, Burke Assessments, GiANT Worldwide Leadership Modules, Keynote Events, Telenotes Productivity System, and the Leadership Coaching Development Program. The company founder, Chad Miller, wants to focus future sales on Telenotes Productivity System and the Leadership Coaching Development Program, the focus of the remainder of this paper.

Telenotes Productivity System, referred to as simply Telenotes, is a customer relationship management tool (CRM). Instead of the salesman typing notes at the end of the day, Telenotes allows salespersons to call into the system, speak their notes, and an employee transcribes the verbal notes by 5 AM the next morning. The salesman can give company names, contact names
and numbers, and call notes that will be saved on the Telenotes system for easy access. The selling point of this product is increased sales productivity throughout the week. On average, salespeople can make roughly one more sales call per day, increasing customer contact by about 250 points throughout the year. Currently, Telenotes is the largest contributor to revenue for Performance Solutions Group.

The Leadership Coaching Development Program, or LCDP, is a six module custom training workshop focused on developing leaders worth following. Each module is one day long, once a month. This program gives leaders of the company tools to take back to their teams and increase teamwork. Currently, LCDP is the second largest contributor to revenue for Performance Solutions Group, but Mr. Miller would like for this product to become the largest contributor of company for revenue over the next few years. Mr. Miller also wants to start offering team retreats where this six module training is transformed into a week long training for leaders to get away from the hustle and bustle of business life and back to the basics of leadership.

*Segmentation Marketing: Why It Should Be Implemented*

PSG is presently facing a stunt in new customer growth. The majority of their customers are returning clients who have used one of PSG’s offerings and have come back for a second or third. Word of mouth marketing is the only marketing technique that PSG is implementing at this time. Increasing or transforming marketing efforts could significantly increase PSG’s client base. Using segmentation marketing would allow PSG to specifically market to new clients they hope
to acquire. Because they already have a strong presence in the commercial truck and tire dealer industry, it should not be a challenge to expand their client base within their current market.

To expand outside their current market, segmentation marketing would allow PSG to market directly to smaller companies who need to improve leaders’ skills. This approach will allow PSG to penetrate other market segments while staying focused on what they know best. Once the company penetrates these other market segments, their reputation will build furthering their revenue and client base. Ultimately, PSG can save marketing dollars by using word of mouth marketing again. It will be vital to the wellbeing of the company, though, to use segmentation marketing for an extended period of time.
Recommendations

Use Benefit Segmentation to Market Specific Products to the Customer

To successfully use benefit segmentation, Performance Solutions Group must analyze which aspect of their trainings are the most beneficial to their potential customers. Once the benefit is found, PSG can market their products strongly in new markets. The benefit for both Telenotes and the Leadership Coaching Development Program differ immensely and should be marketed to the specific segment of potential customers who need each individual benefit.

Telenotes’ biggest benefit is how much time salesmen save when using Telenotes CRM. The segment to which this product should be marketed is busy salespeople who forget appointments, lose contact information, and do not have time to type call notes at the end of the day. Managers of teams like this will most likely be willing to spend extra money each month on Telenotes because they want their company to have the best image in the industry. Eliminating forgotten appointments and lost contact information will put them ahead of their competitors in the long run. Benefit segmentation for Telenotes will work best in a fast paced, competitive environment, like pharmaceutical sales, where sales people are always looking for products that lessen lost time and increase their effectiveness throughout the work day.

The LCDP’s greatest benefit to the client is the customization of the training. Team leaders can tell PSG exactly what they need, and PSG will create a leadership training to conquer these issues within the company. Not all companies are willing to spend the time and money on generic leadership training, so the customization aspect is important to market to PSG’s clients. The segment of the market that would be the most willing to pay for customized leadership training would most likely be smaller companies who do not already have leadership training in
place. For example, larger corporations like Target or Proctor and Gamble already have extensive leadership training for their managers. Eventually, PSG should attempt to enter into larger markets and potentially run leadership trainings for larger corporations.

*Use Geographic Segmentation to Market to a Specific Area*

Geographic segmentation is the easiest and oldest form of segmentation to use. Using this approach would allow PSG to advertise in cities in their geographic region. Strongly advertising in metropolitan areas in the southeastern United States limit travel expenses. Traveling to cities like Atlanta, Charlotte, or Greeneville is less expensive because of Nashville’s central location and low cost plane tickets. PSG is more likely to grow in larger cities because more small businesses are located there. Once PSG has infiltrated these three major southern cities, the surrounding areas will also be exposed to the marketing, both by PSG’s efforts as well as word of mouth marketing. Once the southeast is conquered, PSG should increase marketing efforts in the midwestern United States.

Besides controlling traveling expenses, geographic segmentation also allows PSG to better market to their customers in larger cities and smaller towns. Companies in larger cities are normally used to a fast-paced work environment, but companies in smaller towns are more laid back. Evaluation of the types of work day a typical company in each place experiences is essential in understanding how to market Telenotes and LCDP to consumers in each market. Although Telenotes selling point is saved time, a company in a smaller town with fewer consumers may not be willing to pay the extra money for the service. A company in a larger city may not want to purchase LCDP because the training will take too much time out of their busy
work days. Paying attention to where the company is located and how their days are spent is important in understanding which components to advertise more heavily in cities and towns.

*Use Psychographic Segmentation to Market to a Specific Lifestyle*

The lifestyle of consumers must be evaluated in order for PSG to adequately use psychographic segmentation. Clients’ lifestyles may be similar, but how to market Telenotes and LCDP to specific lifestyles may differ. A common day in the life of a salesperson is packed full of sales calls, meetings, training seminars, and administrative work from the time they get to the office until the time they leave. The benefits of Telenotes and LCDP have to agree with this lifestyle to be profitable for PSG. Showing how both products can save the company time and money in the long run will undoubtedly be profitable for PSG.

Telenotes can easily attract the attention of clients who have no time for administrative work at the beginning or end of the day. Telenotes is marketed so that the salesperson feels they have gained an executive aide. For busy salespeople, this is one of the most surprising aspects of the service which immediately leads them to inquire about other services Telenotes has to offer. The lifestyle of the salespeople makes this selling point work no matter what business they are in.

Training seminars also take valuable time from salespeople. Selling the six module LCDP program to a company could save six days of selling time in a year. Managers can learn how to effortlessly manage their time and communicate productively with their team members when sales are slower. In the long run, leadership training saves companies time when managers are better at planning and communicating.
Managerial Implications

When making these recommendations, the business structure will also change slightly. The conclusions drawn from the aforesaid recommendations are as follows.

Continued Research on Target Market

Because Performance Solutions Group has not shown effective marketing efforts this far into the life of the business, the company should make efforts to research the target market. Mr. Miller at PSG has a general idea of who he is marketing but no statistical data is found on this group of consumers. Using a website like www.experian.com/hitwise/ can allow PSG to not only see how many times the company website is viewed but also statistics on exactly who viewed the website.

Understanding the target market is crucial for effective segmentation marketing. The company should understand what their consumers find important, what stage of life their consumers are in, and what they find appealing in potential purchases. This step is a crucial part of the marketing efforts of Performance Solutions Group. Research should begin as soon as possible so marketing efforts can be increased.

Increased Marketing Efforts

For the aforementioned recommendations to be effective, Performance Solutions Group must increase their marketing efforts across the board. After the target market is understood, word of mouth marketing should no longer be the only marketing channel PSG uses. Marketing should use online advertising and advertising at new industry trade shows. PSG must understand
marketing techniques that are not currently familiar. After instituting website advertising and attending new industry trade shows, they should add new marketing techniques to further the visibility of the company.

Online advertising is becoming more popular with new technology available to small businesses. Effectively using search engine optimization can greatly increase the traffic to the PSG website. With more people visiting the website, greater interest in the services offered and even more purchases should result directly from the website. PSG can also use Google Analytics to acquire quantitative data about how the company’s efforts are contributing to intended growth.

The best marketing strategy is appearing at new industry trade shows. PSG has already participated in trade shows in the commercial truck and tire industry but should investigate trade shows for other industries that have the specified target market. Trade shows for pharmaceutical sales representatives would be an ideal place for PSG to move next. At these trade shows, PSG should have a booth advertising both Telenotes and the Leadership Coaching Development Program. Bringing managers to the booth will increase potential consumers and expand the current consumer market.

*Monthly Budget Change to Account for Extra Marketing Monies Spent*

Currently, PSG does not have a budget set aside for marketing because currently they are engaged in little marketing. With an increase in marketing efforts, a significant increase in marketing dollars will need to be spent. PSG should take into account specific channels they will use and budget for each channel. The first two channels PSG should fund are search engine
optimization and trade show advertising. Once these two channels are infiltrated and more revenue is flowing into the business, the marketing budget should be increased again.

Performance Solutions Group should decide exactly how many people they wish to reach through search engine optimization and quantify the number by joining Google Analytics. Checking the data on Google Analytics at the end of every two weeks will allow PSG to identify the areas that need additional work. This approach could also result in a complete website redesign which should be budgeted for at the end of the first year after data are collected.

Trade show advertising should have its own budget because this requires upfront costs to design a generic booth for advertisement at all trade shows. For each individual trade show, PSG should customize the booth in a way that appeals to that specific industry. Travel costs will also be incurred as well as target market research costs so PSG fully understands both the current market and the future markets.

Increasing the marketing budget will be an extra expense for the current financial period. However, in the long run, the upfront expenses should be recovered by the additional revenue generated by new clients. If no increase in revenue is seen, the marketing budget should be reduced and marketing strategies reevaluated to improve marketing to the end consumer.
Conclusion

Segmentation marketing is an effective way for companies to market their products or services. Because Performance Solutions Group, LLC currently has no marketing plan for the future of its company, segmentation marketing could target specific groups of consumers likely to buy its most popular products. Benefit, geographic, and psychographic are the recommended types of segmentation Performance Solutions Group use initially. After these strategies are successfully implemented, Performance Solutions Group could focus on other areas or different target markets. For this proposal to work, Performance Solutions Group will have to increase their overall marketing efforts, budget money for these increased efforts, and continue research on their target markets. Performance Solutions Group could become a more profitable company if segmentation marketing was implemented.
References


