1,001 better ways to segment your market (than outdated LSMs)

By Ross Sergeant

22 Sep 2016

The most important first step taken by any classical marketer is the decision of which consumers to target.

Often we need to ask the question: are you targeting every individual on the planet or might you have better success if you focus your efforts on one or two specific segments?

Time and time again, astute marketers answer this question with their intuition and their on-the-ground knowledge of the market. Whether formal or informal, this comes with a segmentation in mind. We hear general segments like: “upmarket housewives”, “young party-goers,” or more detailed segments like “men over 40 earning a seven-figure salary,” or “fans of reggae who are active on social media.” All of these are great segments and we can usually imagine them rather clearly.

More often, marketers who have a keen grasp of reality, and a dash of humility, accept that there might be more to the market than meets the eye and turn to market research to get a deeper and more granular answer to segmentation.

A detailed segmentation analysis looks at the current or potential market and assesses, based on the specific circumstances of the market, the consumer and the product or service being offered, how to segment the market and, through that, which segment, or segments, to target. It makes an objective and calculate view swayed by neither preconceptions nor misconceptions.

Too often we (and our agencies) resort, for lack of anything else, to the increasingly out-of-date segmentation called living standards measure, or LSM. It asks simple questions about the basic facilities that one has in the home. One can understand that if you're selling basic washing powder or general underarm deodorant, questions like whether or not you have "a washing machine," or "hot running water from a geyser" are relevant but if you're selling pumped-up kicks (that's "expensive shoes" to the out-of-touch) or income protection insurance, the LSM model is almost completely useless. The consumers who might be a good target for pumped-up kicks could be those who are interested in a certain kind of fashion, have access to a certain level of credit and an extrovert mindset whereas those who might want income protection insurance could be those who are employed, don't have a certain level of savings and are somewhat risk-averse. In neither hypothetical example does the presence of a dishwasher in the house mean much and, certainly, it's not helpful to a marketer that the LSMs downgrade someone's level if they stream their TV via fibre broadband rather than still have a "DVD Player or Blu-Ray Player" in the house.

While there are many more than 1,001 ways to segment a market, here are five commonly acceptable types of approaches to segmenting a market, which unlock consumer understanding and can help grow sales:

- **Behavioural** segmentation: based on their attitude toward a brand or category, their usage frequency or penetration thereof.
- **Psychographic** segmentation: activities, interests and opinions of consumers – what external influences change their opinions on brands, categories and other people.
- **Occasion** -based segmentation: when, where and how consumers use a brand or category.
- And then the more legacy-based **demographic** segmentation: based on age, race, personal income, household income, socio-economic level, social grade, generation, religion, occupation, education level, or life stage.
- **Geographic** segmentation: based on provinces, climates, cities, townships, and population sizes of cities or towns.

In fact, any aspect of your current or potential market can be used to form a segmentation and it's your consumers and your category that are the most important factors to decided which segmentation suits best. Just because LSMs are programmed in to the now defunct AMPS data isn't a good enough excuse to not think any further.

It is quite interesting and, at the same time very exciting, that digital media placement (you may know the term 'programmatic' either intimately or at least from general marketing speak) is a behavioural segmentation. This accounts for a consumer's online browsing and online purchasing behaviour, puts consumers into groups based on their online behaviour and delivers communication and budget proportions based on the behavioural segment. The exciting part is that when, in say 5- or 50-years' time (depending on how optimistic you are about our future digital economy) all media is delivered digitally, all purchases online or at least tracked and the Internet of Things is an every-day reality, it's the progression of this digital behavioural segmentation that will most probably be our source of true consumer insights.

Every consumer insights team, any market research agency, and some advertising or media-booking agencies can help construct a robust and useful segmentation, which won't dumb down the consumer insights to the point that all marketing value is lost. If your current target market sounds like "Men LSM 8-10 Income A" (which is a TV-buying market, not a truly valuable consumer segment to anyone other than a TV-space sales house) then it's probably a good time to relook your segmentation.

ABOUT ROSS SERGEANT

Ross has 17 years' media and marketing experience, having occupied senior client-side media roles in the United Kingdom (Diageo), Ireland (Diageo) and South Africa (FNB and Brandhouse), and agency-side media strategy roles at MediaCom, OMD, and MEC.

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