

University of Economics, Prague

International Business – Central European Business Realities



**Lifestyle market segmentation –
Efficiency and ethical issues**

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Scholar year: 2010/2011

Declaration:

I hereby declare that I am the sole author of the thesis entitled “Lifestyle market segmentation – efficiency and ethical issues”. I duly marked out all quotations. The used literature and sources are stated in the attached list of references.

In Prague on

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Michaela Pilstl

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Introduction

Market segmentation is one of the most important tasks in a marketing strategy. It's the key for a company's success, as it stands at the beginning of a marketing strategy and influences the following stages – targeting and positioning – and moreover the company's marketing mix itself. Therefore it is significant for a business to carefully prepare for challenges and opportunities during this process.

A company has several different possibilities on which their market segmentation can be based; one of them is based on customers' lifestyles. Lifestyle market segmentation has gained in importance over the last few years, obvious by the vast amount of different lifestyle typology concepts (see chapter two) and the increasing number of companies using this approach. However, criticism arose concerning the use of lifestyle market segmentation from media and customer protection organizations in regard to ethical concerns.

This thesis with the title “Lifestyle market segmentation – efficiency and ethical issues” has a practical relevance for companies and managers, as they could learn more about what lifestyles are, the advantages and disadvantages of lifestyle market segmentation for their company and what kind of concepts for lifestyle segmentation exist. Furthermore, marketers can observe the analysis of several studies and research concerning the effectiveness of lifestyle market segmentation. As Henry Ford already said,

“The business that makes nothing but money is a poor kind of business.”

Therefore ethical behavior and responsibility should be a basic principle of companies, especially when they are using consumer data – which is necessary for implementing a lifestyle market segmentation concept in the company's marketing strategy. Whether lifestyle market segmentation is ethical or not will be discussed as well.

During the author's Bachelor studies at FH Joanneum in Graz (Austria) the student already focused on the field “International Marketing and Sales” and wrote her Bachelor thesis about “Privacy issues of personalized marketing – An international comparison”. Consequently, she wanted to pursue her personal interest in marketing at VŠE in Prague (Czech Republic) and has written her diploma thesis about lifestyle market segmentation. The specific topic of lifestyle market segmentation grabbed her attention when last year serious discussions and

criticism arose about the use of lifestyle concepts in order to segment customers at Hamburger Sparkasse AG. This practical example will be discussed more in chapter one.

This diploma thesis deals with two main research questions. The first one covers the efficiency issue of lifestyle segmentation. Is the application of a lifestyle concept for market segmentation more efficient than other approaches? Do the benefits outweigh the limitations of lifestyle segmentation? And most important and in order to observe the practical relevance: Which companies use lifestyle segmentation successfully, what kind of concepts do they use and why do companies use lifestyle segmentation concepts? Last but not least: Do research studies show the efficiency of this strategy? The second research question deals with the concern regarding whether or not lifestyle market segmentation is ethical. Criticism in the media arose for the application of lifestyle segmentation, but what are the reasons? What does ethical mean and how can marketers and businesses operate in an ethical way?

According to these research questions, this diploma thesis firstly discusses market segmentation in general with a deeper focus on a description of lifestyle market segmentation including segmentation variables, the measurement of activities, interests, opinions and values, and benefits and weaknesses of lifestyle market segmentation.

The second chapter presents different concepts of lifestyle typologies, such as VALS, PRIZM, Schober, and others. Each lifestyle concept is analyzed in relation to the establishing companies, the area of application, groups and segments and segmentation drivers in detail. Moreover, this chapter considers the most significant differences of the mentioned lifestyle market segmentation concepts and how they are distinguished from one another.

In the third chapter of this thesis the efficiency of lifestyle segmenting is analyzed. As there is little empirical data concerning efficiency issues of lifestyle market segmentation, the author established a non-exhaustive list of factors which could contribute to the efficiency and success of a market segmentation strategy.

In order to find out the most significant differences and similarities of market segmentation models, two different lifestyle segmentation concepts are compared with each other. These concepts are evaluated according to four different aspects, including a spider graph which summarizes the results of this evaluation.

An ethical analysis is implemented in the fourth chapter. General ethics are described in detail, as well as the general position of ethics in business and marketing including ethical decision-making in marketing. Furthermore, ethical issues in lifestyle market segmentation, such as market research, questionable market segments and discrimination of market segments, are illustrated in more detail. Cui's and Choudhury's ethical analysis of marketing activities is able to support companies in improving their ethical behavior. Another policy which can improve ethical conduct is the installation of a code of ethics. Therefore, the author briefly compares the code of ethics of the American Marketing Association with the code of conduct of the Nielsen Company.

In the last section, the diploma thesis comes to a conclusion and tries to summarize the most significant parts, which answer the above mentioned research questions. According to the findings of the author efficiency issues of lifestyle market segmentation require further empirical research and lifestyle market segmentation can be ethically right and wrong.

The author mainly used written sources, such as books, academic articles, company websites, surveys and statistical data in order to give a broad overview of lifestyle market segmentation in general, lifestyle concepts, and efficiency and ethical issues. With the purpose to back up the accuracy and veritableness of the used information, different independent sources were employed.

The scope of this diploma thesis is limited with regard to the quantitative research for lifestyle market segmentation. This topic will just be briefly mentioned in the first chapter. Furthermore, the described concepts are just the author's selection of the most significant and popular concepts in the lifestyle market segmentation field. The list of concepts could be further pursued, but the chosen concepts are considered to be the most relevant by the author. This thesis does not deal with software systems which are needed to classify customers into the correct lifestyle profile. Moreover, a lot of data of citizens is required, but the acquisition of such information will not be covered.

1 Market Segmentation of consumer markets (B2C)

1.1 Description

In general, market segmentation means that the total heterogeneous market is divided into several more homogeneous parts according to a specific method.¹ An enterprise is not able to cover the whole market as it is too extensive, customers are too different in their wants and needs and competitors already target market segments successfully. Therefore it is essential for a company to analyze the market, find the most profitable segments, and then to target those segments in an effective and efficient way.²

Market segmentation is conducted by companies because marketing activities such as advertising or direct mailing are more efficient if they are aimed to customers of the specified target group. An enterprise has to determine a target group in order to sell the products and services to customers who need or want them. Otherwise, it would be very complicated to sell products and services to the whole market, as resources are employed wastefully. To sum up, the main purpose of market segmentation is the efficient use of resources and focus marketing activities on customers which are most profitable for the company, as they are willing to buy the company's products and services.

A very basic example of market segmentation is the market classification by gender: men and women. The group of women could further be divided into young girls (6-10 years), teenage girls (10-16 years), middle-aged women (16-30 years), mature women (30-50 years), and retired women (50+ years). Assuming, a company is selling face lotion it obviously depends if the target group are teenage girls or middle-aged women. Teenage girls will favorably buy face lotion products which help against pimples and unclear skin, whereas middle-aged women prefer face lotion products which help against wrinkles. The more specific a market is segmented, the higher is the possibility you reach exactly the target group you want, but it also means that the market segment becomes smaller and more unprofitable.

Effective and efficient segments can be characterized and classified into two different categories – which indeed can overlap:

- Qualification characteristics influence the segment directly:

¹ Cahill, Lifestyle Market Segmentation (2006), p. 5.

² Kotler/Bliemel, Marketing-Management, Analyse, Planung und Verwirklichung (2006), p. 415.

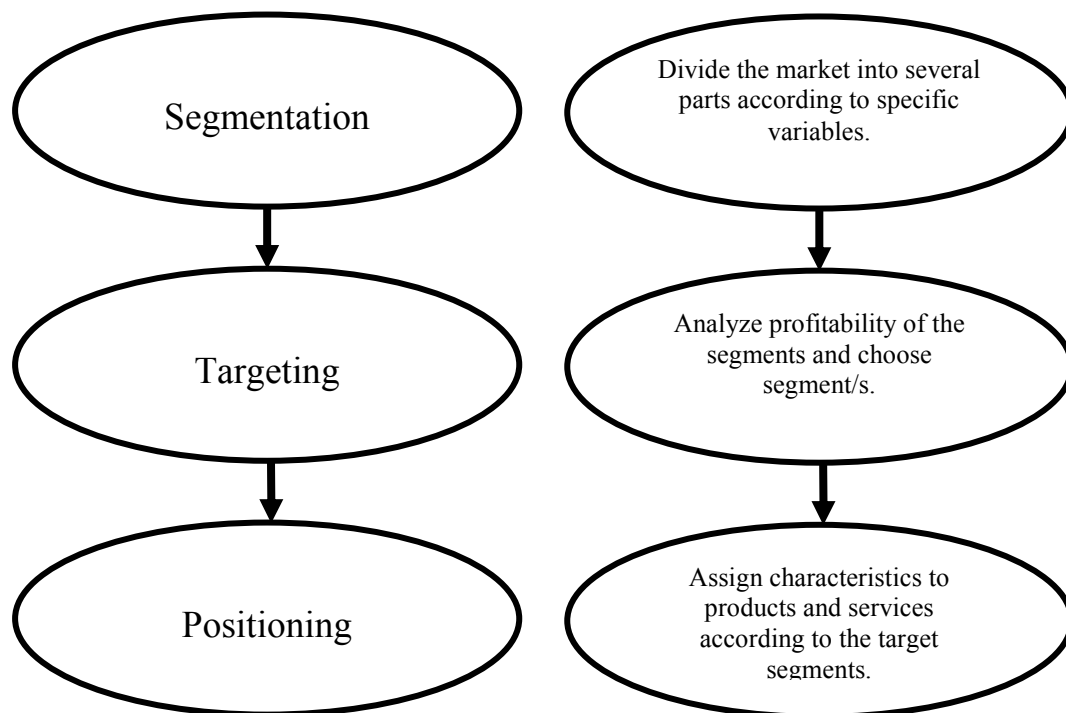
- Measurable: Segments have to be measurable, in order to analyze size and purchase power of the customer groups.
 - Substantial: Resulting potential profit of targeting the segment is enough.
 - Accessible: Customers of the specific segment can be reached and covered effectively.
 - Actionable: Effective marketing programs are able to attract customers and serve the segment.
 - Differentiable: Segments can be differentiated from other segments and customers react in different ways to different programs.³
 - Stable: In order to implement marketing strategies and plans.
 - Economical: A covering of a segment should be possible in a good cost-benefit balance.
 - Relevant: A segment should be relevant for the company and its business operations.
 - Homogeneity and heterogeneity: Within the segment customers should be as similar as possible and between two or more segments customers should be different.
 - Profitable: A segment should earn enough money to cover the costs and leave a specific amount of profit.
- Segment attractiveness can be based on internal and external factors, such as entry barriers or economic forces:
 - Compatibility with corporate objectives: It should be attractive to cover a segment in relation to the corporate strategy of the company.
 - Compatibility with company competences: The segment should be able to be covered with the skills, knowledge and competences of the company.
 - Resource requirements: The coverage of a segment should be possible according to the company's resource regarding capital, personnel and others.
 - Segment growth: A segment should have the potential to grow and prosper over time.
 - Competitive intensity: A tough competition in a segment can make a segment coverage very complicated.⁴

³ Armstrong/Kotler/Harker/Brennan, Marketing – An Introduction (2009), p. 204.

⁴ Tonks, Validity and design of market segments, Journal of Marketing Management Vol. 25/No.3-4/2009, p. 341-356.

1.2 Function in Marketing

The segmentation process is one of the first steps in the process of implementing a successful marketing strategy. After identifying segmentation variables, segmentation of the market and creation of segment profiles, the target market is determined. Segments are analyzed according to their profitability and other relevant factors, where the most profitable target segment(s) is/are chosen. The last step is the positioning, where possible positioning concepts are created and the most efficient are chosen and implemented.



Graph 1: STP-Marketing

First, market research needs to be done to get the relevant data of the customers. Second, the data is analyzed in factor analysis, where variables which are highly correlating are eliminated and then they are subject to a cluster analysis, which establishes specific segments. Third, profiles are created according different attitudes, behaviors and other characteristics.⁵

These processes are combined in Kotler's four P's of strategic marketing:⁶

- **Probing:** This topic includes market research and analysis, which is necessary for the following three steps. The success of the company's strategic marketing is strongly influenced by "probing" and builds the fundament of a marketing strategy.

⁵ Kotler/Bliemel, Marketing-Management – Analyse, Planung und Verwirklichung (2006), p. 428.

⁶ Wedel/Kamakura, Market segmentation – Conceptual and methodological foundations (2000), p. 336.

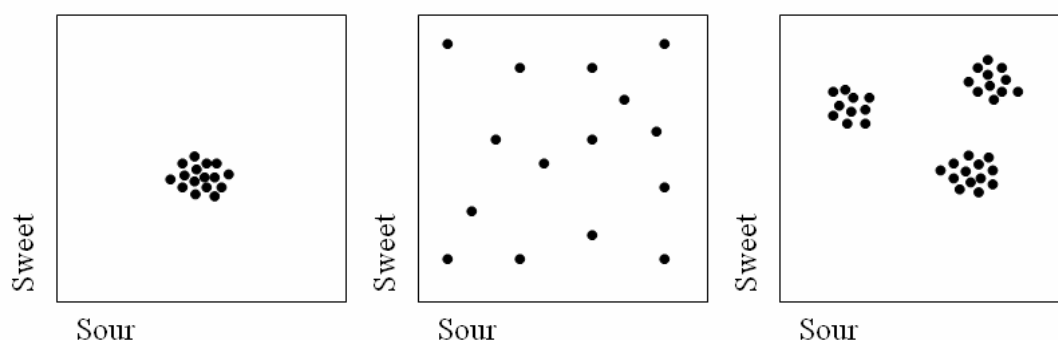
- Partitioning: On the basis of “probing” the market is segmented and customer groups are identified. Each customer group has specific characteristics and is different to the other groups.
- Prioritizing: A company evaluates and chooses the target segments on the basis of various factors, such as profitability. The target segments are ranked according to their priority.
- Positioning: Products and services are positioned in the various target segments with specific marketing activities which are most efficient for the particular target segments.

1.3 Preference structure of the market

The preference structure of a market heavily influences the market segmentation strategy of a company. It shows the degree of homogeneity of a market according to different factors. The more homogeneous a group is, the easier market segments can be identified. The more heterogeneous, the more complicated the identification of market segments is. Moreover, it is important to know the preference structure of market in order to evaluate the possibility and level of difficulty of covering a specific market or industry.

There are three different structures which can appear at a market:

- Homogeneous preferences: Customers have very similar preferences concerning a product.
- Scattered preferences: Customers have very different preferences and it is difficult to cluster them together in a homogeneous segment.
- Bundled preferences: There are several different customer bundles which have similar preferences, but each bundle or cluster is different to another cluster.



Graph 2: Preference structure of the market

1.4 Segmentation models

In this section several models are described, which significantly differ in their level of specialization. The lowest level of segmentation is zero-segmentation, whereas the micro-segmentation has the highest level. The degree of specialization depends on the number of variables which describe the segments; the more specified a segment is the more variables are used but the smaller the number of potential customers becomes.

- Zero-segmentation: Company makes no difference among the customers, but tries to cover the whole market.
- Micro-segmentation: Every single customer is seen and served as a segment.
- Segmentation according to one factor: The market could be segmented according to different age groups, income levels or other characteristics.
- Segmentation according to two or more factors: The more factors are used for market segmentation, the smaller the segments get and the more specific the company can target its products to the customers.⁷ A segmentation based on multiple variables is e.g. MOSAIC of Experian in the United Kingdom, which combines geo-demographic variables with consumer lifestyle patterns.⁸

1.5 Segmentation variables

Segmentation variables can be divided into two main groups: general consumer characteristics and specific behavior characteristics. General consumer characteristics segment markets independently from a specific product, whereas specific behavior characteristics relate to a product.⁹

General consumer characteristics:

This group of characteristics is based on the principle to segment a market independently to the specific product.

- Geographic: A company can operate in one or more geographic areas, but needs to consider differing consumer preferences. Especially eating habits vary significantly in different regions in regard of the frequency of using the product, the amount and of course regional specialties.

⁷ Kotler/Bliemel, Marketing-Management, Analyse, Planung und Verwirklichung (2006), p. 417.

⁸ Armstrong/Kotler/Harker/Brennan, Marketing – An Introduction (2009), p. 200.

⁹ Kotler/Bliemel, Marketing-Management (2006), p. 430.

This variable includes the following:

- Regions:
 - Nielsen areas: Nielsen uses demographic, social and structural information for determining Nielsen areas. The Austrian and German Nielsen areas can be seen in the appendix under 1.1. and 1.2..
 - Federal states: Germany has 16 federal states (for instance Saxony) and Austria has 9 federal states (for instance Upper Austria).
 - Districts: Czech Republic has 204 districts (for instance Cheb, Sokolov and Karlovy Vary in the Karlovy Vary Region).
- Size of areas: Below 5.000 citizens, 5.001-10.000 citizens, 10.001-50.000 citizens, 50.001-150.000 citizens, 151.000-300.000 citizens, over 300.000 citizens;
- Population density: Big cities, urban centers, rural districts; The lifestyle market segmentation PRIZM (explained in detail in the second chapter) classifies customer according to four urbanization categories, which are based on the population density in specific areas. These categories are “Towns and rural areas”, “Suburbs”, “Urban areas” and “Second Cities”.
- Demographic: One of the most used variables for market segmentation, as they are easy to measure and customer preferences are often connected to demographic variables.

This includes:

- Age: There are a lot of different approaches to structure age levels.¹⁰ The company iStrategy Labs applies the following age structure: 0-17 years, 18-24 years, 25-34 years, 35-54 years, 55+ years.¹¹
- Gender: Male and female categories. This determinant is especially important for fashion, cosmetics and magazines. Other industries try to segment their market as well, just as Coca Cola does with Coke Light for women and Coke Zero for men.
- Family size: 1, 2, 3, 4, 5, 6, or more.
- Family cycle: Kroeber-Riel and Weinberg describe four basic phases: unmarried and young, married with young children, married with elder

¹⁰ Kotler/Bliemel, Marketing-Management (2006), p. 431 ff.

¹¹ iStrategy Lab, <http://www.istrategylabs.com/2009/01/2009-facebook-demographics-and-statistics-report-276-growth-in-35-54-year-old-users/>, 22.03.2011.

children, married with no children (already moved out).¹² A more detailed classification was created by GfK, known as “Lifeworlds” (“Lebenswelten”). Customers are clustered according to two variables: social class (top, middle, low) and family phase (education, working world/household, retirement).¹³

- Income: Income has to be defined in more detail. Is income the whole income of the household, how many people live in the household with income, is it the personal income of a person or the average income per household? Market segmentation according to income is important for the car industry, fashion industry and spirituous beverages. Customers with a high income are more likely to drive a Mercedes, whereas customers with low income are likely to buy an Opel or Ford.
- Profession: Blue-collar worker, civil servant, white-collar worker, middle manager, freelancer, and more.
- Education: No degree, secondary education degree, apprenticeship, A-levels, university degree.
- Religion: Catholic, Evangelic, Muslim, Buddhist, and more.
- Social class: This determinant can be structured in many different ways. It has a stronger importance in the United States than in Central or Northern Europe, as social classes are not that distinctive.¹⁴ Dennis Gilbert created the following structure (applicable for U.S. in 2002): Underclass (12%), Working Poor (13%), Working Class (30 %), Lower middle class (30 %), Upper middle class (15 %), and Capitalist class (1 %).¹⁵
- And others.
- Psychographic: This variable includes the following:
 - Lifestyle: Open-minded, conservative, luxury, and more. In the second chapter, various lifestyle market segmentation models will be presented, where different companies created their own lifestyle classifications.
 - Personality: Introvert, confident, easy-going, sensitive, and more.¹⁶

¹² Hurth, Angewandte Handelspsychologie (2006), p. 58.

¹³ GfK, Lebenswelten, http://www.gfk.com/imperia/md/content/ps_panelguide/analysen/lebenswelten.pdf, 27.03.2011.

¹⁴ Kotler/Bliemel, Marketing-Management (2006), p. 431 ff.

¹⁵ Webster Online Dictionary, Extended Definition: Social Class, <http://www.websters-online-dictionary.org/definitions/Social%20Class?cx=partner-pub-0939450753529744%3Av0qd01-tdlq&cof=FORID%3A9&ie=UTF-8&q=Social%20Class&sa=Search#938>, 22.03.2011.

¹⁶ Kotler/Bliemel, Marketing-Management (2006), p. 431 ff.

Specific behavior characteristics:

- Occasion: Is it a normal occasion or a special occasion (for instance birthday, wedding, Easter, Christmas, and more)? Concerning traveling Swiss railways formulated three different occasions: Work (business trip), leisure (holidays) or incoming. A florist will offer special products for different occasions, such as Valentines Day or Easter.
- Offered benefit: Does the product have a favorable price, a superior quality or excellent service? For instance different yogurts offer different customer benefits: Activia offers a supportive effect for the customer's digestion, Fruchtwerge offers a healthy snack for in between, Landliebe offers a very natural product, and so forth. Companies are able to distinguish one from another with the products' offered customer benefit.
- Usage behavior: Includes the categories non-user, light-user, medium-user, heavy-user, potential user, first user and former user. For companies with a bigger market share it is important to make potential users to users. Heavy users are responsible for the biggest part of a company's profit.
- Brand loyalty: This variable classifies how loyal customers are towards a specific brand and how likely it is that the customers switch. There are four different clusters: The undivided brand loyal customer always buys the same brand, the divided brand loyal customer buys two or three different brands and switches between the brands, the moving brand loyal customer changes from one brand to another one and the unsettled brand loyal customer is not loyal at all and searches for special offers or varieties.
- Attitude: A customer's attitude toward a product can be positive, negative, indifferent or hostile. Customers with a positive attitude should be encouraged, while customers with an indifferent attitude should be persuaded. It might be quite a challenge to persuade customers with a negative or even hostile attitude.¹⁷

1.6 Lifestyle market segmentation

1.6.1 Description

Lifestyle market segmentation is the clustering of customers into segments on the basis of the aspects of their lifestyles.¹⁸

¹⁷ Kotler/Bliemel, Marketing-Management (2006), p. 431 ff.

¹⁸ About.com, <http://marketing.about.com/od/marketingglossary/g/lifesegegddef.htm>, 07.01.2011.

As described above, lifestyle is a part of the general consumer characteristics, specifically in the psychographic division. Psychographic segmentation includes variables concerning social class, lifestyles, personality and others. However, people from the same social classes and professional categories can have a completely different lifestyle.¹⁹ A market segment based on demographics can include different psychographic profiles.²⁰

According to the Austrian psychologist Alfred Adler, each individual is unique but there are still similarities among individuals and their lifestyles. Therefore he recognized the existence of four lifestyle typologies.²¹ There are four types: the ruling type, the leaning type, the avoiding type and the socially useful type. The ruling type has a high degree of aggressiveness either to others or themselves. The leaning type has a high level of sensitivity, which makes them weak and dependent on others. The avoiding type has the lowest degree of energy. The socially useful type has energy and participates in social events.²²

Lifestyle basically means the way that individuals, families and societies live. Lifestyle is exhibited in the consumers' buying and consumption behavior, as a specific lifestyle includes specific needs and desires which influence a consumer's buying decisions.²³ Furthermore, the economic level at which people live is also a part of their lifestyle.²⁴ Lifestyle also includes the behavior concerning relationships, self image, entertainment and clothing.²⁵ A specific lifestyle is reflected in the product and service range a customer buys, even a brand can be related to a lifestyle of person.²⁶ For instance, the brand Apple is bought by customers who are innovative, open to modern technology, have a medium to high income, invest their money in customer electronics, who probably also want to impress other people with products they buy and are young. When a customer searches products on www.amazon.com, the information is saved in order to give more efficient recommendations regarding other products. With this information it is possible for Amazon to get an idea about the lifestyle of the user as well. For instance, when a customer searches books about baby care or for toys, it

¹⁹ Kotler/Bliemel, Marketing-Management, Analyse, Planung und Verwirklichung (2006), p. 336.

²⁰ Michman/Mazze/Greco, Lifestyle Marketing: Reaching the New American Consumer (2003), p. 13.

²¹ Anderson/Golden, Lifestyle and Psychographics: A critical review and recommendation, Advances in Consumer Research 2001, p. 405-411.

²² Boeree, Personality Theories, <http://webspace.ship.edu/cgboer/adler.html>, 16.05.2011.

²³ Parnell/Spillan/Singh, Strategy through the eyes of the consumer: An exploratory study across emerging economies, Panorama Socioeconómico Año 24/No. 33/2006, p.50-64.

²⁴ Kucukemiroglu, Market segmentation by using consumer lifestyle dimensions and ethnocentrism – An empirical study, European Journal of Marketing Vol. 33/No.5/6/1999, p. 470-487.

²⁵ Word IQ, <http://www.wordiq.com/definition/Lifestyle>, 07.01.2011.

²⁶ Foedermayr/Diamantopolous, Exploring the construct of segmentation effectiveness: Insights from International Companies and Experts, Journal of Strategic Marketing Vol.16/No. 2/2008, p.129-156.

is highly probable that the customer has a child. Then the user searches for books about traveling to Asia and Australia, so the customer enjoys traveling to other places. Furthermore, the user searches for books about gardening, so the customer has maybe his/her own house. When the user searches for spare parts for a specific car, Amazon even knows which car the customers drives. With all this information, it is possible to cluster companies into specific segments and target them even better.

1.6.2 AIO – Activities, interests and opinions

The lifestyle of a person is based on AIO's – activities, interests, opinions – as well as attitudes and values.²⁷ Especially William D. Wells and Douglas J. Tigert are representatives of the AIO approach. They designed a questionnaire with 300 AIO statements and conducted a research with 1000 questionnaires.²⁸

In order to implement a successful customer research for the creation of lifestyle typologies, qualitative research tools such as depth interviews or focus groups are very helpful in the first stage.²⁹ In the second stage, quantitative research needs to be done to size segments.³⁰ The questionnaire should include different sections about AIO, behavior, attitudes, perceptions, values, media consumption, and so forth. It is necessary to have a large sample of customers (1000 or more) for a representative outcome. As the questionnaire most probably has a length of 45 to 90 minutes, research should be conducted in personal interviews, Internet-based interviews or mail surveys.³¹ This thesis does not further discuss the topic of quantitative research for market segmentation, as it would be too extensive and is not part of the main focus.

The statements of Wells and Tigert covered a lot of topics, for instance arts, clothes, cosmetics, opinions, and so forth. Respondents were asked to evaluate how much they agree or disagree with a given statement. AIO's give a more descriptive and detailed insight compared to an analysis solely based on demographics.³²

²⁷ Business Dictionary, <http://www.businessdictionary.com/definition/lifestyle.html>, 07.01.2011.

²⁸ Wells/Tigert, Activities, Interests and Opinions, Journal of Advertising Research Vol. 11/No. 4/1971, p. 27-35.

²⁹ Thomas, Market segmentation, http://www.decisionanalyst.com/publ_art/marketsegmentation.dai, 17.02.2011.

³⁰ FocusGroupTips, How to use qualitative research for market segmentation, <http://www.focusgrouptips.com/market-segmentation.html>, 17.02.2011.

³¹ Thomas, Market segmentation, http://www.decisionanalyst.com/publ_art/marketsegmentation.dai, 17.02.2011.

³² Wells/Tigert, Activities, Interests and Opinions, Journal of Advertising Research Vol. 11/No. 4/1971, p. 27-35.

- Activities include hobbies, sports, work, entertainment and social events.³³ Furthermore shopping, holidays and clubs are included.³⁴ A statement in a questionnaire could be “I often listen to popular music.”³⁵ Other statements could be “I often go to art exhibitions”, “I often watch movies at the cinema”, “My work is my life”, “I often work from home”, “I enjoy going skiing in winter”, “I often exercise in a fitness studio”, “I often meet with friends for shopping”, “I like to travel to foreign countries”, “I enjoy dancing in a music club”, and more.
- Interests are composed of family, food, house and fashion.³⁶ Job, recreation and media are as well included in this section.³⁷ An example could be “I am very interested in the latest fashion trends.”³⁸ Other statements could be “Family is the most important thing in my life”, “I am interested in trying new food”, “I only read online newspapers”, “I am very interested in my job”, “I am very interested in furniture trends”, and more.
- Opinions contain education, social issues and politics.³⁹ Also the opinion about themselves, products, the economy, future and culture are included.⁴⁰ A statement could be “A woman’s place is in the home.”⁴¹ Other statements could be “Men and women should share parenting”, “Students should pay tuition fees for universities”, “Kindergartens should be free for everybody”, “I am a very confident person”, “The economy overcame the crisis very well”, “The state should increase their financial support for cultural events”, and more.

Most AIO studies also include demographic variables and normally consist of 200 to 300 statements. AIO items can also be combined with product specifications.⁴² The AIO approach does not include lifestyle clusters itself, but serves as a basis structure for the development of lifestyle groups. The French company Centre de Communication Avancé (CCA) and the Europanel institute for instance created 16 “Euro-styles” – described in detail in chapter 3 – based on AIO.⁴³

³³ Kotler/Armstrong, *Principles of Marketing* (2010), p. 171.

³⁴ Berndt/Altobelli/Sander, *Internationales Marketing Management* (2010), p. 124.

³⁵ McQuail/Golding/Bens, *Communication Theory & Research: An EJC Anthology* (2005), p. 271.

³⁶ Kotler/Armstrong, *Principles of Marketing* (2010), p. 171.

³⁷ Berndt/Altobelli/Sander, *Internationales Marketing Management* (2010), p. 124.

³⁸ McQuail/Golding/Bens, *Communication Theory & Research: An EJC Anthology* (2005), p. 271.

³⁹ Michman/Mazze/Greco, *Lifestyle Marketing: Reaching the New American consumer* (2003), p. 3.

⁴⁰ Berndt/Altobelli/Sander, *Internationales Marketing Management* (2010), p. 124.

⁴¹ McQuail/Golding/Bens, *Communication Theory & Research: An EJC Anthology* (2005), p. 271.

⁴² Wedel/Kamakura, *Market segmentation, Conceptual and methodological foundations* (2000), p. 260.

⁴³ Kotler/Bliemel, *Marketing-Management, Analyse, Planung und Verwirklichung* (2006), p. 338.

In general, AIO's are rather used for the description of segments than as a segmentation bases. Therefore, markets are segmented according to other bases and then are split up in a more detailed way in relation to lifestyles.⁴⁴

Measurement of values

Values can be defined as ideals and beliefs about what is good or desirable and what is not.⁴⁵

Values can be classified into four groups: ethics (good/bad, morality, right/wrong), aesthetics (pretty/ugly), doctrine (political, social or religious beliefs) and inborn (reproduction and survival). Different societies with different cultures can have a different set of values.⁴⁶

There are several different instruments for measuring an individual's values:

- Rokeach Value Survey: Most important tool for measuring an individual's values and for identifying value systems. The survey includes 18 terminal and 18 instrumental values, which have to be prioritized by the respondents.⁴⁷ These values include for instance equality, freedom, true friendship, wisdom, and so forth.⁴⁸
- List of Values: This instrument was created by Lynn. R. Kahle based on Maslow's hierarchy of needs and has the important advantage that it just includes nine values, such as excitement, self-fulfillment, security, and so forth.
- Schwartz and Bilsky: 56 values are included in this tool, representing 11 motivational types of values, such as achievement, hedonism, tradition, and so forth.⁴⁹

Definition of attitudes

In general, attitudes describe an individual's or group's tendency to react in a positive or negative way towards a situation, an idea, a person or an object. An attitude influences the behavior and decision-making. There are four main components:⁵⁰

- Affective: Emotions induced by something, such as love, sadness, fear.⁵¹
- Cognitive: Conscious thoughts and opinions about something/someone.
- Conative: Tendency for an action.
- Evaluative: A person replies positively or negatively towards a stimulus.⁵²

⁴⁴ Wedel/Kamakura, Market Segmentation, Conceptual and methodological foundations (2000), p. 268.

⁴⁵ Business Dictionary, <http://www.businessdictionary.com/definition/values.html>, 16.02.2011.

⁴⁶ Word IQ, <http://www.wordiq.com/definition/Value>, 16.02.2011.

⁴⁷ Wedel/Kamakura, Market Segmentation, Conceptual and methodological foundations (2000), p. 12.

⁴⁸ McQuail/Golding/Bens, Communication Theory & Research: An EJC Anthology (2005), p. 272.

⁴⁹ Wedel/Kamakura, Market Segmentation, Conceptual and methodological foundations (2000), p. 12.

⁵⁰ Business Dictionary, <http://www.businessdictionary.com/definition/attitude.html>, 18.02.2011.

⁵¹ University of Notre Dame, Lecture 02 – Social Psych, <http://www.nd.edu/~rwilliam/xsocio330/attitudes.html>, 18.02.2011.

1.6.3 Advantages and disadvantages of lifestyle market segmentation

- Lifestyle market segmentation supports the identification of changing customer values and their impact on the buying behavior.⁵³ As a result, companies can react to changes, find new market opportunities and adjust their marketing strategy.
- Research about consumers' lifestyles can help companies to better understand the relationships between lifestyles and products and services they buy.⁵⁴ Consequently the communication mix can be targeted efficiently according to those relationships.
- Furthermore, market segmentation based on lifestyles provides a company with a more detailed definition of the key target audiences and shows the diversity among key target groups and the similarities within a segment.
- Lifestyle market segmentation allows the company to get a multidimensional overview of the market structure.
- The positioning strategy can strongly benefit, as a company better understands the consumer's needs and how the product can fit into his/her life.
- The communication strategy can be better focused on the selected lifestyle target group, as the lifestyle data gives information about e.g. media usage and results of lifestyle analysis represent a more real profile of the target customer.⁵⁵
- Successful lifestyle market segmentation can lead to reduced costs for marketing expenses and therefore higher profits for the company as well.⁵⁶ A possible benefit is to generally improve the allocation of company resources.
- As lifestyle market segmentation helps to better understand customers, the company's customer relationship management can be improved as well. Consequently, customer retention might be increased.
- Additional information can support a company to more precisely describe its marketing objectives.
- With lifestyle market segmentation, a company is able to use its knowledge about customers to develop new or improve existing products.⁵⁷
- One important disadvantage is that lifestyle market segmentation is quite time-consuming and therefore costly for the company.

⁵² Business Dictionary, <http://www.businessdictionary.com/definition/attitude.html>, 18.02.2011.

⁵³ Kotler/Armstrong, Principles of Marketing (2010), p. 171.

⁵⁴ Parnell/Spillan/Singh, Strategy through the eyes of the consumer: An exploratory study across emerging economies, Panorama Socioeconómico Año 24/No. 33/2006, p.50-64.

⁵⁵ Plummer, The concept and application of lifestyle segmentation, Journal of Marketing Vol. 38/1974, p. 33-37.

⁵⁶ Jain, Market segmentation, <http://www.123oye.com/job-articles/business-corporates/market-segmentation.htm>, 16.02.2011.

⁵⁷ Foedermayr/Diamantopolous, Exploring the construct of segmentation effectiveness: Insights from International Companies and Experts, Journal of Strategic Marketing Vol.16/No. 2/2008, p.129-156.

- Furthermore, the use of lifestyle segmentation can harm a company's reputation like in the case of Hamburger Sparkasse – "Haspa". Haspa categorized its customers into seven different psychological profiles, such as "adventurer", "preserver", "performer", "disciplined", "pleasure lover", "tolerant", and "hedonist", which were also based on lifestyles. The system the bank used is called "Sensus", which is a neuro-marketing instrument based on the limbic types of the Munich consulting company "Gruppe Nymphenburg". These customer profiles are created with the support of brain research and psychology and were specifically adjusted to Haspa's needs.⁵⁸ The goal of the bank was to sell insurance and stocks more efficiently and to understand their customers in a better way, but they were fiercely criticized by the media, customer protection organizations and customer advice centers. Edda Castelló, a representative of the customer advice centre of Hamburg, criticized Haspa for their usage of psychological profiles, because the bank employees could manipulate their customers to buy products which they do not want or need. Haspa used information from consulting meetings with customers and analyzed which products they bought already in order to classify them in the right customer profile. With the correct classification, employees would know how to address the customer and which words to use so as to affect the right emotions or thoughts of the customer. Each customer profile has eight sections: values, motivations, arguments, consulting, products, address, appearance and keywords. The hedonist for instance, should be persuaded with the argument that the product is very flexible and not binding and should be addressed emotionally and with extraordinary offers. With these methods Haspa's customers were tricked and manipulated.⁵⁹ After these public accusations, Haspa removed their psychological customer profiles from the system, but did not delete them yet.⁶⁰
- Lifestyle typologies cannot generally be used across borders, life areas and industries without adjustments. The magazine "Brigitte" identified lifestyle groups for German women, the marketing agencies McCann-Erikson or D'Arcy, Masius, Benton & Bowles created lifestyle groups for British and Russian customers.⁶¹ Countries significantly differ in their cultures; therefore also the lifestyles of national customers

⁵⁸ Focus, Hamburger Sparkasse löscht umstrittene Profile, http://www.focus.de/finanzen/banken/kundeneinschaetzungen-hamburger-sparkasse-loescht-umstrittene-profile_aid_568851.html, 27.03.2011.

⁵⁹ Hamburger Morgenpost, Die Psychotricks der Hamburger Sparkasse, <http://www.mopo.de/news/die-psychotricks-der-hamburger-sparkasse/-/5066732/6721216/-/index.html>, 27.03.2011.

⁶⁰ T-Online, Hamburger Sparkasse knickt ein – keine Kundenprofile mehr, http://wirtschaft.t-online.de/hamburger-sparkasse-knickt-ein-keine-kundenprofile-mehr/id_43335674/index, 17.02.2011.

⁶¹ Kotler/Bliemel, Marketing-Management, Analyse, Planung und Verwirklichung (2006), p. 341.

differ. As a result, companies need to do different research for markets in different countries, for different life areas and for different industries in order to be able to create conclusive and correct lifestyle typologies. Indeed, companies try to develop cross-border concepts such as the Eurostyles concept of CCA. Young & Rubicam developed a “cross-cultural consumer characterization”, which will be explained in chapter two. But still it seems clear that lifestyle typologies created specifically for one country are more precise and detailed than a market segmentation model for more countries or regions.

- There is often the problem of implementing the segmentation theory into the real market application.
- It could happen that there is a problem concerning coordination and organization which results in a poor connection of market segmentation and strategic marketing.⁶²

1.6.4 Geo-demographic segmentation

Most market segmentation models do not rely on just one variable, but on several different ones, in order to be able to create detailed customer profiles. A lot of lifestyle models include a geo-demographic determinant, as it allows companies to track down customers to regions, districts and sometimes even addresses. In the following chapter, six lifestyle models with geo-demographic variables are described in detail: Young & Rubicam’s 4 C’s, Geo-VALS, PRIZM, Mosaic Global, ConneXions NE, and GfK Roper Consumer Styles.

This market segmentation concept is based on the idea that birds of a feather flock together.⁶³ This saying generally means that people who live in close proximity tend to have similar tastes, capital, consumption behavior and lifestyles. Therefore, neighborhoods based upon postal zip codes are categorized according to lifestyle typologies.⁶⁴ Generally, there are often student districts, suburbs of the wealthy, immigrant districts, artist districts, expatriate districts, and more in a city. Neighbors need somehow “to keep up with the Smiths”; therefore, they drive similar cars, eat at similar restaurants, shop at similar shops, and so forth. Of course, not everybody is the same, but at least neighbors share similar patterns. Apart from all this theoretical information about market segmentation, it still must be kept in mind that:

⁶² Dibb/Simkin, Judging the quality of customer segments: segmentation effectiveness, *Journal of Strategic Marketing* Vol. 3/No. 2/2010, p.113-131.

⁶³ Cahill, *Lifestyle market segmentation* (2006), p. 19.

⁶⁴ Michman/Mazze/Greco, *Lifestyle Marketing: Reaching the New American consumer* (2003), p. 21.

“The marketer does not create the segments.”⁶⁵

It is not the marketer’s objective to create a segment artificially, as customer segments already exist in the market. It is the marketer’s goal to search and find them and get as much information as possible about them in order to be able to cover specific segments efficiently.

2 Concepts of lifestyle market segmentation

This chapter deals with concepts of lifestyle market segmentation. Six models will be presented which significantly differ in their nature and are practically relevant as they are used by enterprises around the world.

In order to give an extensive overview over the offered possibilities, the concepts vary in the following areas:

- Application countries: 4 C’s are applicable globally, VALS applies for the United States, Japan and United Kingdom, PRIZM applies for the United States, Mosaic is applicable globally, ConneXions applies for United States, GfK Roper Consumer Styles are applicable globally.
- Establishing companies: SBI, Nielsen Claritas, Experian, Young & Rubicam and GfK.
- Special segmenting variables, such as the “Technodoption” variable used in the ConneXions model or Maslow’s hierarchy of needs for the 4 Cs.
- Number of market segments, as the 4 C’s identified seven segments, VALS identified eight segments, PRIZM has 66 clusters, ConneXions has 53 customer groups, Mosaic Global has ten groups, Mosaic US 60 segments and the GfK Roper Consumer Styles have eight different clusters.

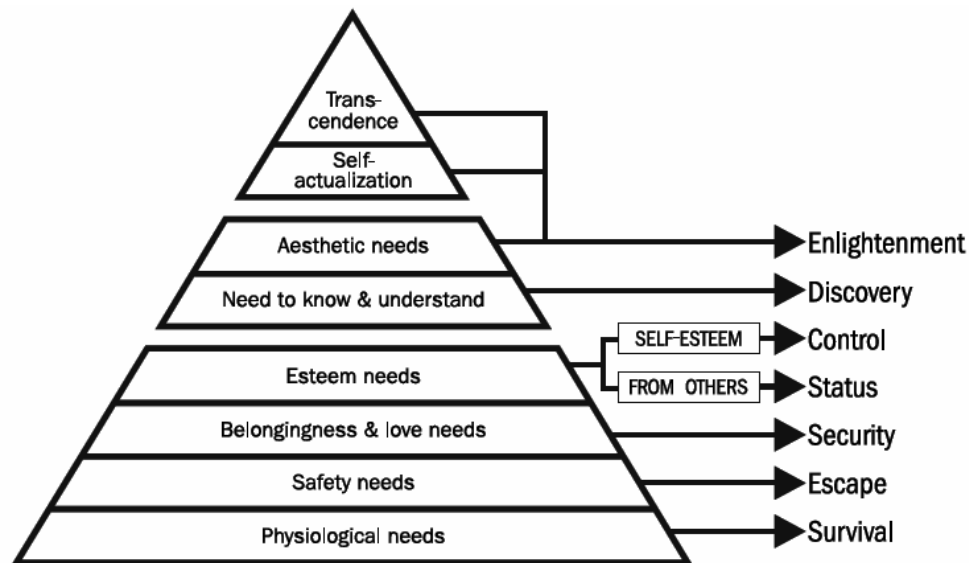
The chosen segmentation models are serving as the most important and popular representatives for the extensive range of offered lifestyle segmentation concepts. Other market segmentation concepts, such as P\$ycle, Acorn, Microvision, ClusterPlus and others will not be included, as it would go beyond the scope of this thesis.

2.1 Cross cultural consumer characterization

Young & Rubicam is an advertising agency based in New York City and established the “cross cultural consumer characterization” concept. Dr. Abraham Maslow created in 1969 his

⁶⁵ Kotler, Marketing Management, (2003), p. 279.

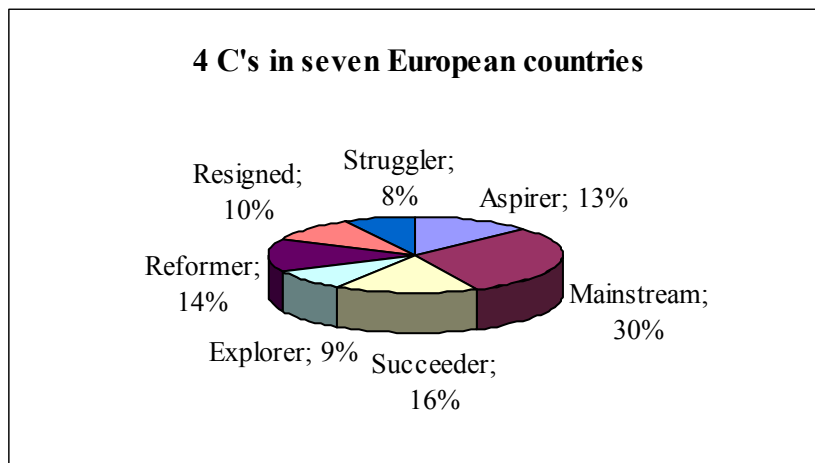
famous “Hierarchy of Needs”, which serves as an important basis in Young & Rubicam’s segmentation model. The graph below shows the inter-linkages between Maslow’s Hierarchy of Needs and Young & Rubicam’s 4C’s.



Graph 3: Young & Rubicam, Maslow's Hierarchy of Needs,
<http://www.4cs.yr.com/global/default.asp?tid=b0c57e2f-6b8f-4e32-8b20-5bcf74124349>

People are segmented according to their core motivations, goals and values, such as “Need to know & understand” which is linked to one of the seven customer segments, in this case “Discovery”. The 4 C’s seven market segments are positioned according to resources and priorities (security and freedom) – a graphical illustration is included in the appendix under 2. Cross-cultural consumer characterization. This concept eliminates the influences of different cultural backgrounds of people and accepts the various different origins. The 4 C’s target values can be found in all countries; therefore, it is applicable around the world (with a few adjustments). However, the analysis of Young & Rubicam was conducted in only seven countries in Europe.⁶⁶

⁶⁶ Young & Rubicam, Seven kinds of people, <http://www.4cs.yr.com/global/default.asp?tid=b0c57e2f-6b8f-4e32-8b20-5bcf74124349>, 01.04.2011.



Graph 4: Young & Rubicam, 4 C's in seven European countries, <http://www.4cs.yr.com/public/>, 01.04.2011.

The graph above shows the distribution of the customer typologies in seven different European countries. The customers are not equally distributed, which makes market coverage more difficult.

People are classified into seven different groups in three main categories:

Main category	Group	Core Need
Innovators	Reformer	Enlightenment
	Explorer	Discovery
Middle Majority	Succeeder	Control
	Aspirer	Status
	Mainstream	Security
Constrained	Struggler	Escape
	Resigned	Survive

Table 1: 4 C's seven groups according to three categories, Lancaster/Massingham, Essentials of Marketing Management (2011), p. 90.

- Reformers' main motivation is enlightenment. They are very independent in their thinking and acting. Reformers are anti-materialistic and will not buy any product just because it is new.
- Explorers' main motivation is discovery. They seek for challenges and like to try innovative and new products.
- Succeeders' main motivation is control. They are self-confident, organized and work in important positions. Succeeders buy high-quality products.
- Aspirers' main motivation is status. They are quite materialistic and value the opinion of others more than their own one and therefore value image, appearance and fashion.
- Mainstreamers' main motivation is security. This group has the most members of people in a society. They need a daily routine in life and buy well-known brands.

- Strugglers' main motivation is to escape. They are not organized and live for the day. They buy a lot of alcohol and junk food, a fancy packaging is important for the buying decision-making.
- Resigned main motivation is to survive. They are older people who like traditions and live in the past. Resigned do not like new products, but stick to familiar brands.⁶⁷

In general, “strugglers” and “resigned” are not targeted by companies. Their motivations are to escape and survive which does not make them profitable customers. Both strugglers and resigned are latecomers and need more time to adapt to new things. In appendix 3, -- Cross-cultural consumer characterization: Change willingness – a general overview of the change willingness of the seven segments can be observed.

Statements which are included in the online questionnaire are for instance “I am interested in abstract ideas and concepts”, “I think highly of people who can afford expensive cars”, “I can cope with surprising incidents”, “I enjoy calling my friends” and more. These statements need to be evaluated by the respondent with their level of agreement.⁶⁸

The 4 C's are similar to the original version of VALS, which will be explained next. Both models are based on Maslow's hierarchy of needs to some degree. Moreover, 4 C's and VALS both have a low number of segments, compared to other market segmentation concepts, such as PRIZM or ConneXions.

2.2 VALSTM 2

This concept is one of the most popular lifestyle market segmentation concepts. VALSTM 2 means values and lifestyles and is the new concept after the first VALSTM program in 1978. It was launched in order to reflect the changing lifestyles and outdated information. Whereas attitudes and opinions can change fast, values change in a more long-term way over generations.

It was created by “Strategic Business Insights”, the formerly called “SRI – Consulting Business Intelligence”, in 1989. VALSTM is a consumer psychographic segmentation tool

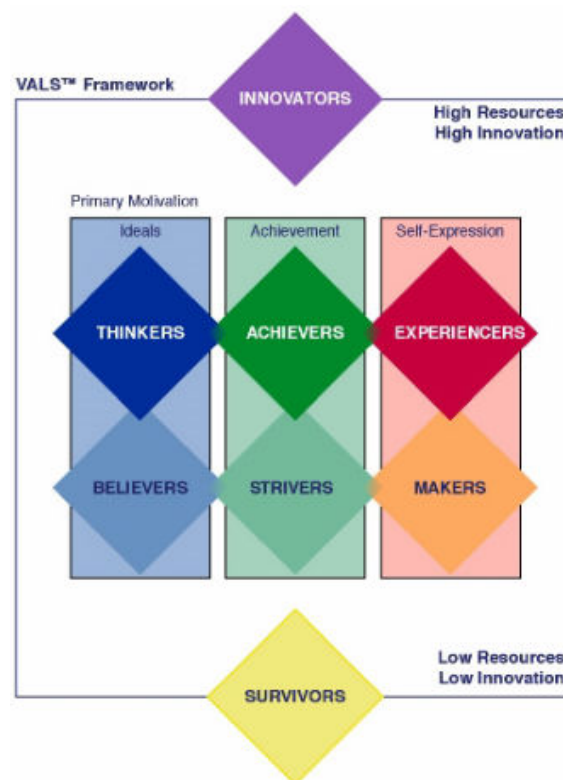
⁶⁷ Young & Rubicam, Seven kinds of people, <http://www.4cs.yr.com/global/default.asp?tid=b0c57e2f-6b8f-4e32-8b20-5bcf74124349>, 01.04.2011.

⁶⁸ Young & Rubicam, Questionnaire, <http://www.4cs.yr.com/global/default.asp?tid=ACF1275C-C010-48A4-9A32-08D18335A41B&non=0170472011z09r05r46>, 01.04.2011.

which classifies customers in the United States in eight different segments.⁶⁹ The concept combines psychological attributes with demographics in order to explain customer behaviors and decisions.⁷⁰

There are two underlying dimensions in order to create the typologies:

- Psychological and material resources, such as self-confidence, health, intelligence, education, income and energy level of a person. Resources are the constraint which prevents customers to fulfill their desires.
- Primary motivation, such as ideals, achievement and self-expression.⁷¹ The motivation of a customer influences the attitudes and the behavior. Core motivations direct the customer's actions, for instance when the core motivation is achievement, customers will buy products and services which express success to others.⁷² In the VALS model the motivations guide the consumption behavior and affect the buying decisions of a customer. However, resources can limit the fulfilling of core motivations.



Graph 5: SBI, VALS Framework, <http://www.strategicbusinessinsights.com/vals/about.shtml>, 11.01.2011.

⁶⁹ Michman/Mazze/Greco, *Lifestyle Marketing* (2003), p. 18.

⁷⁰ Strategic Business Insights, About VALS™, <http://www.strategicbusinessinsights.com/vals/about.shtml>, 11.01.2011.

⁷¹ Armstrong/Kotler/Harker/Brennan, *Marketing – An Introduction* (2009), p. 155.

⁷² The VALS™ Segments, <http://comstudies.files.wordpress.com/2007/03/vals.pdf>, 16.05.2011.

As it can be seen from the graph above, VALS™ comprises eight different segments. The combination of primary motivation and resources indicates how an individual will act as a consumer in the market.

Thinkers and Believers act in relation to ideals, meaning they rely on knowledge and principles. Achievers and Strivers choose products and services which demonstrate their success to others. Experiencers and Makers are guided by self-expression; therefore, they need activities, variety and risk.⁷³

Innovators and Survivors are categorized just with regard on their resources, as innovators have a very high level of resources and show all three motivations. Survivors have a very low level of resources and demonstrate no primary motivation at all.⁷⁴

In order not to go beyond the scope of this diploma thesis, the segments will not be described in further detail; the full description is available on SBI's company website.

VALS™ can be used by companies for the following activities:

- Product development
- Targeting and Positioning
- Communications
- Geo-location.⁷⁵

Demographic and Behavior Snapshots Highlight the Vibrancy of Using VALS™

Primary Motivation	Ideals			Achievement		Self-Expression		
	Innovators	Thinkers	Believers	Achievers	Strivers	Experiencers	Makers	Survivors
Psychological Descriptors	Sophisticated In Charge Curious	Informed Reflective Content	Literal Loyal Moralistic	Goal Oriented Brand Conscious Conventional	Contemporary Imitative Style Conscious	Trend Seeking Impulsive Variety Seeking	Responsible Practical Self-Sufficient	Nostalgic Constrained Cautious
	Percent of Innovators	Percent of Thinkers	Percent of Believers	Percent of Achievers	Percent of Strivers	Percent of Experiencers	Percent of Makers	Percent of Survivors
Total U.S.	10	11	16.5	14	11.5	13	12	12

Graph 6: VALS™/Mediamark Research & Intelligence, LLC Fall 2008,

<http://www.strategicbusinessinsights.com/vals/demobehav.shtml>, 11.01.2011.

The graph above shows the main psychological descriptors of each of the eight VALS™ segments and furthermore the percentage of United States' citizens in each consumer group.

⁷³ Strategic Business Insights, U.S. Framework and VALS™ Types, <http://www.strategicbusinessinsights.com/vals/ustypes.shtml>, 11.01.2011.

⁷⁴ Armstrong/Kotler/Harker/Brennan, Marketing – An Introduction (2009), p. 156.

⁷⁵ Strategic Business Insights, Applications of VALS™, <http://www.strategicbusinessinsights.com/vals/applications/>, 11.01.2011.

SBI provides VALSTM systems for Japan and the United Kingdom as well, as international VALSTM is supposed to include cultural differences. Furthermore, Geo VALSTM includes a geo-demographic attribute to the system in order to better map a company's customers.⁷⁶

VALS is criticized for its different segment sizes (mainstreamers: 30%, strugglers: 8%) and its very general social values which do not directly relate to a consumer's behavior towards a brand or specific products category.⁷⁷

2.3 PRIZM NE

PRIZM means "Potential Rating Index for Zip Markets" and is one of three segmentation strategies created by Nielsen Claritas. Nielsen is a marketing information company which analyzes market developments and customer behaviors in more than one hundred countries worldwide. Other segmentation systems are P\$ycle, which is a financial and investment lifestyle market segmentation concept, and ConneXions, which will be explained later in this chapter.⁷⁸

This concept combines both household and geographic information about customers; the first version was established in the mid 1970's and the fourth and last version in 2003. The lifestyle groupings are based on information of U.S. customers, therefore just applicable for the markets in the United States. The concept includes 66 different customer segments.⁷⁹

PRIZM differentiates consumers' preferences, lifestyles and buying behaviors. As a result, companies are able to do targeting more efficiently, improve their communication strategy and adjust products according to their target segments. PRIZM works with geographical data as well; consequently companies are able to evaluate markets and territories more efficiently.⁸⁰

PRIZM defines neighborhoods according to six different variables:

- Social rank (including education, income and job position)
- Household composition (including age, gender and structure)
- Housing (own or rent)

⁷⁶ Strategic Business Insights, GeoVALSTM, <http://www.strategicbusinessinsights.com/vals/geovals/>, 11.01.2011.

⁷⁷ Wedel/Kamakura, Market segmentation – Conceptual and methodological foundations (2000), p. 266.

⁷⁸ Nielsen, About us, <http://www.nielsen.com/us/en/about-us.html>, 01.04.2011.

⁷⁹ Tetrad Computer Applications Inc., Claritas PRIZM Segment Snapshots, http://www.tetrad.com/pub/prices/PRIZMNE_Clusters.pdf, 19.02.2011.

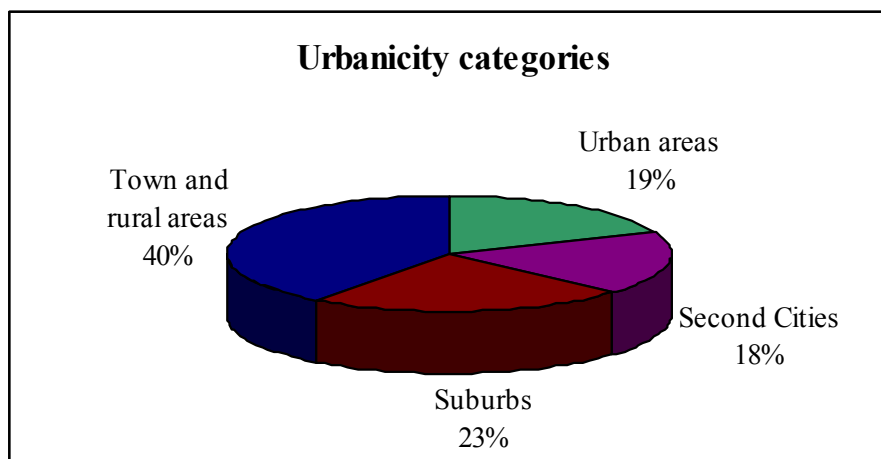
⁸⁰ Tetrad Computer Applications Inc., Claritas PRIZM Fact Sheet, <http://www.tetrad.com/pub/documents/PRIZMfactsheet.pdf>, 21.02.2011.

- Ethnicity (including race, origin and language)
- Mobility (Length of residence)
- Urbanization.⁸¹

There are basically three different levels of categorization. First, customers are clustered according to four urbanicity categories, which are based on the population density scores in the related areas. Those categories are presented in the graph below:

Category	Density
Urban	85-99
Suburban	40-90
Second City	40-85
Rural	<40

Table 2: Claritas, PRIZM, Density of categories,
http://www.claritas.com/MyBestSegments/tutorials/Nielsen_PRIZM/engage.html, 19.02.2011.



Graph 7: Tetrad Computer Applications Inc., PRIZM NE Urbanicity Categories,
http://www.tetrad.com/pub/prices/PRIZMNE_Clusters.pdf, 19.02.2011.

Secondly, 14 social groups are listed within those categories based on the level of wealth of the customers. Thirdly, 66 different lifestyle segments are divided into those 14 groups.⁸²

A detailed breakdown of each lifestyle segment can be observed in appendix 4 – PRIZM NE: Urbanicity categories, social groups and lifestyle segments and appendix 5 – PRIZM NE: Lifestage Groups, lifestyle segments. The first social group in “Urban areas” is “Urban

⁸¹ Shephard Associates, The new direct marketing, How to implement a profit-driven database marketing strategy (1999), p. 583.

⁸² Tetrad Computer Applications Inc., Claritas PRIZM Segment Snapshots,
http://www.tetrad.com/pub/prices/PRIZMNE_Clusters.pdf, 19.02.2011.

Town” and comprises the wealthiest consumers in the U.S., who tend to be college educated and ethnically diverse, shop at exclusive stores, travel abroad and spend heavily on IT products. The second group is called “Midtown Mix” and is the most ethnically diversified social group, as it includes singles and couples, college and high-school graduates. Members of this group have active social lives in bars and restaurants, drive small imports and buy modern electronics.

“Urban cores” is the third group in “Urban Areas”. Members of this group have moderately incomes, education and housings, and prefer cheap fast food, TV news and high-end department stores.⁸³

The next urbanicity category is “Suburbs” and includes four different social groups. “Elite Suburbs” is the wealthiest suburban social group and has a concentration on Asian Americans. Members have large homes, expensive cars and clothes. “The Affluentials” have a lower income than the “Elite Suburbs”, but still a comfortable lifestyle. It’s a predominantly white segment with white-collar workers, consumer tend to healthy food, IT and electronic consumer products. “Middleburbs” is a social group of the middle-class, two segments with young customers, two segments with seniors and one segment with middle-aged customers. Members of those groups visit nightclubs and restaurants, buy at medium-priced stores and make holidays in the U.S. and Canada. “Inner Suburbs” have a lower education compared to the other three social groups, are lower-middle class and members are racially mixed.

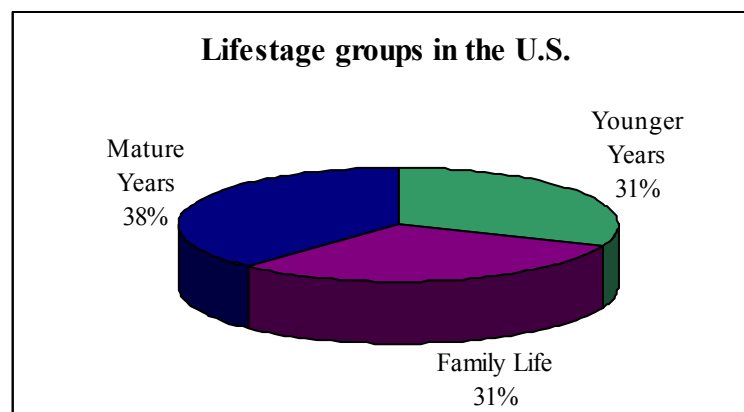
“Second City Society” is the richest social group outside the metropolitan centers in the urbanization category “Second Cities”. There are mainly college graduates, married families with children and executives as group members. Concerning their buying behavior, they have big houses; invest in technology and media, do their shopping at expensive retailers and travel abroad. Members of the “City Centers” are middle-class, college graduates and focus on their free time and recreation. They like home-activities, such as playing games, watching movies and play musical instruments, but also go to museums and cinemas. “Micro City Blues” are lower-class citizens who are quite mixed in relation to age, relations and origins. Most members have blue-collar jobs, do aerobics, fishing and play video games.

Members of the group “Landed Gentry” in the urbanization category “Town and Rural Areas” have a high income; live in smaller towns and have high education degrees. They buy

⁸³ Tetrad Computer Applications Inc., Claritas PRIZM Segment Snapshots, http://www.tetrad.com/pub/prices/PRIZMNE_Clusters.pdf, 19.02.2011.

expensive houses, consumer electronics, children toys and luxury cars. “Country Comfort” group members are white and middle-class. Most of them are married, like to play golf and gardening and drive trucks or minivans. “Middle America” includes as the name indicates middle-class homeowners, who have a medium education and are couples or larger families. They are conservative in their buying behavior and like fishing, antique collecting and meeting at clubs for recreation. Members of “Rustic Living” live in the most rural areas in the United States have lower incomes and education and are mostly blue-collar workers. Most citizens are unmarried and do similar activities like “Middle America”.⁸⁴

PRIZM NE furthermore includes a categorization according to the customers’ life-stages. Therefore, Nielsen created three life-stage groups, as it can be seen from the graph below. The classification variables are wealth, age of household members and whether children live at home.



Graph 8: Tetrad Computer Applications Inc., Lifestage groups in the U.S.,
http://www.tetrad.com/pub/prices/PRIZMNE_Clusters.pdf, 19.02.2011.

Group members from “Younger Years” are under 45 years old, singles or couples and mostly have no children. This first life-stage group further has three different lifestyle segments, which includes the 22 segments of the 66 segments mentioned before. “Midlife Success” members for instance are from the same life-stage group, but come from different areas in United States, such as “Movers & Shakers” are also in the social group “Elite suburbs” and “Country Casuals” are in the social group “Landed Gentry”.

“Family Life” members are between 25 and 54 years old and are families or people with children. 20 segments are included in this life-stage group. The life-stage group “Mature

⁸⁴ Tetrad Computer Applications Inc., Claritas PRIZM Segment Snapshots,
http://www.tetrad.com/pub/prices/PRIZMNE_Clusters.pdf, 19.02.2011.

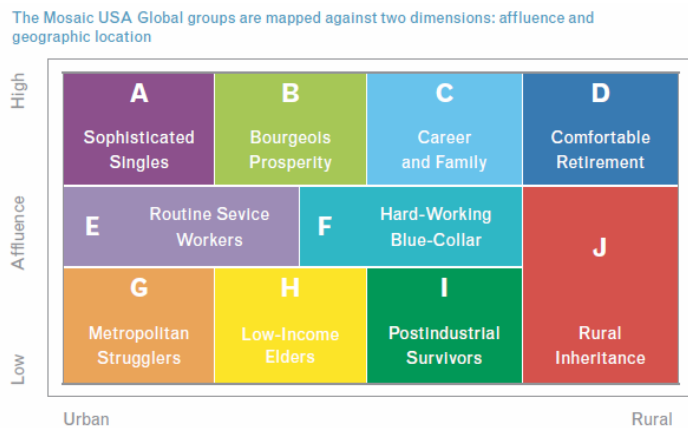
Years” is over 45 years old and childless. This group includes 24 segments and classifies them into 4 lifestyle groups.⁸⁵

2.4 Mosaic

Experian developed this market segmentation concept with more than 20 years’ experience in the field. It is operating in the information solutions industry and serves clients from various industries, such as financial services, manufacturing and e-commerce. Experian created more than 40 different market segmentation systems and Mosaic is available in more than 25 countries.

As the company operates in many countries, it created Mosaic Global which is applicable in countries from Western Europe, Australia and the Far East. Mosaic Global includes 880 million consumers in 380 million households worldwide. The concept is based on the assumption that in the world’s cities, residents from a specific social group live in the same areas or districts.⁸⁶

There are ten distinctive profiles, which can be seen in the graph below.



Graph 9: Experian, Mosaic USA Global, <http://www.experian.com/assets/marketing-services/product-sheets/mosaic-usa.pdf>, 01.04.2011.

⁸⁵ Tetrad Computer Applications Inc., Claritas PRIZM Segment Snapshots, http://www.tetrad.com/pub/prices/PRIZMNE_Clusters.pdf, 19.02.2011.

⁸⁶ Experian, Mosaic Global, http://www.experian.co.uk/assets/business-strategies/brochures/Mosaic_Global_factsheet%5B1%5D.pdf, 01.04.2011.

The first segment is “Sophisticated Singles”, which are young and single customers, who are well educated, open for innovations and international in their attitude. They like to live in large cities, as they enjoy the variety.⁸⁷

Companies can use Mosaic Global as a single consumer classification concept for different parts in the world and conclude a consistent overview of customers and markets. Indeed, Experian offers a Mosaic lifestyle classification for individual countries as well, such as the following Mosaic USA.

Mosaic USA has a geo-demographic component and combines socioeconomic and consumer information with geographical data. This lifestyle market segmentation concept can be used by any companies from any consumer-based industries for different purposes: media strategies, market potential analysis, customer profiling, customer acquisition and retention, market analysis, and more. The data used for Mosaic originates from U.S. Census, which holds vast amounts of demographic and lifestyle information of the U.S. citizens.⁸⁸

For establishing Mosaic, Experian used 300 different variables based on five main areas:

- Demographic (age, household size, income, etc.),
- Socio-economic (education, language spoken, social status, etc.),
- Property characteristics (housing value, rent, year built, etc.),
- Location (population density, influence of religion in the area, urbanization, etc.)
- Behaviors and interests (mail responsiveness, credit cards, internet affiliation, etc.).⁸⁹

Mosaic USA classifies customers into 12 groupings and 60 unique Mosaic types, which can be seen in detail in appendix 6 – Mosaic USA Groups and Segments by Sex.

One example is “Mosaic Group J” named “Struggling Societies”, which includes five different segments, such as “Rugged Southern Style”, which represent 1.25% of the U.S. households. Most customers from the customer profile “Rugged Southern Style” live in rural areas, the median household income is 33.000 USD, the median age is 41 and the median

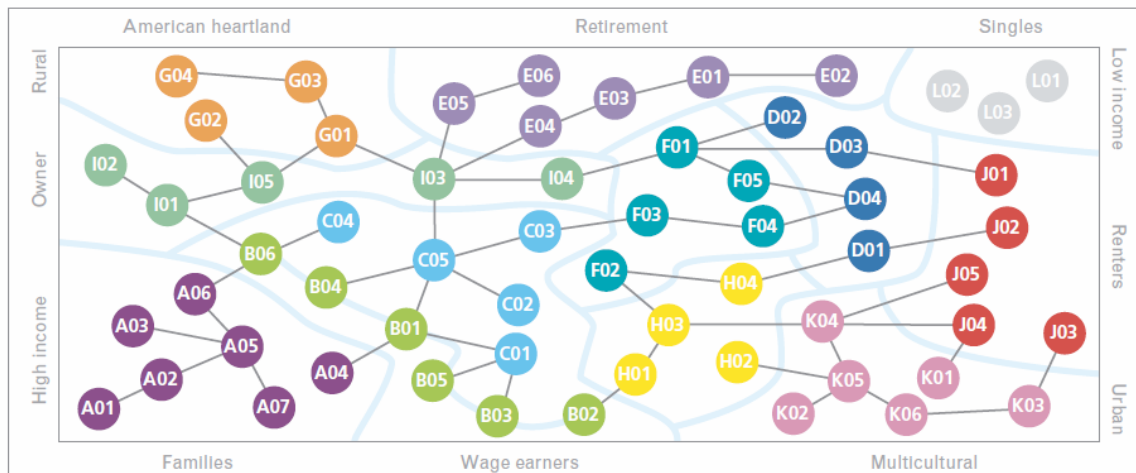
⁸⁷ Experian, Mosaic Global, http://www.experian.co.uk/assets/business-strategies/brochures/Mosaic_Global_factsheet%5B1%5D.pdf, 01.04.2011.

⁸⁸ Applied Geographic Solutions, Understanding Mosaic, http://www.appliedgeographic.com/AGS_2010%20web%20pdf%20files/final_understanding2005.pdf, 31.03.2011.

⁸⁹ Experian, Mosaic USA, <http://www.experian.com/assets/marketing-services/product-sheets/mosaic-usa.pdf>, 31.03.2011.

home value is 71.000 USD. They like to travel to Reno or Las Vegas for gambling purposes and buy recreational clothes and gear.⁹⁰

In the graph below, the different customer classifications as well as the complexity of the interconnection of the variables can be seen.



Graph 10: Experian, Mosaic US Family Tree, <http://www.experian.com/assets/marketing-services/product-sheets/mosaic-usa.pdf>, 31.03.2011.

In order to reflect the differences between to individual country classifications, Mosaic UK and Mosaic GER will be briefly explained. The lifestyle market segmentation concept in the United Kingdom divides customers into 141 Mosaic person types, which fall into 67 household types and 15 household groups. Mosaic GER divides customers into 41 customer types and 10 groups. A more detailed breakdown of each customer profile of both Mosaic classification systems can be found in appendix 7 – Experian, Mosaic UK and appendix 8 – Experian, Mosaic GER.

2.5 *ConneXions NE (New Evolution)*

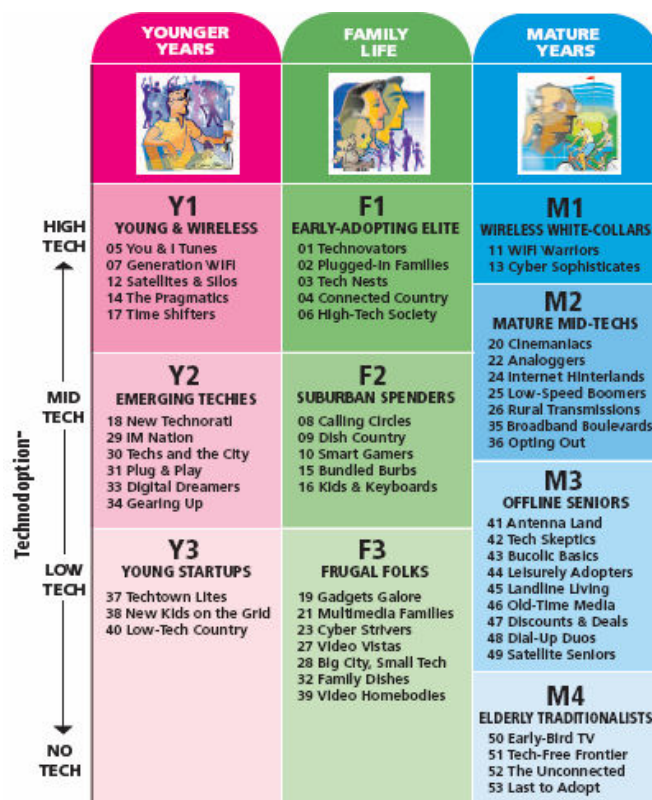
This market segmentation concept was established by Nielsen Claritas and involves information about consumer behavior and demographics. The household demographic variables include, age, income and homeownership. Furthermore, ConneXions includes information of customer satisfaction analyses, purchase intents, product usage behavior and switching behavior of customers. It helps a company in improving its marketing activities, as ConneXions NE analyzes the preferences, lifestyles and purchasing behaviors of customers.

⁹⁰ Tetrad Computer Applications Inc., Mosaic Cluster Descriptions, <http://www.tetrad.com/pub/documents/agsmosaiclist.pdf>, 31.03.2011.

Consequently, a company is able to more efficiently target advertisements, adjust their marketing message, customize products and develop an appropriate media strategy. This concept includes a geographical analysis in order to locate current and potential customers in the United States.

The lifestyle variable of this concept is based on technology adoption, age and family structure, whereas the segments are based on voice, video and data consumption behavior characteristics.

The graph below shows ConneXion NE's 53 customer segments separated into 10 different lifestyle groups. On the y-axis, Claritas included another significant variable called "Technodoption", which assesses the motivation of households to try new technologies. It ranges from "No Tech", meaning that a customer neither wants to learn something about new technology nor about well-established technology, to "High Tech", including customers which are most probably first adopters.⁹¹



Graph 11: Nielsen, Connexions NE's customer segments, http://nielsen.com/content/dam/nielsen/en_us/documents/pdf/Fact%20Sheets%20III/NielsenClaritasConneXions_US_SS043010.pdf, 01.04.2011.

⁹¹ Nielsen, Reveal consumer communication behaviours and their likelihood to adopt new technology, http://nielsen.com/content/dam/nielsen/en_us/documents/pdf/Fact%20Sheets%20III/NielsenClaritasConneXions_US_SS043010.pdf, 01.04.2011.

“Technovators”, which are located in the “High-Tech” section, are already living a family life and are integrated in the lifestage group “Early-Adopting Elite”. Families in this customer segment have a high education level, a high income, and are more than willing to spend their money on computers, flat TV screens, consumer electronics, MP3 players, cell phones and other similar products. They use new technologies in their daily lives.⁹²

2.6 GfK Roper Consumer Styles

GfK Group is a market research company based in Nuremberg, Germany. It covers more than one hundred countries and operates in custom research, retail and technology and media.⁹³

Roper Consumer Styles are based on the Euro-Socio Styles of GfK, but have been further developed and have now a different information basis. The Roper Reports Worldwide – named after the U.S. market researcher Roper Elmo – is a consumer analysis of the GfK group and serves as a data basis for the Roper Consumer Styles. This lifestyle market segmentation concept supports the target group selection, product development and testing, the company’s media strategy, the positioning of brand or company and analysis of product preferences.⁹⁴

Values and consumptions patterns are the main variables of the GfK Roper Consumer Styles. Every consumer style is in every country and the typology is available for 40 countries already. Consumers are driven by the same values and goals, therefore the Roper Consumer Styles are applicable across borders. National differences are reflected in the different sizes of the lifestyle types. For instance there are 10% of open-minded consumers in Russia, 15% in Japan and 16% in Spain.⁹⁵

In more than 30 countries, GfK interviewed 40.000 consumers in regard of the most important aspects of daily life. Moreover, GfK does national analysis as well, for instance in Germany, where they analyzed more than 50.000 consumers.⁹⁶

⁹² Claritas, ConneXions NE, http://www.claritas.com/collateral/segmentation/connexions-segmentation-brochure_ce4012.pdf, 01.04.2011.

⁹³ GfK, About GfK, <http://www.gfk.com/group/company/index.en.html>, 01.04.2011.

⁹⁴ GfK Gruppe, GfK Roper Consumer Styles, http://www.gfk.com/group/services/instruments_and_services/contact_dates/00150/index.de.html, 01.04.2011.

⁹⁵ Peichl, Zwischen Abenteurern und Realisten, GfK Insite 4-2007, p.28-32.

⁹⁶ Berndt/Altobelli/Sander, Internationales Marketing-Management (2007), p. 126.

As GfK also conducts household and consumption panels the Roper Consumer Styles can be observed in combination with global consumer behaviors and can be directly related to consumption data.

GfK established eight different consumer styles with different consumption relevant values, which can be seen in the lifestyle card below.



Graph 12: GfK consumer styles: Berndt/Altobelli/Sander, Internationales Marketing-Management, p.126.

- Dreamers are materialistic and are looking for wealth.
- Homebodies are materialistic as well as dreamers and they are looking for acknowledgement and status in the society.
- Organics are post-materialistic and driven by education and sustainability.
- Open-minded are individualistic and like design.
- Adventurers are hedonistic, risk-loving and stylish.
- Settled are strait-laced and have a strong need for harmony and security.
- Rational-Realists are strait-laced as well and take a long time during shopping for an intensive comparison of brands.

The use of GfK Roper Consumer Styles is beneficial for companies, as a market covering is possible across borders in a standardized and integrated way. Moreover, costs can be reduced with a more specific targeting strategy resulting from efficient lifestyle market segmentation. A downside of the Roper Consumer Styles is that an extensive data research is necessary, which is costly and time-intensive. Furthermore, general consumer typologies are not relevant

for all products and services. And a classification into a lifestyle segment does not necessarily mean, that a company can predict the consumers' buying behaviors exactly.⁹⁷

3 Efficiency issues of lifestyle market segmentation

3.1 Definition of efficiency focusing on segmentation

Efficiency means to do perform in the best possible way with the least waste of time and effort, while effectiveness means to do activities well. In general, efficiency means to do things right and effectiveness means to do the right things.

Business efficiency means to maximize output (profit) while at the same time to minimize input (expenditures).⁹⁸ Furthermore, as all inputs are scarce, an efficient business operation reduces the amount of used inputs.⁹⁹

Another definition of efficiency is based on the goal model, which means that an organization is efficient and effective when it is able to achieve its predetermined goals. Consequently market segmentation is efficient and effective when the stated objectives are achieved.¹⁰⁰

The measuring of efficiency with performance measurement systems helps a company to find areas which may need an efficiency improvement and show departments or activities which are already efficient. Performance measures, such as a balanced scorecard, can be used to analyze if a company was able to achieve its goals or not. However, as described later in this chapter, performance measurement for market segmentation cannot be directly implemented like for distribution or other marketing activities. For instance, the logistics department of a company can evaluate the performance in regard to the time required for the transport of goods. The success of a sale promotion, such as coupons can be assessed with a coupon redemption rate. The problem with evaluating the performance of market segmentation is that no performance measurement tools can directly assess a market segmentation strategy.

Various studies, academic papers and newspaper articles claim that companies which use lifestyle market segmentation can increase their marketing efficiency. A more precise targeting, which is based on a more precise segmentation can increase the effectiveness of a

⁹⁷ Berndt/Altobelli/Sander, Internationales Marketing-Management (2010), p. 129.

⁹⁸ QFinance, Definition of business efficiency, <http://www.qfinance.com/dictionary/business-efficiency>, 20.04.2011.

⁹⁹ Investopedia, Efficiency, <http://www.investopedia.com/terms/e/efficiency.asp>, 20.04.2011.

¹⁰⁰ Foedermayr/Diamantopoulos, Exploring the Construct of Segmentation Effectiveness, Journal of Strategic Marketing Vol. 16/No. 2/2008, p. 129-156.

mailing by 50% or more.¹⁰¹ However, according to Cahill, lifestyle market segmentation seems to work, but the validity is not fully proven.¹⁰² To sum up it can be said that different sources deliver different and sometimes conflicting results. On the one hand, market segmentation seems to work, on the other hand it is not clear how and why market segmentation works.

Generally, there is a lack of empirical evidence that analyze the success of market segmentation decisions and there a shortage of working instruments which measures the efficiency of international segmentation decisions. Furthermore, there is a lack of information concerning the factors which make lifestyle market segmentation efficient and how efficiency can be improved.¹⁰³

3.2 Efficiency factors of lifestyle market segmentation

In order to be able to improve efficiency of market segmentation, the author of this thesis developed the following non-exhaustive list of factors which influence the efficiency and success of a market segmentation strategy. These factors might help a company to control the efficiency of its current segmentation concept, or it could use them as a basis for establishing their own lifestyle market segmentation strategy or use them as a basis for choosing the most appropriate commercial segmentation model.

- **Determination of market segmentation objectives**

An enterprise definitely needs to know its goals of market segmentation, as different segmentation variables are appropriate and helpful for different marketing objectives. Therefore, different market segmentation strategies are appropriate for achieving different segmentation goals. For instance, Mosaic includes variables concerning property characteristics, which will be necessary to know if the company that applies this model sells furniture or kitchen appliances. When a company wants to establish an extensive social network marketing strategy, variables concerning social media and Internet affiliation will be more important than the willingness to respond to letters or how often customers watch TV.

- **Quality-information of customers**

¹⁰¹ Phillips, Ten Ways to Boost Marketing Efficiency (Without More Spending), <http://www.brandamplitude.com/whitepapers/efficiency.htm>, 20.04.2011.

¹⁰² Cahill, Lifestyle Market Segmentation (2006), p. 15.

¹⁰³ Foedermayr&Diamantopoulos, Exploring the Construct of Segmentation Effectiveness, Journal of Strategic Marketing Vol. 16/No. 2/2008, p. 129-156.

Companies often have vast amounts of data about their customers, but they either do not use it, they do not store it accurately or the information is simply not connected with the market segmentation strategy. Data can be gained through member-cards of customers, market research including the following tools, such as surveys, retailer information, previous business transaction information, marketing agencies which sell customer data and other information sources. Therefore, relevant data needs to be stored in a data mining system and then it should be used for the market segmentation and further marketing activities. Consequently, the company needs to determine which information is relevant for the market segmentation strategy and which is not according to their objectives.

Primary collection of data is a very costly and time-intensive process, as different market research methods need to be applied, e.g. in-depth interviews, focus groups and questionnaires. Secondary collection of data is not as expensive and time-intensive, but the data can be incorrect or not fully appropriate for their own specific segmentation purposes. Indeed, precise and detailed customer research results in very good information which is relevant for lifestyle market segmentation.

- Selection of segmentation variables

In general, there is no one approach how to choose segmentation variables. Indeed, the quality of a market segmentation strategy heavily depends on the variables on which the segmenting is based. Different variables will result in different customer lifestyle profiles. A company needs to decide how many variables should be used and on which the focus should lie.

Generally, the more variables that are used the more detailed but also smaller a customer lifestyle profile will be. Therefore, it is necessary to find an appropriate number of variables in order to guarantee the establishment of profitable segments. It is necessary to evaluate the segmentation variables whether they are able to create segments which fulfill the characteristics mentioned in chapter one (measurable, substantial, accessible, etc.).

- Commercial or self-made lifestyle market segmentation model

This thesis deals with the use of commercial market segmentation models which are offered by companies and deals not with the creation of an own independent market segmentation concept by a company itself. A company could also do a market research and consequently identify specific customer typologies just for their own company. The market segments are more precise as they are based on accurate data which fits the needs of the company strongly. In order to decide whether to use an existing model or create one's own it is necessary to

know the competencies and skills of the company. When the marketing department does not have the expertise or the relevant data, it is more useful to take advantage of a commercial market segmentation model. In order to find the most efficient one, an analysis of the potential segmentation models needs to be conducted. A commercial segmentation model needs to fit to the company's industry and marketing objectives. For instance a company which has operations in the United States will prefer ConneXions or VALS, but if a company is operating globally and wants to pursue a global marketing strategy, it will prefer 4 C's, Mosaic or GfK Roper Consumer Styles.

- Reliability and validity of market segments and segmentation variables

Reliability is the extent to which an exercise can be reproducible when repeated. It is a precondition of validity, but it is not sufficient alone. Validity means that a valid segment identifies what it is supposed to identify.¹⁰⁴ This means that on one hand, people who are considered to be members of market Segment A are considered to be members of the same segment in a second test. On the other hand, a valid customer profile identifies customers which it intended to identify.

Unreliable segments are a threat for a market segmentation strategy, as their predictive power is weakened. Therefore the identified and targeted segments would not seem real or credible for the company. It is complicated to define a reliability range which is acceptable for market segments. Not just for businesses, but also from the theoretical point of view. The reliability range differs widely within studies and also between studies. Various methods in different studies brought different results, with the split-half method, reliability ranged from 0, 29¹⁰⁵ to 0, 89¹⁰⁶. The test-retest analysis resulted in a reliability of 0, 59¹⁰⁷ to 0, 90¹⁰⁸ and the split-sample and Cronbach's α showed a reliability of 0, 54¹⁰⁹ to 0, 87¹¹⁰. Some theorists such as Nunnally, Carmines and Zeller determined a minimum reliability of 0, 80.¹¹¹

¹⁰⁴ Tonks/Farr, Market Segments: Fallacies and Faults, *The Marketing Review* 2001/2, p. 187-203.

¹⁰⁵ Parameswaran/Greenberg/Bellenger/Robertson, Measuring Reliability: A Comparison of Alternative Techniques, *Journal of Marketing Research* 16/1979, p. 18-25.

¹⁰⁶ Darden/Reynolds, Backward Profiling of Male Innovators, *Journal of Marketing Research* 11/1974, p. 79-85.

¹⁰⁷ Tigert, Psychographics: A Test-Retest Reliability Analysis, *Marketing Involvement in Society and the Economy* (1969), p. 171-201.

¹⁰⁸ Tigert, Psychographics: A Test-Retest Reliability Analysis, *Marketing Involvement in Society and the Economy* (1969), p. 171-201.

¹⁰⁹ Roberts/Wortzel, New Life-Style Determinants of Women's Food Shopping Behavior, *Journal of Marketing* 43/1979, p. 28-39.

¹¹⁰ Roberts/Wortzel, New Life-Style Determinants of Women's Food Shopping Behavior, *Journal of Marketing* 43/1979, p. 28-39.

¹¹¹ Fenwick/Schellinck/Kendall, Assessing the reliability of psychographic analyses, *Marketing Science* Vol. 2/No. 1/1983, p.57-73.

The various methods consist of different processes and characteristics. The split-half method divides the items on a range into two halves which are then correlated to each other. The higher the correlation is, the higher the internal consistency in reliability analysis. The test-retest analyzes the answers of the same group of respondents at two different periods of time. The higher the correlation, which is assessed according to the level of similarities, the higher the reliability. For the Cronbach's α all questions are split in every possible way and then are correlated to each other. The higher Cronbach's α is (highest is one), the higher the degree of reliability is.¹¹² The split-sample method splits a sample into two or more parts and then compare if the answers of both groups are consistent with each other.¹¹³

The lack of reliability and validity analyses of market segments and segmentation variables is a known problem. According to J. Paul Peter, marketers rarely evaluate reliability; validity is evaluated even less. Consequently, there is definitely a need for evidence of the accuracy and stability of market segmentation models.¹¹⁴ Without further research in this area, it is not possible to determine the factors of successful market segmentation and whether market segments comply with the real targeted customers. Credibility of market segmentation is threatened and could be improved by research on reliability and validity. Indeed reliability and validity research needs time and money, but with a little more empirical studying the quality and success could be further increased.

- Performance measurement of lifestyle market segmentation

In order to improve the company's performance, the marketing performance of a company has to improve as well. Therefore, the factors which are influenced by marketing, in this case especially market segmentation, need to be evaluated and compared to previous numbers. However, results and outcomes of market segmentation are very complicated to measure, as there are no direct performance measures which analyze the influence of market segmentation solely.

There is a significant lack of an appropriate evaluation tool which measures the efficient results of a market segmentation decision in a proper way. Moreover, there is a shortage of empirical data concerning the evaluation of the success of market segmentation decisions.

¹¹² Statistics Solutions, Reliability Analysis, <http://www.statisticssolutions.com/resources/directory-of-statistical-analyses/reliability-analysis>, 16.05.2011.

¹¹³ New Mexico State University, Reliability and Validity, http://business.nmsu.edu/~mhyman/M310_PowerPoint/Transcript/Reliability%20and%20Validity.docx, 17.05.2011.

¹¹⁴ Peter, Reliability: A review of psychometric basics and recent marketing practices, Journal of Marketing Research Vol. XVI/1979, p. 6-17.

Generally it is accepted that the application of market segmentation improves the marketing performance efficiency of a company, but it is not clear which factors influence the success.¹¹⁵

A study of Craft – using in-depth interviews with experts of international enterprises -- determined 16 measures (which are suggested by experts and/or companies) which evaluate segmentation performance measures:

- | | |
|----------------------------|--|
| ▪ “Sales Growth | ▪ Successful brand building |
| ▪ Profit | ▪ Market Share |
| ▪ Reputation as successful | ▪ Market development |
| ▪ Return on investment | ▪ Growth of product portfolio |
| ▪ Profit to sales ratio | ▪ Share of customer |
| ▪ Return on equity | ▪ Share of wallet |
| ▪ New product innovation | ▪ Partnering opportunities with local industries |
| ▪ Cost reduction | ▪ Extended product life.” ¹¹⁶ |

Table 3: Segmentation performance measures, Craft, Foedermayr/Diamantopolous, Exploring the construct of segmentation effectiveness: Insights from International Companies and Experts, Journal of Strategic Marketing Vol. 16/No. 2/2008, p. 129-156.

Obviously, these measures do not exclusively evaluate the efficiency of market segmentation. However, it is a general challenge to evaluate the outcome and success of marketing activities. One major problem is that marketing programs often cannot be isolated from other activities a company pursues; therefore, there is more than just one factor which influences the performance measures mentioned in the graph above. Other factors which influence the measures are marketing activities of competitors, decrease of purchasing power in the market, price changes, and more.

The study furthermore revealed measures which are actually applied in practice by the experts and companies:

- | | |
|----------------------------------|--|
| ▪ Product-specific sales figures | ▪ Profitability analysis |
| ▪ Market share | ▪ Average revenue per user |
| ▪ Customer satisfaction | ▪ Rate of response from targeted mailings/promotions. ¹¹⁷ |
| ▪ Brand/company image/awareness | |

Table 4: Measures actually applied, Craft, Foedermayr/Diamantopolous, Exploring the construct of segmentation effectiveness: Insights from International Companies and Experts, Journal of Strategic Marketing Vol. 16/No. 2/2008, p. 129-156.

¹¹⁵ Foedermayr/Diamantopolous, Exploring the construct of segmentation effectiveness: Insights from International Companies and Experts, Journal of Strategic Marketing Vol. 16/No. 2/2008, p. 129-156.

¹¹⁶ Foedermayr/Diamantopolous, Exploring the construct of segmentation effectiveness: Insights from International Companies and Experts, Journal of Strategic Marketing Vol. 16/No. 2/2008, p. 129-156.

¹¹⁷ Foedermayr/Diamantopolous, Exploring the construct of segmentation effectiveness: Insights from International Companies and Experts, Journal of Strategic Marketing Vol. 16/No. 2/2008, p. 129-156.

Overall, the suggested measures mainly match the measures that were actually used.

- Continuous market research

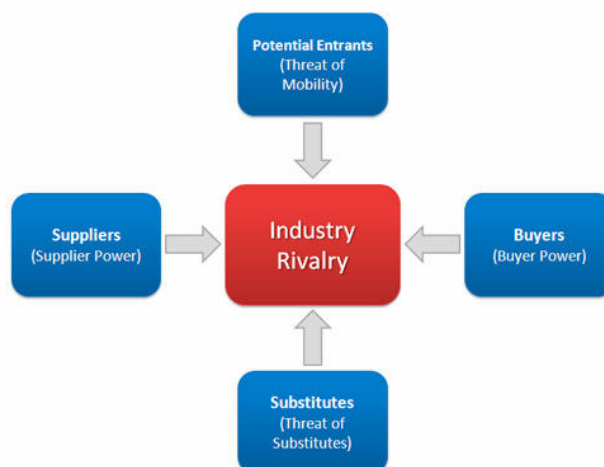
A steady market and customer research are necessary in order to capture the relevant changes, which could constitute challenges and opportunities for the company. For instance the increasing usage of social networks such as Facebook and Twitter is an opportunity for companies to divide their customers into segments according to their affiliation to social networks. The higher the affiliation, the higher the focus of future marketing activities in social networks could be.

Another example is the rising awareness of customers concerning bio and fair trade products. The higher the willingness of customers in a targeted segment to buy fair trade products, the more a product or product portfolio might change in order to attract those customers.

Especially the five forces mentioned by Porter need to be observed and analyzed in a continuous process. The five forces include potential new competitors, the power of buyers, potential new substitute products, the power of suppliers and competitors in the industry.

These five factors can constitute severe threats to a company, for instance when there are no significant entry barriers for a market, it is more likely that potential new entrants introduce products in the market and take the market share of the existing companies.

It is necessary to analyze these factors continuously, in order to be able to act and react to certain threats and possibilities. Consequently, a company can keep or increase its market share and competitiveness.



Graph 13: Porter, Five Forces, <http://notesdesk.com/notes/strategy/porters-five-forces-model-porters-model/>, 17.05.2011.

- Fulfilling of segment characteristics

In order to create an efficient market segmentation strategy, market segments should be analyzed according to the characteristics in chapter one. These factors help marketers to develop and improve the relevant market segments and therefore increase the overall efficiency of the company's lifestyle market segmentation strategy.

The first step in order to guarantee the establishment of efficient segments is to analyze the segmentation variables regarding whether or not they would be able to create efficient segments. After that, the segments themselves need to be analyzed if they fulfill the necessary characteristics.

- No generalizations of customers

Customer segments and profiles tend to induce generalizations about customers. The members of segments may share specific characteristics, but this does not mean that all customers of one segment are the same. The same lifestyle does not mean that a person has the same character, but customers are still individuals. Different experiences and different environments result in different characters, even when they are members of the same customer segment. Therefore marketers need to keep in mind that personalization is still the key to successful marketing and no generalizations about customers should be made.

This list of efficiency factors is not exhaustive and can be further continued. The author of this thesis just wanted to give an idea about how complicated it is to find appropriate success factors. The efficiency factors were developed on the basis of extensive research of academic papers and other relevant data sources. Moreover, it is important to point out the significant lack of empirical information of the success of market segmentation decisions.

3.3 Comparison of two main lifestyle market segmentation models

In this section, two main representatives of commercial lifestyle market segmentation models will be compared against each other with the purpose of showing similarities and disparities between two different concepts. Moreover, the following analysis intends to show different efficiency aspects of both models. The two main representatives are the VALS model of Strategic Business Insights and the PRIZM concept of Nielsen Claritas.

First of all, it is necessary to determine the various aspects and characteristics which are significant to be analyzed.

- *Establishment data* such as year of creation, number of updated versions and establishing company are important information, as it gives an idea about the stability and flexibility of the market segmentation model. Moreover, the different operation fields of the establishing companies and industries show the applicability of a model. The more models and tools a business offers for a high number of industries, the higher the applicability is.
- Another important point is *market segments*. It is necessary to consider the number of segments, different subgroups of segments and the depth of description details. With this information a comparison will show the degree of details of the market segmentation. Moreover, it presents the extent of market parting and the size of market segments. The more segments there are, the smaller the number of customers within the segments becomes.
- The third point is *segmentation variables*. The number of segmentation variables gives an idea about how precise and detailed the basis of the market segments is. Furthermore, the quality of the segmentation variables shows the quality of the market segments as well. The analysis and comparison of segmentation variables will also present whether the lifestyle segmentation models include a geo-demographic aspect or not.
- The last point deals with the *practical relevance* of the lifestyle segmentation models. This means, application countries of VALS and PRIZM, used data sources of both models and the complexity of implementing a market segmentation are shown.

These four points will be included in this comparison in order to establish an extensive and practically relevant analysis and comparison of VALS and PRIZM. All four points of both lifestyle segmentation models will be evaluated on a scale of ten points regarding their performance on each analysis factor. The comparison of both concepts is summarized with a spider graph which will sum up all important points and the evaluation in one clearly arranged chart.

Establishment data

	VALS	PRIZM
Year of creation	1978	Mid of 1970's
Number of update versions	Two (Last in 1989)	Four (Last in 2003)
Establishing company		
▪ Name	Strategic Business Insight	Nielsen Claritas
▪ Operations	Consulting and research	Marketing and advertising

		research
▪ Industries	Government and business sectors, including electronics, health care, energy and financial services.	Television, CPG & Retail, online, advertising agencies, telecom, sports, radio, books & DVD's, music, on location, video games.

Table 5: Establishment Data

According to this information, VALS and PRIZM were established at quite the same point of time, but PRIZM was updated already four times compared to only two updates of VALS.

This means that PRIZM includes more new information about customer and market changes, trends and threats which makes it more innovative and modern. Moreover, it shows that PRIZM has a higher flexibility than VALS.

Both companies are operating in research, but Nielsen operates in many more fields of customer and market research. SBI has research for the identification of market change (Scan), for the identification of opportunities for technological commercialization (Explorer), for the discovery of upcoming technologies (Virtual Worlds), for the analysis of consumer financial-services (Consumer Financial Decisions) and of course consumer analysis which drive marketing innovation (VALS).¹¹⁸

Nielsen is doing consumer panels & retail measurement, television measurement, online measurement, mobile measurement, cross-platform measurement, radio measurement, global consumer confidence research. Moreover, it has several major business areas such as Nielsen Entertainment which provides market information of film, music, home entertainment, books and interactive entertainment, Nielsen Media Research which measures the audiences of media, Nielsen Consumer Panel Services which analyses consumer behavior, Nielsen Claritas which offers market research data to companies, and more.¹¹⁹

Nielsen offers more research and tools than SBI does and it also covers more industries than SBI. Consequently, Nielsen has a more extensive framework of studies, more experience and more expertise than SBI.

Market segments

	VALS	PRIZM
Number of segments	Eight	66
Subgroups of segments	None	Four urbanicity categories, 14 social groups, three lifestage groups
Depth of description details	VALS segments are	PRIZM segments have large

¹¹⁸ Strategic Business Insights, Ongoing Research, <http://www.strategicbusinessinsights.com/>, 28.04.2011.

¹¹⁹ Nielsen, Measurement, <http://www.nielsen.com/us/en/measurement.html>, 28.04.2011.

described more generally and contain information about the personality and characteristics, general income (“they have abundant resources” ¹²⁰), willingness to change, new ideas and technology, purchase behavior, occupation and leisure activities. All open-source information is kept very general and not with a deep focus to details.	amounts of different and specific data. Descriptions of segments include information about income (“earning over \$200,000 a year” ¹²¹), home, occupation, origins, purchase behavior, age, life stage, whether children live at home, marital status, urbanization, lifestyle and leisure time activities.
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Table 6: Market Segments

A comparison of the segments of VALS and PRIZM leads to the result that PRIZM, with a higher amount of segments and subgroups, offers more detailed market segmentation than VALS does. When a market is segmented according to the approach of VALS, market segments would be much bigger than PRIZM segments. However, with a higher number of different market segments, there is the hazard that a market is segmented too intensely and market segments get too small.

Moreover, VALS segments would not be as homogeneous as when a market is segmented according to the PRIZM model. While VALS offers a more general description of market segments and customers, PRIZM focuses on details. Therefore, it is probably better to use PRIZM for discovering niche markets and new market trends.

With more description details companies are able to target more efficiently, adapt products and their product portfolio and improve media effectiveness. However, in order to get this affluence of description details it is necessary to do extensive market research or at least buy vast amounts of data. This increases costs and the time effort of market segmentation significantly. Therefore, it is necessary to make a cost-benefit analysis in order to make the most efficient and effective business decisions. This means that a company needs to weigh the costs against the benefits and see if the benefits outweigh the costs or vice versa.

Segmentation variables

	VALS	PRIZM
Number of segmentation variables	Two (psychological and material resources such as self-confidence, health,	Six (social rank, household composition, housing, ethnicity, mobility, and

¹²⁰ Strategic Business Insights, Innovators, <http://www.strategicbusinessinsights.com/vals/ustypes/innovators.shtml>, 28.04.2011.

¹²¹ Tetrad Computer Applications Inc., PRIZM NE Clusters, http://www.tetrad.com/pub/prices/PRIZMNE_Clusters.pdf, 28.04.2011.

	intelligence, education, income and energy level of a person, and primary motivation such as ideals, achievement and self-expression)	urbanization)
Quality of segmentation variables	The segmentation variables of VALS make sense, but segments get very restricted by the resource variable. The segmentation variables cover a lot of important areas of a customer and also give an idea about his/her personal intentions.	The segmentation variables of PRIZM cover important fields of a customer. With the help of the variables an extensive and detailed description of segments can be drawn. However, more information about lifestyles and personalities could be helpful.
Geo-demographic aspect	Geo VALS	Yes

Table 7: Segmentation variables

When comparing both segmentation variable models, it becomes obvious that with more variables a more detailed description of segments is possible. The more variables a model uses, the more information is needed. As PRIZM has 66 segments and VALS only eight segments, it is clear that PRIZM has a more comprehensive segmentation basis than VALS does. The segmentation variables of PRIZM cover more different areas of a customer than the variables of VALS do. However, the segmentation basis of VALS deals with more personality and characteristics of a customer, rather than just income, education and housing data. It somehow seems that VALS goes deeper into the inside characteristics of the customers and PRIZM's focus lies more on the external environmental factors of a customer. Furthermore, VALS segmentation model involves more AIO information than the PRIZM concept does. Nevertheless, PRIZM operates with a higher number of segmentation variables which makes the market segmentation more precise and explicit.

The fact that both lifestyle market segmentation models include a geo-demographic factor in their concept furthermore shows the importance of including this aspect.

Practical relevance

	VALS	PRIZM
Application countries	United States, Japan, and United Kingdom	United States
Data sources	VALS survey, MRI's Survey of the American Consumer, Scarborough's local market	Census 2000 demographics, ZIP+4-level demographics, Claritas' proprietary Market

	research studies. ¹²²	Audit financial survey, R.L. Polk new car buyers, Mediamark Research Inc. and Simmons lifestyle surveys, Medstat's PULSE survey of healthcare behaviors and Claritas client files. ¹²³
Complexity of market segmentation model implementation	With a lower amount of segments and also segmentation variables, market segmentation with VALS seems to be less complex and complicated.	As PRIZM has a higher number of segments and segmentation variables, it seems that market segmentation would be more complex and complicated.
Price lifestyle segmentation model	-	-
Time to implement lifestyle market segmentation	-	-

Table 8: Practical relevance

A comparison of the application countries makes clear that VALS has an advantage in regard to PRIZM, as it is not just possible to apply the VALS model in the United States, but furthermore in Japan and the United Kingdom. However, a global application of a lifestyle segmentation concept would be more efficient and supportive for a company, when it has a global strategy. VALS and PRIZM are just applicable for specific regions and cannot be used to implement a global marketing strategy. When a company operates on a global basis, it is more efficient to use a market segmentation model which can be used worldwide, such as Mosaic. Therefore, both models are not the most efficient concepts for a company pursuing a global marketing strategy, but the more countries are included in the concept, the broader is the possible application region.

Concerning the data sources used for market segmentation, PRIZM uses far more data sources of different survey and research providers than VALS does. More data sources make segmentation more reliable and valid.

The complexity of implementation of the market segmentation model is definitely dependent on the number of market segments and segmentation variables; therefore, VALS seems to be less complicated to implement than PRIZM.

It was not possible for the author of this thesis to find adequate and correct information about the price and time effort of a lifestyle market segmentation using either VALS or PRIZM.

¹²² Strategic Business Insights, Consumer Data, <http://www.strategicbusinessinsights.com/vals/consumerdata.shtml>, 28.04.2011.

¹²³ Tetrad Computer Applications Inc., PRIZM NE Methodology, http://www.tetrad.com/pub/prices/PRIZMNE_Methodology.pdf, 28.04.2011.

General information about both concepts is available on the Internet, but those sources do not include specific industry or market data. Costs and time effort depend highly on the company using it and they are also inter-dependent. The longer market segmentation lasts, the higher the costs are. Furthermore, market segmentation also depends on the type of industry, the size of the market, the competition in the market and changing trends of a market.

After the comparison of VALS and PRIZM according to four different aspects – establishment data, market segments, segmentation variables and practical relevance – both concepts will be evaluated. The author of this thesis will conduct this evaluation on the basis of a 10-points scale, ranging from 1 (very bad) to 10 (very good). The four aspects consist of different subcategories, but as a matter of simplicity and comprehensibility just four ratings per concept will be presented.

In the category of establishment data VALS is ranked with five points, as it shows a stability and long-lasting experience in the market research field and also operates in various industries. However, it was updated just twice which makes it seem old-fashioned and inflexible. PRIZM receives eight points, as it shows stability and experience, as well as flexibility with four updates. However, the last update was eight years ago which makes it not as innovative as other lifestyle segmentation models. PRIZM is applicable for several industries and Nielsen is a company with a lot of experience and expertise in the research field.

In the category of market segments VALS gets four points, as it only has eight segments, which highly vary in size and include very general descriptions of each segment. Nevertheless, VALS includes data about the personalities of consumers.

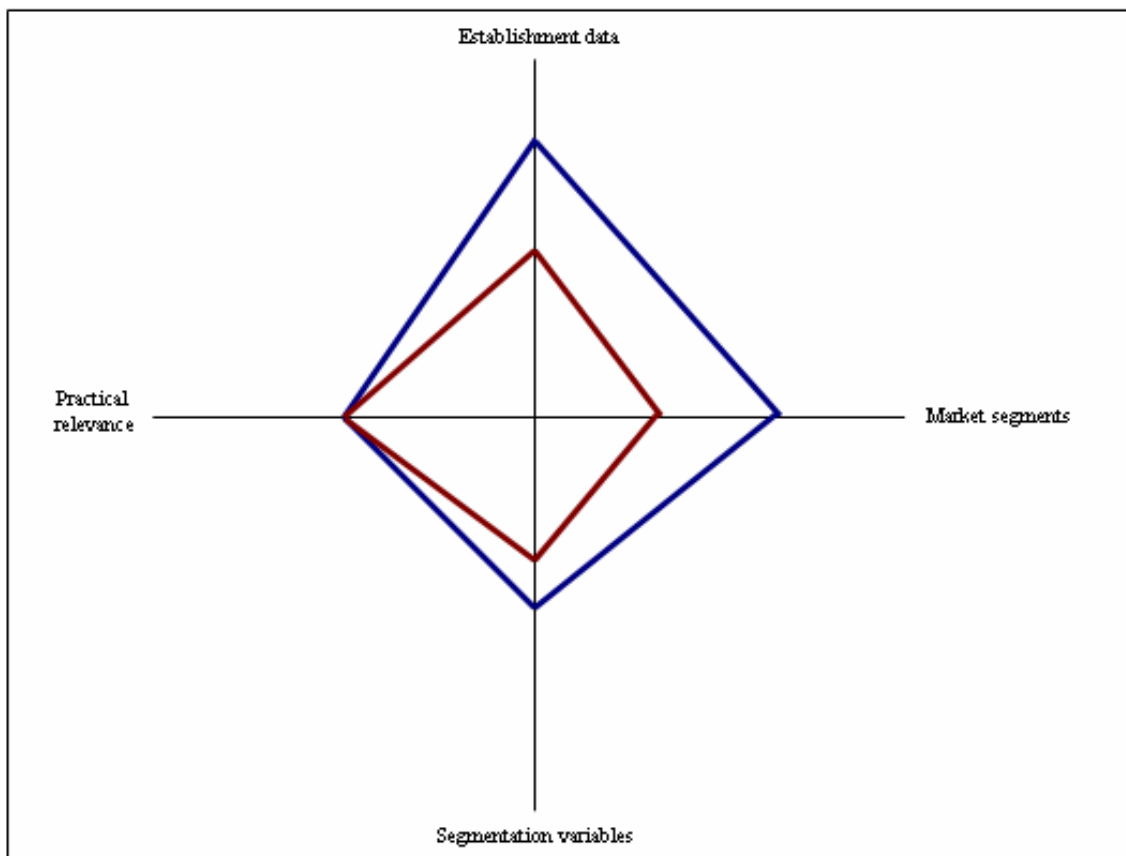
PRIZM has 66 different segments, which are described in a high level of details. Segments include information about various topics and give an extensive view of a customer. A market can definitely be better and more precise segmented on the basis of PRIZM with such an amount of details. Therefore PRIZM is ranked with eight points, as there is still the hazard of too intense market segmentation.

The section of segmentation variables is quite complicated, as it is difficult to evaluate the quality of these variables. Generally, VALS only uses two main variable dimensions, while PRIZM uses six different variable groups. Therefore, more detailed segments result from PRIZM market segmentation. However, as mentioned earlier, VALS includes more information about the consumer's characteristics and uses more AIO information than PRIZM does. Both segmentation concepts include a geo-demographic aspect in their market

segmentation model. Consequently VALS is evaluated with six points and PRIZM is ranked with seven points.

In the section of practical relevance, VALS can definitely score with more application countries and a less complex implementation of the segmentation model. However, PRIZM is able to have a significant advantage in the area of data sources. Concerning the price and time-effort both models cannot be evaluated properly. According to the author's findings, VALS and PRIZM are both ranked with seven points.

Evaluation spider graph



Graph 14: Evaluation Spider Graph

The spider graph above summarizes the results of the comparison of two important representative models of lifestyle segmentation. A spider graph is also known as “star plot chart”, “radar chart” or “polar chart”. This type of graphical illustration is used for a multivariate analysis, which can include up to 20 different factors. The graph is constructed in such a way, that all relating values for the factors are aligned equally. This means that each of

the four lines has a proportional length according to the possible scores (ten points).¹²⁴ The author of this thesis decided to keep the analysis plain and use four different factors. The evaluation of both models shows that PRIZM got a higher amount of points than VALS. While PRIZM got 30 out of 40 possible points, VALS achieved 22 points. As a conclusion, it can be said that PRIZM has more advantageous features than VALS and that VALS nowadays has a more theoretical importance than a practical one.

As a general conclusion to the third chapter, it has to be stated that the research concerning efficiency issues of lifestyle market segmentation was very complicated. There are only a few theoretical sources and almost no empirical studies concerning this topic. Furthermore, it was not possible to find any relevant examples of companies using one of the models presented in second chapter. The evaluation and comparison of two market segmentation models is based on the author's subjective views, however, the author tried to maintain as neutral stance as possible during the evaluation.

4 Ethical issues of lifestyle market segmentation

In the fourth and last chapter, the ethical issues which relate to lifestyle market segmentation will be observed in order find out if it is ethically right or wrong. As an introduction, general ethics will be defined to gain an insight into the ethics topic. Further business ethics and marketing ethics will be discussed, with a focus on marketing ethics, explaining the decision-making process in marketing, ethical issues in market segmentation and ethical analyses of marketing activities.

4.1 General Ethics

First of all, it is necessary to describe ethics in general in order to give an extensive overview and to be able to go deeper into this topic. Ethics is described as “The basic concepts and fundamental principles of right human conduct”.¹²⁵ It is a part of philosophy, also called moral philosophy, and deals with what is morally right or wrong. Ethics are practically relevant in the decision making of an individual or organization.¹²⁶ It is difficult to set specific

¹²⁴ Chambers, Graphical Methods for Data Analysis (1983), pp. 158-162.

¹²⁵ Business Dictionary, Ethics, <http://www.businessdictionary.com/definition/ethics.html>, 05.05.2011.

¹²⁶ Singer, Encyclopaedia Britannica, Ethics, <http://www.utilitarian.net/singer/by/1985----.htm>, 05.05.2011.

borders to ethics as it influences every part of life. There is no single person or business that is not affected by ethics or ethical decision-making.

The word “ethics” originates from the Greek word “ethos”, which means moral character. The word “morality” originates from the Latin word “moralis”, which means custom or manner. While morality describes the standards of behavior and how good or bad/right or wrong an action is, ethics is the study of those standards or conduct.¹²⁷

Ethics cannot be directly measured, but can be represented through other variables. Concepts of ethics can be developed through various sources, such as how to raise a child, family, school, friends, religion, media and more. As the education, cultural background and experience of individuals can differ significantly, the ethical thinking and behavior may differ widely from one person to another.¹²⁸ The related principle is called ethical relativism and basically says that there are no universal standards of ethics and that there can be great variations about the beliefs or judgments about what is right or wrong from person to person or from society to society.¹²⁹ It is necessary to state here, that ethical principles are strongly influence by cultural factors and ethical rules vary significantly among different cultures.

Ethics can be divided into three main areas:

- Applied (or descriptive/positive) ethics

This branch of ethics involves the description of people’s behavior. Whether a person is meeting his/her own standards needs to be analyzed by a neutral observer sometimes.¹³⁰

Descriptive ethics tries to create a theory of human nature which is based on and influenced by ethical questions.¹³¹ Applied ethics is the most practical area of ethics, as it analyzes specific problems such as abortion, euthanasia or the death penalty on the basis of normative ethical theories.

¹²⁷ Perle, Morality and Ethics: An Introduction,
http://www.dynamicchiropractic.com/print_friendly.php?pr_file_name=http%3A%2F%2Fwww.dynamicchiropractic.com%2Fmpacms%2Fdc%2Farticle.php%3Fid%3D46121%26no_paginate%3Dtrue%26p_friendly%3Dtrue, 05.05.2011.

¹²⁸ Schlegelmilch, Marketing Ethics, An International Persepective (2001), p. 6-7.

¹²⁹ Rachels, Encyclopaedia Britannica, Ethical relativism,
<http://www.britannica.com/EBchecked/topic/194016/ethical-relativism>, 05.05.2011.

Ethical relativism is just one of many possible approaches, such as ethical absolutism or ethical objectivism. In Western society, ethical relativism is the major stream of thinking about ethical issues.

¹³⁰ Perle, Morality and Ethics: An Introduction,
http://www.dynamicchiropractic.com/print_friendly.php?pr_file_name=http%3A%2F%2Fwww.dynamicchiropractic.com%2Fmpacms%2Fdc%2Farticle.php%3Fid%3D46121%26no_paginate%3Dtrue%26p_friendly%3Dtrue, 05.05.2011.

¹³¹ Frankena, Ethics (1973), <http://www.ditext.com/frankena/e1.html>, 05.05.2011.

Applied ethics can be categorized into groups such as medical ethics, environmental ethics or business ethics.¹³² Business ethics will be explained in more detail later in this chapter.

- Normative (or prescriptive) ethics

This branch of ethics attempts to create standards or rules concerning people's behavior. For instance such norms are honesty, fairness, justice, gratitude, and more.¹³³ In normative ethics, principles, which tell what is right or wrong and guide human behavior, are searched for. The question is asked, what one can do to be good.¹³⁴

There are three main normative ethic theories:

- Consequentialism (or teleology): This theory deals with the consequences of actions, while the major factor is the overall right or wrong effects of the consequences. One main form of consequentialism is the utilitarianism, which says that decisions are ethical when they are positive for the majority of the members of society.
- Deontology (or duty/non-consequentialist theory): This theory deals with the righteousness of a particular act of an individual.¹³⁵ There is a connection between the duty and the moral behavior of people, but the theory does not try to create specific moral standards or rules. An action is ethically evaluated on the basis of the features of the act and not on the basis of the result of the action.¹³⁶ The most important representative is Immanuel Kant's categorical imperative.
- Virtue Ethics: This theory focuses on developing good traits of an individual's character. Important virtues are benevolence, generosity, self-respect, and more. While good habits of character should be encouraged, bad habits such as injustice or insensibility should not be acquired. One main representative of this theory is Aristotle.¹³⁷

¹³² Fieser, Internet Encyclopaedia of Philosophy, <http://www.iep.utm.edu/ethics/#H3>, 05.05.2011.

¹³³ Perle, Morality and Ethics: An Introduction, http://www.dynamicchiropractic.com/print_friendly.php?pr_file_name=http%3A%2F%2Fwww.dynamicchiropractic.com%2Fmpacms%2Fdc%2Farticle.php%3Fid%3D46121%26no_paginate%3Dtrue%26p_friendly%3Dtrue, 05.05.2011.

¹³⁴ Newall, The Galilean Library, Introducing Philosophy 11: Ethics, <http://www.galilean-library.org/manuscript.php?postid=43789>, 05.05.2011.

¹³⁵ Vitell/Patwardhan, The Role of moral intensity and moral philosophy in ethical decision making: a cross-cultural comparison of China and the European Union, Business Ethics: A European Review Vol. 17/No. 2/2008, p. 196-209.

¹³⁶ Encyclopaedia Britannica, Deontological ethics, <http://www.britannica.com/EBchecked/topic/158162/deontological-ethics>, 05.05.2011.

¹³⁷ Fieser, Internet Encyclopaedia of Philosophy, Ethics, <http://www.iep.utm.edu/ethics/#SH2a>, 05.05.2011.

- Metaethics (or analytical/critical ethics)

This branch deals with the study of the origin and meaning of ethical notions. The question asked in this area is what is meant by good or bad.¹³⁸ Ethical beliefs and behavior can originate from parents, teachers, religion, friends, culture, media and more. One example are the Ten Commandments of the Bible.¹³⁹ It is essential to know the sources of ethical rules, as it gives the possibility to see which factors influence those principles and to which extent.

4.2 *Business (or corporate) ethics*

As mentioned before, applied ethics can be divided into groups, including business ethics. Business ethics is the application of ethical norms to business situations and should not be isolated from general ethical norms. When a person is considered to be dishonest in the business context, he/she should be considered to be dishonest outside business as well.¹⁴⁰ Business ethics deals with a wide range of various topics such as insider trading, employee rights, whistle blowing, job discrimination, advertising truthfulness, consumer data privacy, intellectual property right infringement, falsifying of balance sheets, and more. All functional areas of a company somehow have to deal with ethical conflicts and issues and as globalization eliminates borders and companies are operating on a global basis, it is important to know different ethical business practices all over the world.

Business ethics is influenced by two main determinants: culture and non-economic factors such as religion, family, school, government, and more.¹⁴¹ One example of an ethical issue is bribery in a multi-cultural context. While it is highly unethical and unacceptable in doing business in one country, it is considered to be necessary and a standard method of doing business in another one.

As an example, the Bribe Payers Index of Transparency International 2008 shows that countries such as Belgium, Canada and the Netherlands are the least willing countries to use bribes. Countries such as Russia, China and Mexico are the most willing countries to use bribes.¹⁴² Another example of how business ethics can vary is the Islamic banking system. The banking principles differ significantly from Western banking systems and ethical

¹³⁸ Newall, The Galilean Library, Introducing Philosophy 11: Ethics, <http://www.galilean-library.org/manuscript.php?postid=43789>, 05.05.2011.

¹³⁹ Perle, Morality and Ethics: An Introduction, http://www.dynamicchiropractic.com/print_friendly.php?pr_file_name=http%3A%2F%2Fwww.dynamicchiropractic.com%2Fmpacms%2Fdc%2Farticle.php%3Fid%3D46121%26no_paginate%3Dtrue%26p_friendly%3Dtrue, 05.05.2011.

¹⁴⁰ Schlegelmilch, Marketing Ethics, An International Perspective (2001), p. 7.

¹⁴¹ Bartels, A model for ethics in marketing, Journal of Marketing Vol. 31/1967, p. 20-26.

¹⁴² Transparency International, TI Report: Emerging economic giants show high levels of corporate bribery overseas, http://www.transparency.org/news_room/latest_news/press_releases/2008/bpi_2008_en, 06.05.2011.

differences between those two systems are multi-faceted. While the Islamic banking system is mainly based on religious principles, Western banking systems are independent from religious rules. One main difference deals with the areas in which banks make investments. Unethical investments of Islamic banks are prohibited, including products such as alcohol, pornography, gambling and pork-based products.¹⁴³

Ethical evaluations of the company's marketing activities can help to decrease the risk of ethical misconduct in marketing. This measure is part of marketing ethics and a specific model for the ethical assessment of marketing programs will be explained later on. Measures regarding how to improve the ethical behavior of a company and its employees are available in appendix 9.

Moreover, it is important to know why ethical behavior is crucial for a company and what the consequences can be when a company is behaving unethically. In the long run, incorporating ethical norms in the company's policies can be beneficial for a firm's profitability. Customers are more likely to become loyal to the company if it acts ethically correct.¹⁴⁴ Furthermore, a long-term dedication to ethical business behavior is a main step to sustainable development. It is a consumer trend to purchase ethically sound products and services from companies which behave in an ethical proper way.¹⁴⁵

The ethical misconduct of a company can result in stakeholder activism, such as protests, boycotts, negative word of mouth and similar activities, publication of the company's unethical behavior via various media channels and so forth. Such movements can result in serious damage to the company's reputation.

An ongoing scandal is the data theft of Sony consumers. Data of more than 100 million users was stolen in the course of a hacker attack. Apparently, Sony's protection of data was not strong and safe enough. As a result, it seems like Sony did not weigh consumer data privacy high enough and seems to handle data irresponsibly.¹⁴⁶ With scandals like that, companies lose the trust of their customers, which is really difficult to rebuild.

¹⁴³ Ilias, Islamic Finance: Overview and Policy Concerns, <http://www.fas.org/sgp/crs/misc/RS22931.pdf>, 06.05.2011.

¹⁴⁴ Arnett/Hunt, Competitive irrationality: The influence of moral philosophy, Business Ethics Quarterly Vol. 12/Issue 3/2002, p. 279-303.

¹⁴⁵ Groucutt/Leadley/Forsyth, Marketing, essential principles, new realities (2004), p. 65.

¹⁴⁶ Online Focus, Sony Skandal, Sony beauftragte externe Ermittler, http://www.focus.de/digital/digital-news/sony-skandal-sony-beauftragte-externe-ermittler-aid_623890.html, 06.05.2011.

4.3 Marketing Ethics

Marketing ethics is a main category of business ethics and deals with ethical problems or controversies in regard to marketing activities. Ethical issues in marketing include unsafe or harmful products, misleading pricing, privacy in marketing research and more.¹⁴⁷ Marketing ethics is the application of moral standards to marketing decisions, programs and bodies. Other ethical issues are violations of confidentiality of Internet transactions, unsolicited e-mail and telemarketing, misleading promotions, illegal pricing policies such as price fixing, dumping and more.¹⁴⁸ Moreover, dishonest advertising, unfair competitive practices and bribery are included. Marketing is the one function, which has to deal with a lot of accusations and ongoing troubles concerning ethical misconduct.¹⁴⁹ Ethical misconduct can be in different areas of marketing. It is important to mention the following areas: market research, marketing management, sales, marketing promotion especially advertising and also increasingly communication on social networks, and product development.¹⁵⁰ As it can be seen in the above mentioned examples, marketing is one of the most critical business areas in regard of ethical issues. However, these issues constitute potential conflicts, but they can also be handled in an ethically right way.

4.3.1 Ethical decision-making process in marketing

In order to effectively improve ethical behavior in marketing and ethical policies within a company, it is necessary to have broad knowledge about the ethical decision-making process of marketers. It is important to be familiar with the general process and the determinants which influence decision-making of an individual. A survey conducted by Singhapakdi, Kraft, Vitell and Rallapalli came to the result that marketers value ethics and social responsibility as important in order to achieve organizational effectiveness.¹⁵¹

In general, ethical decision-making is a very complex process, as there is no simple, single course solution to an ethical problem. An individual probably is not aware of the ethical situation or does not stick to a universal code of ethics. An ethical decision usually affects

¹⁴⁷ Schlegelmilch, Marketing Ethics, An International Perspective (2001), p. 8.

¹⁴⁸ Klein/Laczniak/Murphy: Ethical Marketing: A look on the bright side, Marketing Management Journal Vol. 16/Issue 1/2006, p. 228-243.

¹⁴⁹ Hunt/Chonko/Wilcox, Ethical Problems of Marketing Researchers, Journal of Marketing Research Vol. XXI/1984, p. 309-324.

¹⁵⁰ Hunt/Vitell, A General Theory of Marketing Ethics, Journal of Macromarketing (1986), p. 5-16.

¹⁵⁰ George, A History of Business Ethics, <http://www.scu.edu/ethics/practicing/focusareas/business/conference/presentations/business-ethics-history.html>, 07.05.2011.

¹⁵¹ Singhapakdi/Kraft/Vitell/Rallapalli, The perceived importance of ethics and social responsibility on organizational effectiveness: A survey of marketers, Journal of the Academy of Marketing Science Vol. 23/No. 1/1995, p. 49-56.

more than one person and has to meet many expectations. As marketers have a social and economic responsibility, it is difficult to find a decision which is ethical for both natures.¹⁵² In order to be able to make a specific ethical decision it requires a marketer to know several matters. He/she needs to know the ethical issue and subject, a risk evaluation and the experience to understand the results of the decision.¹⁵³

Several researchers have tried to describe the ethical decision-making process. In the following step, three different frameworks will be illustrated in order to gain an overview of the different approaches of the process. Furthermore, differences and similarities of the models can be seen.

A very basic ethical decision-making process is the following:

- An individual recognizes an ethical issue.
- The individual gets the facts about the ethical issue.
- The individual evaluates alternative actions.
- The individual makes an ethical decision and tests it.
- The individual acts and reflects on the result of the ethical decision.¹⁵⁴

Wotruba developed the next ethical decision-making model:

- Cognizance: An individual recognizes the action, its outcomes and the affected parties of the decision.
- Assessment: Evaluate the alternatives based on a moral point of view.
- Intention: Prioritize ethical values in relation to other values such as economic values in order to be clear about the intention to do what is ethically right.
- Decision/Action: The intention finally becomes an ethical decision.¹⁵⁵

The last multi-staged perspective is more extensive and identifies different steps. The Hunt-Vitell model is probably one of the best known models and has been revised several times in order to incorporate new findings and update the old versions (A relating graph can be found in the appendix – 10. Hunt-Vitell theory of ethics):

¹⁵² Bartels, A Model for Ethics in Marketing, Journal of Marketing Vol. 31/1967, p. 20-26.

¹⁵³ Ferrell, Marketing Ethics, <http://college.cengage.com/business/modules/marktngethics.pdf>, 07.05.2011.

¹⁵⁴ Santa Clara University, Making an Ethical Decision, <http://www.scu.edu/ethics/practicing/decision/making.pdf>, 07.05.2011.

¹⁵⁵ Wotruba, A framework for teaching ethical decision-making in marketing, Marketing Education Review Vol. 3/1993, p. 2-8.

- An individual perceives an ethical problem.
- The individual identifies possible alternatives and their consequences.
- Two evaluations are conducted, one deontological and one teleological.
- The result of these two evaluations is one ethical judgment.
- The individual's ethical judgment influences the person's intention which consequently affects the behavior. The intentions of an individual can be different from what he/she judged to be ethical. The behavior can be different from the intention and ethical judgment as well, as it depends how much the individual is able to control the implementation of an intention.¹⁵⁶

In order to fully understand the ethical decision-making process in marketing, it is necessary to know which factors influence the decision of an individual.

The Hunt-Vitell model shows five different factors which influence an ethical decision. An individual is influenced by his/her cultural environment such as religion, professional environment, industry environment, organizational environment and personal characteristics. Personal characteristics include the individual's value system, such as organizational commitment, belief systems, such as Machiavellianism, and the strength of moral character.¹⁵⁷

The framework of Ferrell and Gresham (illustrated in the appendix under 11. A contingency framework for ethical decision-making) is basically conforming to the Hunt-Vitell model. Three variables which influence the ethical decision-making process of an individual are identified, namely individual factors, such as values and attitudes, and organizational factors. Social and cultural factors influence the ethical issue directly but externally. This framework states that unethical behavior can result from organizational pressure to meet performance goals, such as an increase of the profit.¹⁵⁸

¹⁵⁶ Hunt/Vitell, The General Theory of Marketing Ethics: A Revision and Three Questions, Journal of Macromarketing Vol. 26/No. 2/2006, p. 1-11.

¹⁵⁷ Hunt/Vitell, The General Theory of Marketing Ethics: A Revision and Three Questions, Journal of Macromarketing Vol. 26/No. 2/2006, p. 1-11.

¹⁵⁸ Ferrell/Gresham, A contingency framework for understanding ethical decision making in marketing, Journal of Marketing Vol. 49/1985, p. 87-96.

An ethical decision-making model of Bartels has three core determinants. The determinants are cultural variables, such as church, family or government, non-economic factors and expectations of roles involved, such as employees, consumers or competitors.¹⁵⁹

As it can be seen from the analysis of several frameworks of ethical decision-making, many factors influence the final decision of marketers. Additionally it needs to be noted, that ethical decisions in companies are often made in teams. Therefore, it is important to realize that peer pressure, a strong leader within the group and group-thinking can dominate the decision-making process and consequently diminishes the influence of an individual. Organizational ethics cannot be equalized to the personal ethics of the employees.¹⁶⁰ It is important to be aware of the factors which influence the decision-making in order to reveal potential challenges and conflicts in a company.

This is also the reason why ethical misconduct still happens. In the end, the individual decides on the basis of his/her moral beliefs and values. An individual can ignore or abolish any discrepancy which result from his/her unethical behavior, with denying responsibility and injury.¹⁶¹ Individuals perceive the appearance of ethical situations and problems differently and have different moral frameworks and codes of ethics for their decision-making. In general, moral values govern the behavior and actions of marketers.¹⁶²

4.3.2 Ethical issues in lifestyle market segmentation

Market segmentation is a process involving several different tasks which can each generate ethical problems in some way. In this section of the thesis, possible ethical issues will be presented in a prescriptive way. Sometimes, the mentioned ethical problem areas cannot be directly isolated from other marketing activities, such as targeting or promotional programs.

- **Market research**

Market research is necessary for well-founded market segmentation and its quality highly influences the success of the market segmentation strategy. Apparently, market research

¹⁵⁹ Bartels, A model for ethics in marketing, Journal of Marketing Vol. 31/1967, p. 20-26.

¹⁶⁰ Ferrell, Marketing Ethics, <http://college.cengage.com/business/modules/marktngethics.pdf>, 07.05.2011.

¹⁶¹ Wotruba, A framework for teaching ethical decision-making in marketing, Marketing Education Review Vol. 3/1993, p. 2-8.

¹⁶² Ferrell/Gresham, A contingency framework for understanding ethical decision making in marketing, Journal of Marketing Vol. 49/1985, p. 87-96.

encompasses several critical ethical issues. One topic is the privacy and security of consumers' data.

The respondents of a customer survey of a market research company have several rights when taking part in a survey. They have the “rights to privacy, to anonymity, to safety, to be informed, to free-choice, to be heard and to redress”.¹⁶³ When one of these rights is violated by market research companies, the respondent may lose his/her trust into the business and might quit the cooperation. Furthermore, the reputation of the market research company and its customer who ordered the market data can be damaged as well. An example of privacy invasion was when Google analyzed the e-mails of GMail customers. The results of those analyses were used to personalize advertisements according to interests and preferences. After severe criticism from the media and data privacy organizations, Google changed their settings.

However, it is necessary to evaluate and compare the importance of the need to know this information and the right to individual privacy. Market research is invading privacy anyway, but to which degree is it ethical? Technology and a low privacy risk awareness of customers make it quite easy to gather relevant information. Stricter regulation of governments should increase the data privacy of customers and a high number of bills are passing especially in the United States and Western Europe.¹⁶⁴

Another topic arising in relation to market research is the different interests of market research companies and its customers. As a result of these differing interests, the quality of market research results could suffer significantly. For example, market researchers have manipulative skills how to make weak data look really good. In general, the code of ethics in market research includes the ethical principle to conduct a study on an objective basis. However, market researchers sometimes falsify data in order to make results look more interesting. A reason for this can be illustrated in an example. When a Czech business orders data for the Chinese market from a Chinese market research company in order to decide whether to enter the market or not, it would be more beneficial for the Chinese when the Czech business would enter the market as a long-term partnership could be created. Therefore it is possible that the Chinese market researchers might make the results look better than they are.¹⁶⁵

¹⁶³ Churchill, *Marketing Research, Methodological Foundations* (1991), p. 54.

¹⁶⁴ Schlegelmilch, *Marketing Ethics, An International Perspective* (2001), p. 70.

¹⁶⁵ Schlegelmilch, *Marketing Ethics, An International Perspective* (2001), p. 62-63.

In order to make market research more ethical, ethical codes for survey research should be introduced. These codes have the short-term purpose to avoid data abuses and the long-term purpose to protect the market research field. If customer data is invaded, the trust of respondents is damaged and cooperation will stop. Furthermore, having one's own code of ethics and self-regulation decreases the possibility of government intervention.¹⁶⁶

- Questionable market segments

The next critical ethical issue of lifestyle market segmentation is not solely related to market segmentation, but also deals with the targeting and promotion strategy of a company. Market research can result in various questionable market segments, where the targeting of those segments potentially raises ethical problems. For instance, when market research reveals that teenagers who are 14-18 years old are the most profitable market segment with the highest growth rate for the tobacco industry it is ethically questionable if this market segments should be targeted or not.

First, segments including people with a critical age, such as children or the elderly, are difficult to evaluate morally. Children and the elderly belong to the group of vulnerable consumers. When a business targets market segments including vulnerable customers with the intention of exploiting these segments, the company's marketing strategy seems unfair and ethically wrong. Vulnerable consumers are disadvantaged due to various reasons such as reduced legal competence, and lack of mental and physical abilities. In general, it is ethically correct to promote products and services which are valuable and helpful for the customers.¹⁶⁷ Targeting of vulnerable customers is ethically right as long as the product and service is offered in a fair way.

Targeting children is especially unethical, as advertising can manipulate and influence the thinking of children. Moreover, children are not able to rationally evaluate the size of the product and the misleading claims about the product's performance.¹⁶⁸ One example could be an advertisement about Heelys, shoes which can be changed into in-line skates. First of all, the changing of the wheel seems to be easier than it is in reality. Second, a lot of exercise is

¹⁶⁶ Blankenship, Some Aspects of Ethics in Marketing Research, Journal of Marketing Research Vol. 1/Issue 2/1964, p. 26-31.

¹⁶⁷ Cui/Choudhury, Consumer Interests and the Ethical Implications of Marketing, The Journal of Consumer Affairs Vol. 37/No. 2/2003, p. 364-387.

¹⁶⁸ Schlegelmilch, Marketing Ethics, An International Perspective (2001), p. 108-109.

needed in order to be able to use Heelys properly, which is presented to be really easy in the advertisement.

As a second example, market segments which include adult customers might be considered as vulnerable. There are two representative cases which illustrate the ethical conflict very well. In 1989 R.J. Reynolds Tobacco Company (RJR) wanted to introduce a cigarette brand named “Uptown”, which was intended to target black smokers, as this group of people represented a profitable segment. The reactions were quite oppositional. On the one side, as blacks are more vulnerable and prone to negative effects of smoking, a targeting of this segment was seen to be unethical.¹⁶⁹ On the other side, ethnic minorities are profitable segments for the tobacco industry and a targeting of them does not constitute any form of racism.¹⁷⁰

In general, the criticism was based on the fact that cigarettes are harmful for the customer’s health and the vulnerability of the market segments. In the end, RJR did not launch “Uptown” cigarettes and even adapted their strategy for “Dakota” cigarettes, which were targeted to young white females.¹⁷¹

In 1990 Heileman Brewing Company launched a new malt liquor named “PowerMaster”, which had higher alcohol strength than other malt liquors on the market. The product’s target group was mainly black men, as this group of people represented a high potential of growth in the malt liquor industry. Severe criticism rose due to the fact that black men had a 40% higher death and disease rate from liver problems compared to white men. This makes black men a vulnerable segment especially in regard to alcoholic products.¹⁷²

- “Base of the pyramid”

Customer segments at the base of the pyramid include customers which have a shortage of income, opportunity, literacy, market access and political power.

The graph below shows on possible illustration of the “base of the pyramid”-customers:

¹⁶⁹ Spratlen, Targeting Vulnerable Segments in Cigarette Advertising: Ethical Criteria and Public Policy Implications, *Developments in Marketing Science* Vol. 16/1993, p. 446-450.

¹⁷⁰ Moore/Williams/Qualls, Target Marketing of Tobacco and Alcohol Related Products to Ethnic Minority Groups in the U.S., *Journal of Ethnicity and Disease* Vol. 6/1996, p. 83-98.

¹⁷¹ Smith/Cooper-Martin, Ethics and Target Marketing: The Role of Product Harm and Consumer Vulnerability, *Journal of Marketing* Vol. 61/1997, p. 1-20.

¹⁷² Smith/Cooper-Martin, Ethics and Target Marketing: The Role of Product Harm and Consumer Vulnerability, *Journal of Marketing* Vol. 61/1997, p. 1-20.

The World Economic Pyramid



Graph 15: World Resources Institute, The World Economic Pyramid,
<http://earthtrends.wri.org/updates/node/50>, 17.05.2011.

According to a definition of the World Bank, “marginal” poor people have enough to eat, a small income and a marginally comfortable lifestyle, but limited economic resources, while “extreme” poor people have no economic resources at all. As high and middle-income segments are saturated, low-income segments have become more interesting for companies in the last few years. At first, profitability seems to be low due to the low purchasing power of those customers. However, companies could support these customers and reduce poverty. This could be supportive for the reputation of a company concerning its ethical behavior as well. Moreover, when low-income segments are covered, customers get familiar with the company’s products and services and will buy them as well when they move to the middle-income segment. Although there is the potential risk is that companies do not have an ethically right intention and just want to exploit these segments even further and follow the objective of profit maximization.¹⁷³

With such a segmentation and targeting strategy, a business is at a crossroads. It could either behave ethically right by helping disadvantaged customers and reducing poverty among the market, or it could behave ethically wrong and exploit the customers even more for profit reasons.

¹⁷³ Santos/Laczniak, Marketing to the Poor: An Integrative Justice Model for Engaging Impoverished Market Segments, *Journal of Public Policy & Marketing* Vol. 28 (1)/2009, p. 3-15.

- Discrimination of market segments

The exclusion of customers is just as questionable as the segmenting and targeting of vulnerable customers. The exclusion of specific market segments constitutes a discrimination mainly of minorities. Disproportionate treatment of customers and denying access to products and services raises ethical conflicts. Discrimination can occur due to ethnic origin, age, gender or other factors.¹⁷⁴ A few years ago, criticism arose in the media due to a hotel in Austria which did not host guests with children who are less than 12 years old. This exclusion of children raises the ethical conflict regarding if this discrimination is morally justifiable. Other redlining of customers occurs with mortgage lending, banking, insurance, and other industries. An example is the discrimination of young car drivers in regard to insurance policies. Young car drivers are charged with higher insurance fees, as insurance companies see a higher risk of accidents with young drivers than with old drivers.

- Lifestyle and stereotyping

As presented in chapter 1, customer protection groups in Germany severely criticized Haspa for using lifestyle market segmentation. Critics stated that this type of market segmentation is manipulative and morally dubious, as it uses personal information of customers and segments customers according to these analyses. Moreover, market segmentation leads to stereotyping of customers and leaves out the individual characteristics of customers. Consequently, this stereotyping is presented in advertisements which also influence the customers' thinking and beliefs.

This list of potential ethical issues is non-exhaustive and represents a basic overview of the most significant fields of lifestyle market segmentation which should be taken into consideration when evaluating the ethical behavior of a company.

4.3.3 Ethical analyses of marketing activities

In order to analyze whether a company's marketing activities are ethically right or wrong, several theories and tests were created.

- Laczniaak and Murphy invented the motive test, which evaluates whether the intention of a marketing action is harmful, and the justice test, which evaluates whether a marketing action disadvantages an individual or group.

¹⁷⁴ Cui/Choudhury, Consumer Interests and the Ethical Implications of Marketing, The Journal of Consumer Affairs Vol. 37/No. 2/2003, p. 364-387.

- Smith created the consumer sovereignty test, which analyses the degree of vulnerability of customers.
- Laczniaik also constructed the theory of distributive justice, which evaluates the discriminating and varying treatment of customers when the treatment is harmful on their well-being.¹⁷⁵

One theory will be illustrated in more detail which is the three-dimensional framework of Cui and Choudhury. The purpose of the framework is to assess the ethics of market segmentation and related marketing activities. The three dimensions of the framework are: the nature of the product, consumer characteristics and the market selection of the company. The nature of the product can be classified into beneficial (e.g. healthy food), harmful due to abuse/misuse (e.g. alcohol) and inherently harmful (e.g. cigarettes). The higher the degree of harmfulness, the higher the relating criticism can be.

Consumers are characterized by their abilities, ranging from being vulnerable (children or the elderly), at-risk (prone to addiction, such as smokers) to sophisticated. Within the market selection three decisions can be made: Target a specific group in the market, implement an integrated mass marketing or exclude a segment from the company's marketing activities.

As it can be seen from the graph below, 27 scenarios are possible. An ethical assessment is based on the interaction of the three described variables; according to this model, one variable alone is not enough to evaluate the morality of the marketing programs of the company.

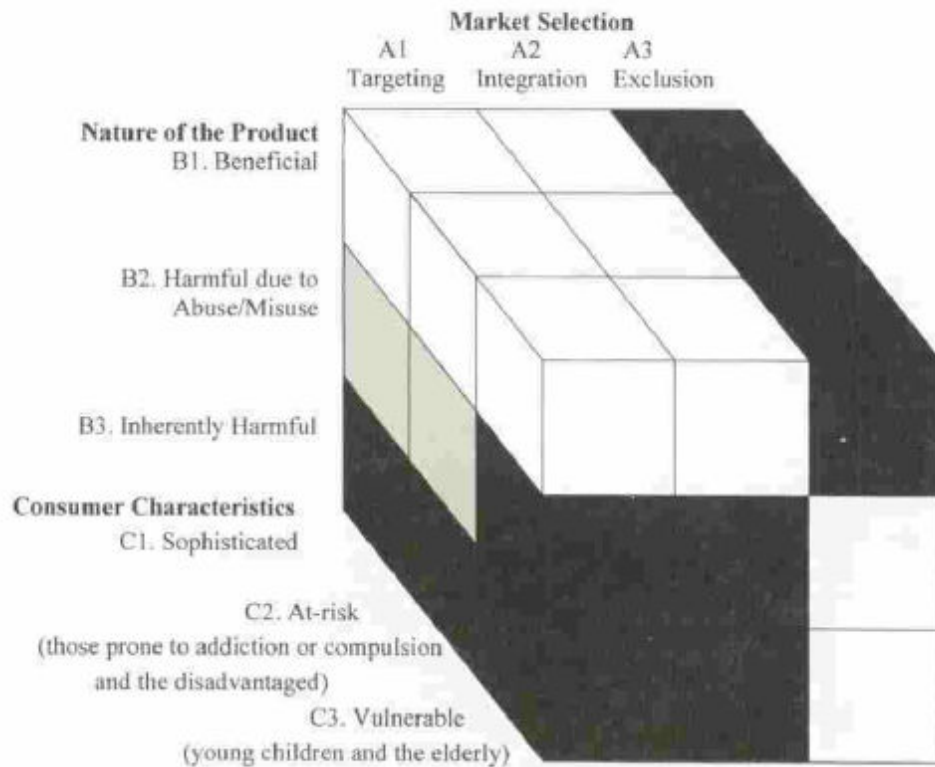
A black box in the framework, such as B1/C1/A3, is determined as ethically wrong and should be avoided by the marketer. A grey box, such as B2/C1/A1, indicates the potential of ethical conflicts and should be used by the marketer cautiously. A white box, such as B1/C1/A1, is determined as ethically right and can be used by marketers.

As marketers and consumers have varying opinions of marketing ethics, it is necessary for a marketer to evaluate consumers' interests and the ethicality of the company's marketing activities before their execution.¹⁷⁶

¹⁷⁵ Cui/Choudhury, Consumer Interests and the Ethical Implications of Marketing, The Journal of Consumer Affairs Vol. 37/No. 2/2003, p. 364-387.

¹⁷⁶ Cui/Choudhury, Consumer Interests and the Ethical Implications of Marketing, The Journal of Consumer Affairs Vol. 37/No. 2/2003, p. 364-387.

FIGURE
A Contingency Analysis of the Ethical Implications of the Marketing Exchange



Note: This figure is not drawn to proportion.

Graph 16: Contingency Analysis of ethical implications: Cui/Choudhury, Consumer Interests and the Ethical Implication of Marketing, The Journal of Consumer Affairs Vol. 37/No. 2/2003, p. 364-387.

4.3.4 Code of Ethics

An organization can determine specific written rules which should guide the behavior and activities of the employees according to the organization's core values.¹⁷⁷ As mentioned before, a written set of principles can improve ethical behavior of employees.

As one example, the author of this thesis might consider the AMA's code of ethics. It is an organization which provides marketing resources, promotes marketing practices and helps marketers to gain access to education and networking. Moreover, AMA publishes the Journal of Marketing and has members of the marketing field worldwide.¹⁷⁸ AMA's code of ethics (fully included in appendix 12: American Marketing Association: Statement of Ethics) is a

¹⁷⁷ Business Dictionary, Code of Ethics, <http://www.businessdictionary.com/definition/code-of-ethics.html>, 17.05.2011.

¹⁷⁸ American Marketing Association, About AMA, <http://www.marketingpower.com/AboutAMA/Pages/default.aspx>, 17.05.2011.

representative guide which includes ethical values for marketers. The code gets revised and updated regularly and serves as a leading role for companies worldwide. In order to see whether a well-known market research company, namely Nielsen, is conforming to this set of ethical values, a brief comparison of the code of conducts of AMA and Nielsen will be presented. AMA's code of ethics serves as a role model for marketing companies; therefore, a comparison with Nielsen's code of conduct will illustrate how much influence AMA's code of ethics has practically and important the creation of a code of ethics is for a company.

AMA divides its principles into two categories: norms and values. The norms which should be followed by marketers are the following:

- Do not consciously and on purpose harm others. Obey to regulations and ethical standards.
- Support trust of marketing.
- Encourage ethical values.

There are six basic ethical values, namely:

- Honesty (to be truthful in transactions with customers and partners)
- Responsibility (to be liable and accountable concerning the results of the company's activities)
- Fairness (to balance the interests of the company and the customers)
- Respect (to behave in a dignified manner towards the company's stakeholders)
- Transparency (to operate marketing activities in an open way)
- Citizenship (to be responsible in regard to social, economic, legal and ecological duties).¹⁷⁹

When looking at the code of conduct of Nielsen, some similarities to the AMA code of ethics can be found. The five basic principles of Nielsen are integrity, honesty, fairness, respect and reliability. The set of rules guides how employees should deal with receiving gifts, confidential information, communications, competition, discrimination and harassment, insider trading, and unlawful payments.¹⁸⁰

¹⁷⁹ American Marketing Association, Statement of Ethics, <http://www.marketingpower.com/AboutAMA/Pages/Statement%20of%20Ethics.aspx>, 08.05.2011.

¹⁸⁰ The Nielsen Company, Code of Conduct and Procedures for Reporting Concerns about Misconduct, http://nielsen.com/content/dam/nielsen/en_us/documents/pdf/Investor%20Relations/Code%20of%20Conduct.pdf, 08.05.2011.

Generally said, lifestyle market segmentation can be either ethically right or wrong, but it depends on the company which is responsible for the marketing strategy. As illustrated in this chapter, there are several critical areas within lifestyle market segmentation where ethical issues can arise. When a company has a proper code of ethics and also sticks to those ethical standards, ethical problems are not likely to result from market segmentation and related marketing activities.

Conclusion

This thesis has discussed lifestyle market segmentation with a special focus on efficiency and ethical issues. It is not just an interesting topic for the author, but is also practically relevant as many companies use lifestyle market segmentation concepts in order to segment their markets. In the beginning chapter, the author has illustrated the general topic of market segmentation in order to give an overview of the topic. This introductory part is necessary for getting a better understanding of the process of market segmentation. Market segmentation is supportive for the marketing strategy of a company, as it structures a market into several homogeneous customer groups. Therefore, it is easier to cover a market with the most appropriate marketing programs in an efficient and effective way. There is not just one right way how to segment a market, as a market segmentation strategy depends on the preference structure of the market, certain characteristics of the market segments, the usage of various segmentation variables, and more. An efficient market segmentation is the basis for a successful targeting and positioning of a company and consequently influences the whole success of a company's marketing strategy.

The second chapter has aimed to describe several lifestyle market segmentation concepts which are offered by different companies around the world. As mentioned already, the concepts vary significantly in regard of several factors; therefore, it gives a broad overview of the concepts and gives an insight into different approaches. The analysis of these lifestyle market segmentation concepts made clear that most of the concepts include a geo-demographic component, which makes it possible to track customers of specific market segments down to countries, regions and sometimes even addresses. Moreover, lifestyle market segmentation concepts use a wide selection of segmentation variables. Some of these variables, such as demographic characteristics, are included in every concept. Some variables, such as the "Technodoption" of ConneXions, are very specific and are just appropriate for certain industries and certain marketing objectives (e.g. plan for introducing a social marketing program).

The third chapter has aimed to answer the first research question, whether lifestyle market segmentation is efficient or not. In the first part of this chapter, "efficiency" is explained generally and with a focus on market segmentation. Then, the author analyzed theoretical and empirical data concerning the efficiency of market segmentation, but the research revealed

that there is a significant lack of information and data. This makes it complicated to answer the research questions sufficiently.

The author's research has come to the result that lifestyle market segmentation is one of the most efficient approaches nowadays. Every segmentation concept which was observed includes a lifestyle component in its approach; therefore, it is not useful to compare lifestyle market segmentation concepts with other concepts which do not include lifestyle variables, as it would not be practically relevant.

One main limitation of lifestyle market segmentation is that it is not possible to directly measure the efficiency and success of the segmentation. Consequently, it is difficult for a company to improve its market segmentation strategy, when it is not clear whether the current strategy is efficient or not. However, lifestyle market segmentation can improve the targeting and positioning of a company, as well as the development of products and product ranges and the creation of marketing activities, such as promotion programs, loyalty programs and advertising. The main benefit of lifestyle market segmentation is that companies are able to understand their customers better. This information can give a company a competitive advantage in regard to their customers, as the better you know your customers, the better you can serve them. Consequently, the usage of a lifestyle market segmentation concept can be very supportive for companies which want to implement a successful marketing strategy and gain a competitive advantage through a better knowledge of their customers.

One intention of the author was to illustrate some practical examples of companies which use lifestyle market segmentation. However, it was not possible to find and include any information of a company which uses VALS, PRIZM, Mosaic, or other similar models. The example of the use of customer profiles of Haspa was explained already, but serves as a negative example and the possibility of criticism in regard of the use of lifestyle market segmentation. That could be one reason why companies do not openly publish the use of lifestyle market segmentation. As criticism concerning data privacy has been a popular topic in the media recently and market segmentation requires the use of confidential information, companies probably declare the use of these concepts as business secrets and do not want to openly discuss them.

The analysis of studies concerning the efficiency of lifestyle market segmentation has shown that the results are conflicting with regard to reliability and validity. Moreover, it was not

possible to find factors which could improve the efficiency of market segmentation; therefore, the author herself tried to establish a non-exhaustive list of factors which might be able to support a company's segmentation strategy. Additionally, two main concepts have been compared to each other to reveal similarities and differences according to four factors, namely establishment data, market segments, segmentation variables and practical relevance. The results of this analysis are summarized in a spider graph and show that PRIZM is slightly more beneficial than VALS, due to a more up-to-date concept, higher number of segments and more segmentation variables.

In the fourth and last chapter, the author has aimed to answer the second research question, which deals with ethical issues of lifestyle market segmentation. In the first part of this chapter, general ethics are explained in order to give an extensive overview of the topic. This is followed by an overview of business ethics and marketing ethics, focusing on ethics in regard of market segmentation. Ethics are basically the rules of morally right human behavior. Marketers and businesses are not just influenced by one set of ethical rules, but their behavior is guided by organizational principles as well as private ones. Generally, a code of ethics in a company can improve the ethically right behavior of employees. Therefore, the author included the statement of ethics of the American Marketing Association, which serves as role model for marketers and marketing companies and the code of conduct of the Nielsen Company. Both codes are compared to each other to show their similarities and differences.

The question whether lifestyle market segmentation is ethical or not, cannot be answered so easily. It always depends on the company and its employees who implement the market segmentation and how they implement it. There are several ethical issues in market segmentation, such as market research, data privacy and security and vulnerable customer segments, but it depends whether a company or employee acts or behaves ethically right or wrong. However, especially data privacy is a major point for ethically criticizing lifestyle market segmentation. There can be a right or wrong way how to handle an ethically complicated situation, but in the end, it is the individual who makes the ethical decision. In order to better understand ethical decision-making in marketing, the author illustrated several different models of this process.

The results of this thesis have shown that there is definitely a need for more empirical research in regard of efficiency issues of lifestyle market segmentation. It is necessary to

identify factors which can improve the efficiency of market segmentation in order to be able to find strengths as weaknesses of a company's market segmentation approach. One possibility is to conduct in-depth interviews with marketers of companies in order to learn from their experience with market segmentation. However, there are no direct performance measures for marketing and market segmentation; this constitutes a severe challenge for marketers. Moreover, there is a need for further studies about the reliability and validity of market segments of different lifestyle market segmentation models in order to find out whether a model is supportive and truthful or not.

Future research could be done in regards to how to improve the ethically right behavior of employees – similar to the list in the appendix under 9. Measures to improve ethical behavior. This is especially important, as ethically wrong actions and behavior can result in severe damage to a company's reputation. An ethically right behavior is definitely a part of a company's corporate social responsibility.

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