

Segmentation 101 and Tapestry

For more than 40 years, Esri has used segmentation to assist organizations in marketing applications such as customer profiling and prospecting, site selection, direct mail campaigns and analysis, and territory analysis. The effective use of segmentation can increase business and reduce marketing costs.

Segmentation provides an accurate, revealing look at your existing and prospective customers and their trade areas to provide the best marketing opportunities. Segmentation can also reveal less profitable areas that you can avoid, thereby enabling you to save time and marketing dollars.

To supplement the demographic view of people in your area by age, income, employment, housing, or family types, segmentation data can provide an added dimension about their lifestyles and lifestages.

Segmentation is based on the principle that people will seek others with similar tastes and lifestyles—“like seeks like.” For example, singles would probably not gravitate toward suburban neighborhoods of married couples with children. As the lifestages of people change—singles marry, have children, become empty nesters, and retire—they move on to other neighborhoods where people share these lifestages. Once established, a neighborhood’s character tends to remain stable over time, even though individual residents may come and go.

By identifying the types of neighborhoods where your existing customers are located, you can accurately define the types of neighborhoods where you can find similar new customers then craft marketing plans that target only those areas.

People with similar cultural backgrounds, needs, and perspectives naturally gravitate toward each other. They choose to live in neighborhoods that offer affordable advantages and compatible lifestyles, and where they find others with similar circumstances and consumer behavior patterns.

These neighborhoods can be grouped into segments that exhibit similar demographic and behavioral characteristics. These segments can then be used to identify and locate targets for marketing campaigns.

Neighborhoods are self-perpetuating and self-organizing. Neighborhoods are stable and provide distinct lifestyles; people move away only when the neighborhood no longer matches their affordability and/or needs. For example, when the last child moves out, the parents become empty nesters, and many may wish to downsize from the big, empty house. They will probably look for neighborhoods of active seniors who live in smaller homes that require little maintenance, leaving time to enjoy traveling and other leisure activities.

When relocating due to a job transfer, people naturally seek neighborhoods similar to what they left behind. New neighbors will probably resemble the old neighbors; unchanged neighborhoods attract similar types of people.

Segmentation provides valuable insights into consumer behavior. All marketers use demographics to describe their customers and prospects. This data is easy to use and provides simple descriptions of

people by their age, income range, gender, family status, and educational level. However, relying solely on demographics hampers you from homing in on the precise groups you wish to target. For example, “affluent women aged 40–45” is a very general description of many groups within this category, such as singles, wives, employed women, single mothers, or college graduates.

Geography is a key element of segmentation that links demographics with neighborhood geographies such as ZIP codes, census tracts, block groups, or blocks. Mixed with geography, demographics can still provide an inaccurate picture of consumers if used alone. Depending on where they live, “affluent women aged 40–45” could have highly diverse preferences for housing, products, and services.

Geodemography is the practice of linking demographics to place. When you know who your best customers are and where they’re located, you can then find more like them in other areas.

Segmentation can help you to answer these four marketing questions about your customers and prospects: who, what, where, and how.

The first element is to understand who your customers and prospects are, based on their demographic and socioeconomic composition. Are they young, old, married, single, educated, affluent, retired? You can see that using this type of information already begins to segment a market’s population.

Learn about what products and services your customers prefer. Segmentation information also tells you what they do in their spare time, the media types they prefer, the kinds of cars they drive, and the stores they patronize. For example, if you sell children’s clothing and toys that young couples with children would buy, you probably wouldn’t try to promote your products in neighborhoods of seniors. This knowledge can save you time and money by focusing on areas that will produce the best result, and avoiding those with little potential.

Once you learn who your best customer types are, you can research other areas to find where people with similar tastes and lifestyles are located.

The final element of this equation is how you can reach your targeted customers and prospects most effectively using the types of media and messaging they’ll most likely respond to. To expand on the example above, if your customers listen to the radio during their commutes, shop online, or watch TV, buying radio time during weekday morning commute times or advertising on local websites and cable TV would probably produce positive results.

With more than 75 years of combined experience in building segmentation systems, Esri’s data development team used its proven segmentation methodologies to create Tapestry Segmentation. Esri’s data development team used several statistical methods to ensure the optimal number of segments. The 67 Tapestry segments accurately describe all the residential neighborhoods in the US. By examining how many neighborhoods would change their Tapestry assignment, we could assess the stability of a

solution. From an analysis of multiple solutions with a different number of segments, the solution with 67 segments proved to be the most stable.

For a broader view of markets, the summary groups can be used in analyses. Deciding which group to use depends on your application. For certain products or services, the Urbanization groups may distinguish consumption patterns better than the LifeMode groups—for example, if you’re analyzing the types of people who tend to go to the movies. For lifestyle or lifestage-related behaviors, such as traveling domestically, using the LifeMode groups would be more effective.

LifeMode summary groups include *Senior Styles* (segments that differentiate wealthy, active seniors as well as elderly low-income folks who live on fixed incomes in low-rent, multiunit housing); *Ethnic Enclaves* and *Next Wave* (segments of racially and ethnically diverse neighborhoods, revealing the emergence of Hispanic markets and describing our newest residents); or *Uptown Individuals* and *Midtown Singles* (segments of singles). Other, unusual segments include *Military Proximity* (neighborhoods of active-duty families and civilians who work on military bases) and two segments of college students—*College Towns* and *Dorms To Diplomas*.

A successful market segmentation system must be able to accurately distinguish between consumer behaviors. Esri’s segmentation experts built Tapestry Segmentation using block group characteristics.

Each US neighborhood was analyzed and sorted by more than 60 data attributes including income, employment, home value, housing type, education, household composition, age, and other key determinants of consumer behavior.

Data sources included the following:

- Census 2010
- American Community Survey (ACS)
- Esri’s proprietary Updated Demographics (the industry’s most accurate)
- The Doublebase consumer survey from GfK MRI

Verification was performed for each segment and summary group to ensure validity. Replicating the segments with characteristics not used to create them enabled the developers to confirm the system’s stability. Linking the Tapestry segments to the latest consumer survey data is the most critical test.

Tapestry Segmentation reveals the diversity of the US population and can identify seniors, immigrants, income disparities, singles, college students, and those who are serving in the military. The non-classified segment indicates geographic areas such as golf courses, cemeteries, or group quarters.

Tapestry’s view of seniors is this: As the baby boomers age and move into retirement, this diverse group of seniors is becoming increasingly important as influential consumers in the US marketplace. Tapestry Segmentation has identified six very different segments of seniors. Most of their lifestyles are dictated by age, income, and population density.

For segments that are a growing influence in the US marketplace, marketers must learn how to locate and communicate with consumers in racially and ethnically diverse areas.

Ethnic diversity links these segments even though they differ according to age, location, affluence, family types, and housing. *Las Casas*, *Barrios Urbanos*, *Valley Growers*, and *NeWest Residents* represent the strong Hispanic influence in this group in addition to a broad mix of diversity found in *City Strivers* and *High Rise Renters* neighborhoods. *International Marketplace* neighborhoods are developing urban markets with a rich blend of cultures and household types. Family is central to residents of *Southwestern Families* neighborhoods; more than half of the residents have children; many live in multigenerational households.

Residents in ethnically rich *Fresh Ambitions*, *International Marketplace*, and *Metro Fusion* neighborhoods are recent arrivals; more than half were born abroad and immigrated to the US within the last 10 years. Most rent apartments in high-density areas of large cities. Fashion- and cost-conscious, they love to shop everywhere, from upscale retailers to warehouse stores.

Young people in *High Rise Renters*, *City Commons*, and *Las Casas* neighborhoods earn modest incomes, rent apartments in multiunit buildings, usually have lots of children, and stay connected with the folks in their countries of origin.

Income disparity covers segments with median household incomes that range from more than \$200,000 down to less than \$17,000. *Top Tier* is the wealthiest segment, with a median household income of \$162,900, three times that of the US median. At the other end of the spectrum is *Social Security Set*, neighborhoods of seniors where the median household income is \$16,300.

- Young, affluent singles in *Laptops and Lattes* neighborhoods love big-city life without childrearing and homeownership responsibilities. Their median household income tops \$100,000.
- The solid citizens of blue-collar *Salt of the Earth* neighborhoods earn a median household income of \$53,400 from work that's primarily in agriculture, manufacturing, and mining.
- With a median household income of \$42,500, *Military Proximity* residents are young, married, and beginning to have children.
- Hispanic residents in *Las Casas* neighborhoods are very family oriented. Nearly half are younger than 25, so they haven't had time to earn more; their median household income is \$36,500.

Although the obvious commonality among these segments is their single status, differences occur in their incomes and locations in areas of varying densities.

- *Laptops & Lattes* are highly educated, affluent singles who love big-city life without the responsibilities of homeownership and child rearing. Tech-savvy, they own laptops and go online daily, especially to shop.
- *Trendsetters* are singles who live alone or share the rent with a roommate, living life to the fullest in older, big-city neighborhoods. They're spenders—must have the latest, hippest, and greatest—and they shop in stores, online, and by phone. They own the latest laptops, cell phones, and MP3 players, and go online daily.

- *Metro Renters* are young, educated singles who are just beginning their professional careers in big cities. They live alone or share the rent with a roommate. They travel; go online; work out regularly at club; practice yoga; and shop for clothes at Banana Republic, Nordstrom, and Gap.
- *Old and Newcomers* neighborhoods are in transition. Renters in their twenties and retirees live in these areas. Many have moved within the past five years. Activities reflect their disparate ages; they play golf, go to college ball games, or join fraternal orders.

We're a nation of ZIP codes and neighborhoods. See how [Tapestry](#) describes yours.
For more information about Tapestry, visit esri.com/tapestry.