Table 11.2.   Classification of segment bases.[a]

	Customer-Specific	*Product-Specific*
Observable	Geographic	Usage frequency
	Demographics	Store location
	Corporate affiliation	Purchase behavior
	Group booking	Channel
Unobservable	Values	Elasticities
	Life-style	Preferences
	Income	Reason for purchase

[a] *Source:* Frank, Massy and Wind [193].

observable, one can distinguish it further depending on whether it can be observed at the time of purchase or after purchase. For instance, a casino may classify some customers as high-rollers if they spend a lot on gambling, but the casino may not know this information at the time of purchase unless they used a separate mechanism to track customers (such as a loyalty card). Table 11.3 lists some common segmentation bases used in RM and their characteristics and purpose.

Quantity-based RM segmentation has some unique features: customers preferences are not necessarily based on the product itself[2] but rather on the conditions of purchase (such as advance-purchase restrictions, nonrefundability). In fact, one hesitates to use the term *preferences* in terms of these restrictions because, given the option, everyone would unequivocally prefer not to have restrictive conditions on purchases at all. Rather, some customers simply cannot meet certain purchase conditions while other customers can, or are willing to meet them in exchange for a lower price. The conditions of purchase can include delivery time (logistics, manufacturing), preemptability (advertising), and nonrefundability (airlines), among others.

11.1.1.2   Segmentation Mechanism

There are two basic approaches to constructing a segmentation mechanism. The first is to use an explicit *screening mechanism* based on observable characteristics—to restrict products and pricing to individuals based on their observed "types." Example of such mechanisms include age-based segments (child's and senior citizen's prices), geographical segments (zonal pricing), and group affiliation (corporate discounts); these are all mechanisms that use observable segment bases listed in

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[2]For service industries, like hotels or airlines, we ignore minor differences in the product (such as view for hotel rooms and legroom for airline seats).