

# Tapestry™ Segmentation: Methodology

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<b>Contents</b>	<b>Page</b>
Introduction.....	1
Building Tapestry: The Methods .....	1
Building Tapestry: The Data.....	2
Building Tapestry: The Validation .....	2
Updating Tapestry: The Mid-Decade Refresh.....	2
Esri's Data Development Team.....	3



# Tapestry Segmentation: Methodology

**Introduction** The latest generation of Tapestry™ Segmentation, a market segmentation system designed to identify consumer markets in the United States, incorporates the effects of growth and decline in the last decade on established consumer markets plus the emergence of new markets populated by the Millennials and immigrants. Reflecting the increasing diversity among American consumers, Tapestry includes 67 distinct market segments and 14 summary groups.

Tapestry is a geodemographic segmentation system that integrates consumer traits with residential characteristics to identify markets and classify US neighborhoods. Neighborhoods with the most similar characteristics are grouped together, while neighborhoods with divergent characteristics are separated. Internally homogenous, externally heterogeneous market segments depict consumers' lifestyles and lifestages. Tapestry Segmentation combines the "who" of lifestyle demography with the "where" of local geography to create a classification model with 67 distinct, behavioral market segments.

## **Building Tapestry: The Methods**

Cluster analysis is the generic approach used to create a market segmentation system. There are a number of different techniques or clustering methods that can be applied to identify and classify market types. Each technique has its strengths and weaknesses. Previous generations of Tapestry Segmentation have been built using a combination of techniques, such as the iterative partition K-means algorithm, to create the initial clusters or market segments, followed by application of Ward's hierarchical minimum variance method to group the clusters. Combining the techniques matches the strengths of each to enable a more effective solution. Tapestry Segmentation combines the traditional with the latest data mining techniques to provide a robust and compelling segmentation of US neighborhoods. Esri developed and incorporated these data mining techniques to enhance traditional methods to work with large, geodemographic databases. Robust methods are less susceptible to extreme values or outliers, and, therefore, crucial to small-area analysis. The traditional cluster analysis method has a long track record in developing market segmentation systems. Complementary use of data mining techniques and implementation of robust methods enhance the effectiveness of traditional statistical methodology in developing the next generation of Tapestry.

For a broader view of consumer markets, cluster analysis is also used to develop the summary groups of Tapestry segments. Summary groups are ideal when users want to work with fewer than 67 segments. The individual segments are combined into 14 LifeMode groups based on lifestyle and lifestage. Six urbanization groups present an alternative way of combining the 67 segments based on the segments' geographic and physical features such as population density, size of city, and location relative to a metropolitan area.

**Building Tapestry:  
The Data**

Cluster analysis techniques are essentially heuristic methods that rely on exploratory procedures to arrive at stable and optimal solutions. The key to developing an effective market segmentation system lies in the selection of the variables used to classify consumers. US consumer markets are multidimensional and diverse. Using a large, well-selected array of attributes captures this diversity with the most powerful data available. Data sources include Census 2010; the American Community Survey (ACS); Esri's demographic updates; Experian's ConsumerView database; and consumer surveys, such as the Survey of the American Consumer from GfK MRI, to capture the subtlety and vibrancy of the US marketplace.

Selection of the variables used to identify consumer markets begins with data that includes household characteristics such as single person or family, income, relationships (married or multigenerational), and tenure; personal traits such as age, sex, education, employment, and marital status; and housing characteristics like home value or rent, type of housing (single family, apartment, town house, or mobile home), seasonal status, and owner costs relative to income. In essence, any characteristic that is likely to differentiate consumer spending and preferences is assessed for use in identifying consumer markets.

The selection process draws on Esri's experience in working with the 1980, 1990, 2000, and 2010 censuses and includes a range of multivariate statistical methods, including factor analysis, principal components analysis, plus review of correlation matrices and graphic methods. Selecting the most relevant variables is critical to defining homogeneous market segments; however, determining the most effective measure of each variable is equally important. Is income best represented by a median, an average, or an interval? Would household or disposable income best measure actual buying power? In the end, selection was narrowed to more than 60 attributes to identify and cluster US neighborhoods by market type. Tapestry profiles enable the comparison of consumer markets across the country for any area—user-defined or standard, including states, metropolitan areas, counties, places, census tracts, block groups, county subdivisions, designated market areas, ZIP codes, even congressional districts.

**Building Tapestry:  
The Validation**

A verification process follows the creation of the segments to ensure their stability and validity. Replicating the segments with independent samples serves as one check of stability. Validity is checked through characteristics that are not used to generate the segments. Linking Tapestry Segmentation to the latest consumer survey data is the critical test. A market segmentation system must be able to distinguish consumer behavior—spending patterns and lifestyle choices—as expected. Esri verified the efficacy of its Tapestry Segmentation markets against consumer surveys from GfK MRI, which include nearly 6,000 product and service brands in 550 categories, along with readership of hundreds of magazines and newspapers, Internet usage, TV viewership by channel and program, radio listening, and other media.

**Updating Tapestry:  
The Mid-Decade  
Refresh**

Each year, select geographic areas may be assigned to a new market segment when research uncovers new or significant local growth. This year, a more systematic and comprehensive review was undertaken. Neighborhoods that experienced rapid household growth (since the last census) were evaluated and reclustered using updated Esri and ACS input data. Most of the areas retained their original assignment. However, almost 20 percent of the high-growth areas that were assessed warranted a new market assignment to reflect the change in their demographic profile more accurately.

For more information about Tapestry Segmentation, visit [doc.arcgis.com/en/esri-demographics/data/tapestry-segmentation.htm](https://doc.arcgis.com/en/esri-demographics/data/tapestry-segmentation.htm) or call 1-800-447-9778.

**Esri's Data  
Development Team**

Led by chief demographer Lynn Wombold, Esri's data development team has a 35-year history of excellence in market intelligence. The combined expertise of the team's economists, statisticians, demographers, geographers, and analysts totals nearly a century of data and segmentation development experience. The team develops datasets, including annual demographic updates, Tapestry Segmentation, Consumer Spending, Market Potential, and Retail MarketPlace, which are now industry benchmarks.